



Auditor's Annual Report 2022/23

University Hospitals of Leicester NHS Trust

October 2023

Key contacts

Your key contacts in connection with this report are:

Jonathan Brown

Partner

Jonathan.Brown@kpmg.co.uk

Richard Walton

Director

Richard.Walton@kpmg.co.uk

Katie Henry

Senior Manager

Katie.Henry7@kpmg.co.uk

Sam Hoey

Manager

Samuel.Hoey@kpmg.co.uk

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This report is addressed to The University Hospitals of Leicester NHS Trust (the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Summary

Introduction

This Auditor's Annual Report provides a summary of the findings and key issues arising from our audits of University Hospitals of Leicester NHS Trust (the 'Trust') for the years ending 31 March 2022 (FY2022) and 31 March 2023 (FY2023). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Trust alongside the annual report and accounts.

This report covers both FY2022 and FY2023 due to the audit work being completed closely together and provides an overview of the results of our audit and the progress the Trust has made in regard issues previously reported. We include a full timeline at page 37 to help frame this report and provide context to the reader.

Our audit of the FY2022 period started in September 2022 due to the two preceding audits, undertaken by a different audit firm, being completed outside of the standard timeline for an NHS body. This was due to the complex nature of the issues being considered in those audits, full details of which are included in the reporting issued by the predecessor auditor. As well as summarising the findings of our work we have included our consideration of the current status of the recommendations made by the predecessor auditor, both those linked to significant weaknesses as reported in September 2022 and the statutory recommendations issued in January 2021. We are not formally required to comment on statutory recommendations however have included an appendix outlining the current position as reported by the Trust in February 2023 to help frame the content of this report.

The management of the Trust has changed significantly in the financial years covered by this report with the majority of the Trust Board, including the Trust Chair, Chief Executive, Chief Financial Officer and Audit Committee Chair joining the Trust in this period. Progress has been made in responding to the issues with governance and internal control during these two years, as can be seen in the nature of audit opinions reported. However, as the Trust recognises, there is still a significant way to go to fully address the challenges that the Trust faces and our reporting notes that elements of the actions agreed during the audit process are still being fully embedded.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:

- **Accounts** - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Trust and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the Group Accounting Manual prepared by the Department of Health and Social Care (DHSC).
- **Annual report** - We assess whether the annual report is consistent with our knowledge of the Trust. We perform testing of certain figures labelled in the remuneration report.
- **Value for money** - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.
- **Other reporting** - We may issue other reports where we determine that this is necessary in the public interest under the Local Audit and Accountability Act.

Summary

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities for the two years covered by this report.

	Year ended 31 March 2022	Year ended 31 March 2023
Accounts	<p>Our opinion for the FY2022 accounts was qualified arising from two limitations of scope relating to the effect of the prior year adverse opinion on the opening balances, and the lack of controls regarding plant and equipment asset existence.</p> <p>We have provided further details of the key risks we identified in relation to our FY2022 audit and our response on page 7.</p> <p>If there is a material issue arising from a limitation of scope or disagreement with management, the auditor will issue a modified opinion.</p> <p>If the potential effect on the financial statements is pervasive, i.e. the issues are not confined to specific elements or items in the financial statements, then the auditor will issue an adverse opinion. This was the opinion issued on the FY2021 accounts by the previous auditor. We considered the impact of these issues during our work and have reflected this in the risks on page 7.</p> <p>If there are multiple uncertainties that are significant to the financial statements, the auditor may issue a disclaimer of opinion. This was issued on the FY2020 accounts by the previous auditor.</p>	<p>Our opinion for the FY2023 accounts was modified, reflecting a continuation of the qualification regarding controls relating to plant & equipment asset existence and the flow through of prior year reporting.</p> <p>Except for the issues noted above we reported that the financial statements gave a true and fair view of the Trust's income and expenditure for the year ended 31 March 2023 and had been properly prepared in accordance with the relevant guidance issued by the NHS.</p> <p>We have provided further details of the key risks we identified in relation to our FY2023 audit and our response on page 9.</p>
Annual report	<p>We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust.</p> <p>We confirmed the Governance Statement had been prepared in line the DHSC requirements.</p>	<p>We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust.</p> <p>We confirmed the Governance Statement had been prepared in line the DHSC requirements.</p>

Summary

	Year ended 31 March 2022	Year ended 31 March 2023
Value for money	<p>We are required to report if we identify any significant weaknesses in the arrangements the Trust has in place to achieve value for money.</p> <p>We have reported the following significant weaknesses in regard to the period 1 April 2021 to 31 March 2022:</p> <ul style="list-style-type: none"> • The Trust does not operate a fully operational system to track and locate the plant and equipment held on the fixed asset register, this was reported as a weakness by the predecessor auditor. See page 21 for more information; • The Trust’s arrangements in regard to the Risk Management, in particular the design and content of the Board Assurance Framework (BAF) during the period – see page 19 for more information; • The Trust’s arrangements to prepare a medium term financial plan in order to support financial resilience and informed decision making – see page 18 for more information; • The Trust’s arrangements in regard to contract management and procurement, specifically the issues raised by Internal Audit during the period. On this matter the response to the Internal Audit was appropriate, however the actions were not sufficiently embedded during the period to demonstrate that suitable arrangements were in place throughout the period. See page 20 for more information. <p>We have provided further detail in regard to our work in this area for FY2022 on page 12 and have followed up on the significant weaknesses reported by the previous auditors in FY2021 on page 13 and on the statutory recommendations on page 39.</p>	<p>We have undertaken a follow up of the recommendations made in regard to the significant weaknesses reported in our prior year audit report to assess whether they had been implemented and whether the arrangements in place to implement those recommendations contain a weakness.</p> <p>We have found that the Trust has made progress against each of the significant weaknesses reported in the FY2022 audit report. However, for each issue either the weakness was not fully mitigated at the end of the current period, or elements of the agreed response were not yet implemented or are not being consistently applied across the Trust.</p> <p>Until the actions in response to each issue are fully embedded as business as usual, at both a corporate level and within each Clinical Management Group (CMG), there remains a risk that the Trust is not able to achieve economy, efficiency and effectiveness across its range of services.</p> <p>As these matters were reported in the previous period and the current arrangements have secured an improved position, in line with NAO guidance, we have not reported a significant weakness in our audit report.</p> <p>We have provided further detail in regard to our work in this area for 2023 on page 17 and have followed up on the significant weaknesses reported in FY2022 on page 18.</p>
Other reporting	<p>We have made a section 30 referral to the Secretary of State given that the Trust breached its breakeven duty for 2021/22.</p> <p>We did not consider it necessary to issue any other reports in the public interest.</p>	<p>We have made a section 30 referral to the Secretary of State given that the Trust breached its breakeven duty for 2022/23.</p> <p>We did not consider it necessary to issue any other reports in the public interest.</p>

Accounts Audit

Accounts Audit – 2022

The table below summarises the key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Risk	Findings
<p>Valuation of land and buildings</p> <p>Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them, they are usually valued on the basis of the cost to replace them with a ‘modern equivalent asset’.</p> <p>The Trust engaged a valuer to undertake a desktop valuation for the year ended 31 March 2022. The assessment of the fair value of the assets is a key estimate in the financial statements.</p>	<p>We considered the carrying value of the land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed, as part of our judgement.</p> <p>We agreed the calculations performed within the valuation of land and buildings and verified that these movements have been accurately accounted for in line with the requirements of the GAM</p> <p>We did not identify any material misstatements relating to this risk. We considered the estimate to be balanced based on the procedures performed.</p>
<p>Existence of plant and equipment</p> <p>Previous auditors were unable to obtain sufficient appropriate audit evidence over the existence of these assets and costs capitalised in year and reported that the Trust did not operate a system to track the location of its plant and equipment</p>	<p>Our walkthrough confirmed that the Trust does not operate a system to track and locate the plant and equipment held on the fixed asset register. This is consistent with prior year findings of the previous auditor, and we have modified our opinion as a result of this issue.</p> <p>This matter is also flagged as a significant weakness in arrangements as part of our VFM reporting</p>
<p>Completeness, existence and accuracy of accruals</p> <p>The 2021 audit identified a number of misstatements and errors within accrued expenditure and the March 21 opinion was modified on that basis. Therefore, we deemed that the likelihood of a material misstatement risk existing in accrual reversals to be high.</p> <p>Having considered updated context and timing of the 2022 accounts being prepared and considered the risk of fraudulent manipulation to be low, however we considered that the risk of error remained significant as at 31 March 2022.</p>	<p>We assessed the design and implementation of process level controls over manual expenditure accruals at the end of the year. We have performed our substantive testing procedures by inspecting cash payments and purchase invoices in the period after 31 March 2022 to verify expenditure had been recognised in the correct accounting period and evaluating a sample of year end accruals to confirm they were appropriate.</p> <p>Our sample testing highlighted errors within accruals on the FY2022 balance sheet, all of which have been adjusted. Therefore the balance within the final financial statements are free from material error. The errors noted in the FY2021 financial statements and qualification of the previous audit report has led to our FY2022 audit report being qualified due to the impact of this issue on FY2022 operating expenditure.</p>

Accounts Audit – 2022

Risk	Findings
<p><i>Management override of controls</i></p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p> <p>The FY2020 and FY2021 audits by the previous auditor highlighted concerns regarding a lack of journal controls. In our first year of this audit we consider there to be a heightened risk of management override.</p>	<p>We have identified gaps within the process for approving journals and made recommendations for improvement, which management have accepted.</p> <p>We also selected journals that were considered high risk, through applying specific risk based criteria, to test and agreed these journals to supporting documentation. Our examination did not identify any inappropriate entries.</p> <p>We evaluated the estimation techniques used in the valuation of land and buildings and did not identify any indicators of management bias.</p> <p>We did not identify any significant unusual transactions.</p>

Fraud risk from revenue recognition

Auditing standards set a rebuttable assumption that there is a risk revenue is recognised inappropriately. Due to the nature of revenue within the Trust in FY2022, we did not consider there to be a significant risk of fraud and **rebutted this risk**.

Accounts Audit – 2023

The table below summarises the key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Risk	Findings
<p>Valuation of land and buildings</p> <p>Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them, they are usually valued on the basis of the cost to replace them with a ‘modern equivalent asset’.</p> <p>The Trust engaged a valuer to undertake a desktop valuation for the year ended 31 March 2023. The assessment of the fair value of the assets is a key estimate in the financial statements.</p>	<p>We considered the carrying value of the land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed, as part of our judgement.</p> <p>We agreed the calculations performed within the valuation of land and buildings and verified that these movements have been accurately accounted for in line with the requirements of the GAM. We have raised a low risk recommendation to improve the use of a new asset management system.</p> <p>We did not identify any material misstatements relating to this risk. We considered the estimate to be balanced based on the procedures performed.</p>
<p>Existence of plant and equipment</p> <p>In the FY2022 audit we were unable to obtain sufficient appropriate audit evidence over the existence of these assets and costs capitalised in year and qualified our audit report in regard to this matter.</p>	<p>Although improvements have been made by the Trust in year, we have repeated a qualification in our opinion in relation to this matter as there is no sufficient system that verified the existence of plant and equipment assets.</p> <p>Consistent with the requirements of NAO guidance, due to previous reporting, we have not reported this as a significant weakness in arrangements in FY2023 however our opinion refers to the disclosures made by the Trust in the Annual Governance Statement.</p>
<p>Management override of controls</p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p> <p>We have considered the historic issues related to management override as part of our risk assessment and added specific fraud risk factors to help inform our fraud risk assessment. We did not identify any specific additional risks of management override relating to the FY2023 audit.</p>	<p>We note the improvements made during the period in controls over journals however we note that, due to the close timing of the FY2023 and FY2022 audits, the recommendations for improvement made in the FY2022 audit are only part implemented.</p> <p>We also selected journals that were considered high risk, through applying specific risk based criteria, to test and agreed these journals to supporting documentation. Our testing noted some errors in a small number of journals however there is no indication of management override of control.</p> <p>We evaluated the estimation techniques used in the valuation of land and buildings and did not identify any indicators of management bias. We did not identify any significant unusual transactions.</p>

Accounts Audit – 2023

Risk	Findings
<p><i>Fraudulent expenditure recognition – completeness of accruals</i></p> <p>Auditing standards suggest for public sector entities a rebuttable assumption that there is a risk expenditure is recognised inappropriately. We recognised this risk over non-pay expenditure, excluding depreciation.</p> <p>We consider this would be most likely to occur through understating manual accruals, for example to push back expenditure to 2023-24 to mitigate financial pressures. This would either take the form of such accruals being omitted entirely or manipulated so that they are understated. There is a risk that this is masked by an in year increase in accruals in relation to an Agenda for Change pay award.</p>	<p>We assessed the design and implementation of process level controls over manual expenditure accruals at the end of the year.</p> <p>We inspected a sample of invoices of expenditure, in the period around 31 March 2023, and a sample of payments in April and May 2023 to determine whether expenditure has been recognised in the correct accounting period.</p> <p>We compared the items that were accrued at 31 March 2022 to those accrued at 31 March 2023 in order to assess whether there were any omissions in the March 2023 balances.</p> <p>We did not identify any material misstatements relating to this risk.</p>

Fraud risk from revenue recognition

Auditing standards set a rebuttable assumption that there is a risk revenue is recognised inappropriately. Due to the nature of revenue within the Trust in FY2023, we did not consider there to be a significant risk of fraud and **rebutted this risk**.

Value for Money - 2022

Value for money - 2022

Introduction

We consider whether there are sufficient arrangements in place for the Trust for each of the three elements that make up value for money. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

We undertake risk assessment procedures in order to assess whether there are any risks over the arrangements to deliver value for money. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over the arrangements in place.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money. Further details of our value for money responsibilities can be found in the Audit Code of Practice at Code of Audit Practice (nao.org.uk).

Matters that informed our risk assessment

We have considered the VFM recommendations raised by the previous auditor on the following page. As the reporting of the auditor of the prior period took place in April 2022 it reflected in many places the actions taken during the year we are reporting on within this report so the status of many of the recommendations made at that stage is still in progress.

Overall we consider that the arrangements in place to respond to the issues raised to be robust as it is clear that there was regular reporting to the Board and Audit Committee on the actions proposed in response to each issue and their status.

Commentary on arrangements

We have set out on page 22 onwards commentary on how the arrangements in place at the Trust compared to the expected systems that would be in place in the sector.

In summary it is clear that the Trust have made significant progress during FY2022 and further progress during FY2023. Our public commentary sets out further detail in regard to the arrangements in place and should be read alongside the rest of the value for money sections of this report to gain a full understanding of how arrangements changed during this period.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money for our FY2022 audit. We confirm that we identified significant weaknesses in each of the domains. Full details of the weaknesses reported are on page 18 onwards alongside an update for each issue for the more recent audit.

Domain	Risk assessment	Summary of arrangements
Financial sustainability	One significant risk identified	Significant weakness identified
Governance	Two significant risks identified	Significant weakness identified
Improving economy, efficiency and effectiveness	One significant risk identified	Significant weakness identified

These weaknesses are in some areas related to those reported in FY2021 by the previous auditor, however we have clarified the nature of the weakness in some aspects and made recommendations in response to each of these during the FY2022 audit.

For a specific commentary on each matter see page 13 for how the weaknesses have been followed up in the context of the changes made by the Trust together with a specific follow up of the recommendations made. In the section starting at page 16 we have updated each matter as a result of our work done in relation to the FY2023 audit.

Consideration of 2021 significant weaknesses in 2022

We set out below the significant weaknesses reported by the previous auditor in the 31 March 2021 opinion and the impact on our approach and opinion for FY2022. For each matter we have reviewed the arrangements in place to respond to the recommendations made and considered whether a weakness in arrangements exists for FY2022.

Impact of significant weakness on our work to consider arrangements to provide Value for Money	
2021 significant weakness	Position for 2022 opinion
<p>How the Trust plans and manages its resources to ensure it can continue to deliver its services</p> <ul style="list-style-type: none"> “During 2020/21 the Trust did not have an up to date medium term financial plan to support the delivery of services and to address its underlying financial deficit, which totalled £109 million at 31 March 2021. “We recommended that the Trust continue to develop its medium term financial plan, in particular ensuring that the plan is agreed with partners in the local integrated healthcare system and is aligned with system-wide long term financial and operational plans.” <p>Recommendation issued by previous auditor</p> <p><i>The Trust should develop the MTFP by ensuring:</i></p> <ul style="list-style-type: none"> - Remaining information gaps are addressed, or risks clearly articulated - The plan is aligned with agreed system plans - The plan aligns with other analysis such as drivers of the deficit analysis - Timescales for reducing the deficit are realistic, with more achievable annual efficiency and productivity targets - It sets out a clear path for securing additional funding to cover its structural deficit, once the figures have been updated and are robust - Further financial analysis is undertaken on the Trust reconfiguration to reflect updated financial statements, underlying deficit and updated financial information and policy changes impacting on the reconfiguration - The updated financial analysis on the reconfiguration is then reflected in the MTFP and LTFP so that the full impact of the reconfiguration on the Trust’s financial position can be fully understood. 	<p>We have reviewed the MTFP papers reported to Trust Board and Finance & Investment Committee during the period and consider the content of reporting to not contain sufficient detail in order to form a basis for longer term financial planning and informed decision making.</p> <p>This weakness was reported in our FY2022 opinion</p> <p>Status of recommendation</p> <p>The Trust have updated the MTFP during the period however we have noted a specific significant weakness in the arrangements in place in relation to this area.</p> <p>The reconfiguration programme is ongoing and work is underway to address the points raised. Therefore this recommendation is considered to be outstanding.</p>

Consideration of 2021 significant weaknesses in 2022

Impact of significant weakness on our work to consider arrangements to provide Value for Money

2021 significant weakness

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

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

Recommendation issued by previous auditor

The Trust should continue with the delivery of the Financial Governance Improvement Plan and Roadmap ensuring that:

- *CMGs are supported to understand and take ownership of their financial responsibilities and position, particularly as COVID block funding arrangements are reduced*
- *Improved line of sight from CMGs through to Board are established, including integrated reporting cross clinical, operational, finance and workforce*
- *The outstanding actions on the ‘grip and control’ checklist are implemented and then reviewed for effectiveness and assurance*
- *A more detailed transition plan is established for moving from interim arrangements to a BAU structure*

Position for 2022 opinion

The nature of the weakness reported in the prior year report is broad so have focussed on specific issues reported by the previous audit to inform our assessment of the arrangements in place
 Progress is evident in some areas, for example the restructure of the finance team and a focus on improving specific controls flagged as failing, other elements were not fully embedded. For example the new Risk Management processes were only introduced at the end of the period and the quality of BAF reporting and consideration of risk evident during the year required improvement.

Status of recommendation

The Trust have merged ongoing reporting of the progress of these two action plans to allow a focus on the outstanding actions. The status of outstanding matters were reported on a regular basis throughout the period with progress shown in each area. A specific report has been taken to Finance & Investment Committee to report the status of the Grip and Control checklist with progress evident during the period.

Budget holder training has been rolled out across the Trust with a high proportion of the target staff having completed the training. Integrated performance reporting was introduced during the period however was not in place for the full year.

The number of senior posts held by interim appointments has reduced during the period with permanent appointments made for the main leadership roles and within the finance structure. As at the end of the period changes to board committee structures are required to become more embedded to allow the full benefits to be recognised.

A specific project plan was been established to oversee the finance team restructure, a core element of which was the response to the cultural and capacity issues noted within previous reporting.

As progress has been made, with further work required, we consider this recommendation to be **partially implemented**.

Consideration of 2021 significant weaknesses in 2022

Impact of significant weakness on our work to consider arrangements to provide Value for Money

2021 significant weakness

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

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

Recommendation issued by previous auditor

The trust should:

- *Update local and national cost information once the FY20 and FY21 accounts have been finalised. This should include an assessment of the post-COVID baseline to reflect any permanent changes in the Trust’s cost base*
- *Refresh any benchmarking and efficiency analysis so that the Trust has a clear understanding of the comparator performance at a service level*
- *Drive forward partnership working with system colleagues, particularly around clinical strategy development, new models of care and effective demand management so that best and most appropriate use is made of secondary care resources*
- *Address the issues with procurement and contract management as identified in the Internal Auditor’s review*

Position for 2022 opinion

We have considered the specific issues raised by Internal Audit during the year regarding procurement and contract management. Whilst progress has been made during the period, the new arrangements were not in place for the full period and were therefore not fully embedded and a weakness will be reported. Due to the wide ranging impact of past financial reporting issues it may require a longer period of time for the Trust to establish an accurate cost base to enable accurate benchmarking to take place.

Status of recommendation

The Trust have introduced a new financial structure during the period and have improved the standard of financial reporting to Finance & Investment Committee.

The Trust continues to take part in benchmarking programmes however the pandemic and ongoing inflationary pressures means that cost base changes are ongoing (both for the Trust and comparable bodies).

Partnership working as a system has moved on since the writing of the previous audit report however as the creation of the Integrated Care Board as a statutory entity was an important milestone, and was after the period under review, the changes seen did not take place prior to the end of March 2022.

The issues noted by Internal Audit were reported during the period under review so have been considered during our work and a specific weakness in arrangements noted.

Due to the above we consider this recommendation to be **partially implemented**.

Value for Money - 2023

Value for money - 2023

Introduction

We consider whether there are sufficient arrangements in place for the Trust for each of the three elements that make up value for money. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The nature of the guidance and audit approach has not altered to that followed in 2022 as summarised on page 12.

Summary of findings

We have undertaken a follow up of the recommendations we made in regard to the significant weaknesses reported in our prior year audit report to assess whether they had been implemented and whether the arrangements in place to implement those recommendations contain a weakness. The detail for each issue is contained on the following pages.

We have found that the Trust has made progress against each of the significant weaknesses reported in the prior year audit report. However, for each issue either the weakness was not fully mitigated at the end of the current period (Asset Verification Control), or elements of the agreed response were not yet implemented or are not being consistently applied across the Trust (Medium Term Financial Planning, Risk Management and Contract Management).

Until the actions in response to each issue are fully embedded as business as usual, at both a corporate level and within each Clinical Management Group (CMG), there remains a risk that the Trust is not able to achieve economy, efficiency and effectiveness across its range of services.

As these matters were reported in the previous period and the current arrangements have secured an improved position, in line with NAO guidance, we have not reported a significant weakness in our audit report. We have instead highlighted the Trust disclosures made in the Annual Governance Statement which explains the status of each matter and highlights that further work is required.

In relation to the current year we considered the arrangements in place for securing economy, efficiency and effectiveness in its use of resources. Our work included, alongside other procedures, a review of evidence provided by the Trust including Trust Board and Committee minutes, a review of the Board Assurance Framework, consideration of the reports from other sources including internal audit, and discussions with management.

We reviewed the arrangements in place at the Trust to implement the recommendations made by the Care Quality Commission (CQC) during the period and deliver the undertakings agreed with NHS England (NHSE) in December 2022.

From the work performed we have not noted a significant weakness in arrangements in addition to those reported in previous periods and therefore have no such matter to report in our audit report for the current period. We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Summary of arrangements
Financial sustainability	No new significant weakness identified
Governance	No new significant weakness identified
Improving economy, efficiency and effectiveness	No new significant weakness identified

Commentary on arrangements

We have set out on page 22 onwards commentary on how the arrangements in place at the Trust compared to the expected systems that would be in place in the sector this begins with the arrangements in place when reviewed for the 2022 audit and then updates for 2023.

Follow up of 2022 significant weaknesses in 2023

In this section we consider the significant weaknesses reported in our 31 March 2022 opinion. For each matter we have reviewed the progress made for each against each recommendation as well as the arrangements in place to respond to the recommendations made. Under National Audit Office (NAO) guidance we are not required to repeat weaknesses already reported.

Consideration of prior year significant weakness	
31 March 2022 significant weakness	Outcome of our 31 March 2023 work
<p>Medium Term Financial Planning (Financial Resilience)</p> <p>During the 2021/22 financial year the Trust prepared a draft Medium Term Financial Plan (MTFP) in order to inform its financial planning and wider Trust strategy. As at the end of March 2022 the version of the plan prepared by the Trust had a lack of detail in relation to key areas of the plan. These included the nature of the underlying deficit, the type and quantum of future cost savings achievable during each annual period within the plan and an agreed set of actions to be taken with or by system partners.</p> <p>Until these areas are clarified the Trust does not have a robust platform on which to make informed decisions and will not be able to exit the financial special measures currently in place.</p> <p>Recommendation</p> <p>We recommend that the Trust should continue to expand the detail contained within the Medium Term Financial Plan and agree a common understanding of its medium term financial strategy with system partners.</p>	<ul style="list-style-type: none"> • We have reviewed the MTFP papers reported to Trust Board and Finance & Investment Committee during the period and discussed with management the steps taken in regard to this matter. • Whilst it is noted that some progress has been made, such as further development of system working and updating of a three year capital plan (which excludes the new hospital project due to this being funded via a different funding source) a fully worked up MTFP, aligned to system plans is still a work in progress. During the period (and in the period since year end) updates have been taken to development sessions of the Trust Board and external support has been appointed to help with capacity to deliver this project. • From these procedures we consider the content of reporting to have not developed sufficiently since the weakness was initially reported. As at the end of March 2023 the Trust did not have a detailed MTFP to form a basis for longer term financial planning and informed decision making. Therefore the recommendation is considered as being partially complete and will require follow up in the subsequent financial period. • As the progress made during the period is consistent with the timelines highlighted by management when the issue was first raised during our 2022 audit in May 2023 it is considered that there is not evidence that the arrangements to respond to the weakness raised contain a significant weakness. • As the matter is still ongoing and is commented on within the Annual Governance Statement of the Trust our audit opinion cross refers to the AGS, however will not report this as a new issue.

Follow up of 2022 significant weaknesses in 2023

Consideration of prior year significant weakness	
31 March 2022 significant weakness	Outcome of our 31 March 2023 work
<p>Risk Management (Governance)</p> <p>At the end of the 2021/22 financial year the Trust had prepared a draft version of a Board Assurance Framework and was in the process of implementing a new risk management process, which included the introduction of a Board level risk management committee to focus on risk matters.</p> <p>Until this process is fully embedded the Trust is at risk of not fully capturing or responding to areas of risk which may impact on the quality of services provided.</p> <p>Recommendation</p> <p>We recommend that the Trust should work to embed the new risk management process both at Board level and within Clinical Management Groups and improve the content of information held within risk management documentation.</p>	<ul style="list-style-type: none"> • We have reviewed the content of risk management papers reported to Trust Board and its sub committees. We have also reviewed the Board Assurance Framework and papers from the Risk Committee during the period. • We have discussed the approach to risk at the Trust with management and reviewed the content of minutes to consider the discussion of risk within different meetings across the Trust. It is clear that the Risk Committee is now established and changes in the design of both the BAF and risk reporting in general have improved how risk is considered within the Trust. • However, further time is needed to fully embed the new process. In particular updating the content of risk registers at the CMG level and alignment of the consideration of risks at the Trust and wider system level. Therefore the recommendation is considered as being partially complete and will require follow up in the subsequent financial period. • As the progress made during the period is consistent with the timelines highlighted by management when the issue was first raised during our 2022 audit in May 2023 it is considered that there is not evidence that the arrangements to respond to the weakness raised contain a significant weakness.

Follow up of 2022 significant weaknesses in 2023

Consideration of prior year significant weakness

31 March 2022 significant weakness

Contract Management (Economy, Efficiency and Effectiveness)

At the end of the 2021/22 financial year the Trust was in the process of implementing the recommendations made as part of an internal audit report into contract management which was issued during the year. Whilst the action plan developed by the Trust and the oversight of its delivery is considered to be robust the actions were not sufficient embedded at the end of the period. As such the Trust is at risk of not achieving economy, efficiency and effectiveness in the management of individual contracts.

Recommendation

We recommend that the Trust continues to implement the agreed action plan and where significant contracts are subject to renewal prior to the action plan being complete a separate assessment is undertaken as to whether specific action can reduce the risks noted.

Outcome of our 31 March 2023 work

- We have reviewed the reporting of progress of the procurement action plan during the period and consider that the progress noted in our prior year reporting has continued.
- However, further time is needed to fully embed the new process. In particular the following elements of the action plan were considered in progress at the end of March 2023:
 - Delivery of training did not progress as planned and drop in sessions were set up. As at the end of the year half of the contract managers had attended such a session.
 - A review of regulatory clauses within contracts, including the right to audit, was ongoing as at the year end. The contracts requiring review had been identified and are being worked on with contract managers.
 - A review of supplier reliance on sub-contractors, to inform consideration of the risk within each contract, is ongoing. As above those contracts which require review have been identified and are being worked through with the manager who oversees the relationship with the supplier.
- Therefore the recommendation is considered as being **partially complete** and will require follow up in the subsequent financial period.
- As the progress made during the period is consistent with the timelines highlighted by management when the issue was first raised during our 2022 audit in May 2023 it is considered that there is not evidence that the arrangements to respond to the weakness raised contain a significant weakness.

Follow up of 2022 significant weaknesses in 2023

Consideration of prior year significant weakness	
31 March 2022 significant weakness	Outcome of our 31 March 2023 work
<p>Asset Verification Control (Governance)</p> <p>As at the end of the 2021/22 financial year management of the Trust were unable to verify the existence of plant and equipment assets due to limited system of control over tracking the location of physical asset being in place. Due to the issue being of sufficient significance to drive a modification of the audit opinion we consider that the lack of control being implemented represents a significant weakness in governance processes.</p> <p>Recommendation</p> <p>We recommend the Trust formally undertakes an exercise to verify the existence of assets within departments and assess the materiality of non-responses to determine if further work is required.</p>	<ul style="list-style-type: none"> From our audit work in relation to the financial statements it is noted that a control was not in place for the 31 March 2023 year end to respond to the underlying issue and as such the financial statements audit opinion will be qualified for this matter. Therefore this recommendation is not implemented and will require further follow up in the following period. Therefore the previously reported significant weakness in the arrangements to implement this recommendation (as the underlying weakness was first reported by the previous auditors) remains. As this weakness was reported in the prior period, under the guidance issued by the NAO, we are not required to repeat this weakness in our current year audit opinion. However we will include commentary in our Annual Auditor's Report setting out the status of the agreed actions

Commentary on arrangements

Value for money

Financial sustainability

Description

This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- How the Trust sets its financial plans to ensure services can continue to be delivered;
- How financial performance is monitored and actions identified where it is behind plan; and
- How financial risks are identified and actions to manage risks implemented.

Commentary on arrangements

Financial planning

For each iteration of financial planning during FY2022 (including the H1 and H2 budgets for the FY2022 period and the H1 2023 period) a briefing paper and initial analysis is taken to the Finance & Investment Committee (FIC) and Trust Board, and is then followed up with detailed papers once agreed with system partners and NHS England (NHSE).

For proposed cost savings, investments and capital elements of the plan each CMG (Clinical Medical Group, the UHL equivalent of a Division) finance team put forward their spending requirements for the period being planned. There is a confirm and challenge process before the costs are aggregated and compared to funding available with final plans signed off by Board and budget holders. Approved cost pressures and developments are included in the plan. Workforce, activity and financial plans are triangulated to ensure consistency. From the papers reviewed we can see evidence of clinical review of investments and CIP schemes to analyse quality impact of any changes.

The FY2023 financial budget was finalised and updated following a similar process to that outlined in FY2022. The FY2024 budget was developed during the period following input from CMGs and Corporate Directorates as well as liaison with system partners. Emerging cost pressures were considered as part of the process with new issues investigated to inform how they are reflected within the final plan. A confirm and challenge process was followed during the collation of the asks from each part of the Trust in order to reach a final position. A full draft financial plan was considered by Trust Board in March 2023 and this was subject to challenge and query from the Non-Executive Directors as appropriate.

Ongoing management of budget

For specific changes made during FY2022 covering emerging pressures (for example the ongoing changes to finance team structure or one-off consultancy fee requests for delivery of specific projects) there is evidence of these being approved at either FIC or Board and then commented upon in later finance reports.

The ownership and involvement of stakeholders was noted as an issue in previous periods, with the reporting of the previous auditor commenting that CMGs were not sufficiently engaged with financial matters and Trust Board oversight not being sufficiently robust. For the FY2022 period it is clear that the challenge from NEDs is improved following the changes made at Board level. Budget holder training (i.e. within CMGs) was delivered early in the 'Roadmap to Financial Recovery' project with 95% of budget holders completing the training by July 2021.

Value for money

Financial sustainability

Description

This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- How the Trust sets its financial plans to ensure services can continue to be delivered;
- How financial performance is monitored and actions identified where it is behind plan; and
- How financial risks are identified and actions to manage risks implemented.

Commentary on arrangements

Medium term financial planning

The Medium Term Financial Plan taken to the September 2021 Board was a draft version and was noted as needing further clarity as to the nature of specific schemes which will be in place to achieve the assumed £29m of savings for each of the year in the five year period of the plan. A failure to achieve these would substantially threaten the delivery of the plan. There are also assumptions linked to decisions to be taken at a Leicester, Leicestershire and Rutland (LLR) system level which are noted as not being agreed with system partners at this stage.

Further to this it is noted that some of the initial assumptions included in the MTFP (concerning the drivers of the deficit) have not been agreed with NHSE. Due to this we consider that this report is not a suitable platform on which to base longer term financial planning and wider informed decision making. Since the board discussion in September 2021 there were many changes to the members of the Trust Board and within the finance team – due to retirement of the substantive CFO an interim CFO took post shortly after the above paper was taken to Trust Board and a new substantive CFO took post in February 2022.

Due to the ongoing focus of responding to audits underway for FY2020 and FY2021 the capacity of the finance team was limited. Once the substantive CFO was in post a paper was taken to Finance & Investment Committee in February 2022 outlining the approach to be taken to develop the MTFP with a further update taken to FIC in March 2022. Alongside this update in March a paper was taken outlining the FY23 planning process, which reported that the underlying deficit/starting point at that stage was a £97m deficit.

The Board and Audit Committee have been kept up to date as to the status of the MTFP as it is part of the regular reporting on Special Measures arrangements and discussion is evident in minutes throughout the period - however the nature of reporting since September 2021 shows that the MTFP was not updated since that version. Therefore the inherent weaknesses noted above were still an issue up until the end of the period and responding to this issue remained a key element of action needed to move the Trust onto a more sustainable footing. We consider this to be a **significant weakness in arrangements at the end of March 2022** - see our recommendation on page 18.

In our second year of audit we have reviewed the MTFP papers reported to Trust Board and Finance & Investment Committee during the period and noted that some progress has been made to address the weakness reported above. These included a further development of system working and updating of a three year capital plan (which excludes the new hospital project due to this being funded via a different funding source). *(continued on next page)*

Value for money

Financial sustainability

Description

This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- How the Trust sets its financial plans to ensure services can continue to be delivered;
- How financial performance is monitored and actions identified where it is behind plan; and
- How financial risks are identified and actions to manage risks implemented.

Commentary on arrangements

(continued from previous page). A fully worked up MTFP, aligned to system plans was still a work in progress at the end of FY2023. During the period (and in the period since year end) updates have been taken to development sessions of the Trust Board and external support has been appointed to help with capacity to deliver this project. Therefore the previously reported significant weakness is not yet fully mitigated. However due to the progress demonstrated during the period it is clear that the arrangements in place to deliver the ongoing improvements required in this respect are having an impact and therefore there is no additional weakness to report.

Monitoring of ongoing financial performance

During FY2022 the financial position of the Trust against the planned target has been closely monitored and reported, both internally and to system partners and NHSE. Forecasts are constructed in conjunction with operational managers and signed off by the CMG management team. A cash committee met on a regular basis to manage cash and agree the cash forecast.

The nature of the monthly finance reports altered during FY2022 with the level of detail and standard of analysis improving. This has been aided by robust challenge from the non-executives which can be seen to have improved during the period from the minutes of FIC and the Board. Reporting to FIC provides headline financial information with variances explained and changes noted to the forecast for year end. This is supported by an ongoing series of meetings with budget holders to challenge and understand developments. We have reviewed the supporting documentation for the reviews and have confirmed that there are budget holders named for each budget and the review meetings cover headcount, accounts payable and other aspects of the budget for each budget line within the Trust.

We have reviewed all papers taken to the FIC, and those to Trust Board of a financial nature, during FY2022. These, in general, are sufficiently detailed in order to enable those in attendance to make informed decisions during the period. However on some key matters there is a lack of consistency between reporting or a lack of detail on some subject matters – for example the MTFP and supporting documents as referred to in the previous section.

In FY2023 further improvements were made in the content of finance reports - increasing the level of detail and standard of analysis contained. We have reviewed the content of various reports taken to FIC during FY2023 and noted that this provides headline financial information with variances explained and changes noted to the forecast for year end. This is supported by an ongoing series of meetings with budget holders to challenge and understand developments as well as ongoing challenge of CMGs via FIC. During FY2023 the finance and performance reports to board were integrated and from July the finance improvement plan was also added to this report. This is consistent with the management of financial and operational risk being seen as complimentary issues to consider and the financial improvement plan delivery being moved to part of business as usual management of the Trust.

Value for money

Financial sustainability

Description

This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- How the Trust sets its financial plans to ensure services can continue to be delivered;
- How financial performance is monitored and actions identified where it is behind plan; and
- How financial risks are identified and actions to manage risks implemented.

Commentary on arrangements

Reporting of financial risk

During FY2022 the ongoing reporting to FIC and other committees includes commentary on risk where applicable. A core risk during the period is the overall response to the issues noted by the previous auditors and the ongoing facilitation of the closure of the FY2020 and FY2021 external audits at a time of significant change in the finance team. This was reported on in detail to FIC, Audit Committee and the Board throughout the period.

As consistent with the development of the management of risk referred to on page 27, during FY2023 a summary paper from FIC to Trust Board is taken each month to update on key issues discussed at the committee. This includes a commentary on the BAF risks managed by FIC – the content of this report is considered to cover the key aspects required to keep the Board informed appropriately.

Value for money

Governance	
Description	Commentary on arrangements
<p>This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> Processes for the identification and management of strategic risks; Decision making framework for assessing strategic decisions; Processes for ensuring compliance with laws and regulations; How controls in key areas are monitored to ensure they are working effectively. 	<p>Risk management</p> <p>From the work undertaken during our FY2022 audit it was clear that, whilst there was an intention for the Board Assurance Framework (BAF, the key document driving the management of risk at Board level) to be redesigned during the year to reflect the updated strategy of the Trust, this was delayed. This was in part due to the pandemic but this also reflects the changes at Board level and associated updates to strategy. Whilst the previous BAF was maintained and risks were considered at Board Committees the overall structure of risk reporting and content of the BAF was not adequate for a Trust of the size and risk profile of UHL.</p> <p>Challenge was evident during the period - specifically the Board considered the BAF in April 2021 and noted that improvements were required to clarify the nature of the risks as those described at that point were considered too broad. The BAF was then further developed at a Trust Board Workshop in September 2021 and at that point it was agreed to re-frame the document to align to the Trust's quality strategy.</p> <p>The updated BAF was taken to Trust Board for approval in February 2022. This updated BAF used new templates and included example 'highlight reports' to enable a more detailed discussion on specific risks on a rolling basis and these represent an improvement. This is positive however it is noted that these new templates required further development at that stage in order to meet standard practice - such as clarity about the impact current mitigations are having on the risk and to include more information in regard to actions such as who is responsible and what date it will be completed.</p> <p>We have reviewed minutes of each of the Board sub committees (e.g. FIC and Audit Committee) and note that the lack of an updated BAF meant that there was not a consistent tracking of strategic risks across these committees. This improved during the period once the changes in the board were made, for example with the Audit Committee undertaking deep dives on specific risks in the latter part of the FY2022 period. The challenge from the Board improves during the period and from early on in the period there is detailed, regular reporting on the core issues impacting the Trust such as Financial Special Measures, COVID, Culture in the Finance Team and the ongoing FY2020 and FY2021 external audits.</p> <p>It is clear that the Trust, at the end of March 2022, saw oversight of risk as an area of priority due to the establishment of a Risk Management Committee and the core involvement of the CEO in Board discussions on the topic. Due to the issues noted above we have determined that there is a significant weakness in the Trust's arrangements manage risk for the period ended 31 March 2022. See our recommendation in relation to this matter on page 19. <i>(Continued...)</i></p>

Value for money

Governance

Description

This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- Processes for the identification and management of strategic risks;
- Decision making framework for assessing strategic decisions;
- Processes for ensuring compliance with laws and regulations;
- How controls in key areas are monitored to ensure they are working effectively.

Commentary on arrangements

(Continued from previous page) The risk management framework of the Trust is governed by the risk management policy which has been revisited and improved during FY2023. The BAF is presented to each sub committee (for example FIC) at every meeting and to the Trust Board Quarterly. Incrementally, over the year, the BAF has been redesigned in order to take into account issues raised by previous audit reports, the Internal Audit opinion and previous professional experience of the management team. The Board were heavily involved in this process and briefed at each stage of the changes implemented.

Operational risks are, following approval from the relevant manager, entered onto the Operational Risk Register. A scoring system that takes into account the likelihood and severity of the risk is applied to each. Risk achieving scores of 15 or higher are escalated to the Risk Committee to confirm/challenge. The CMG Boards receive a risk register report from the risk team on a monthly basis. CMGs and Corporate Directorates attend the Risk Committee to provide assurance as to how they are managing operational risks.

It is clear that during FY2023 the Risk Committee is now established and changes in the design of both the BAF and risk reporting in general have improved how risk is considered within the Trust. However, further time is needed to fully embed the new process. In particular updating the content of risk registers at the CMG level and alignment of the consideration of risks at the Trust and wider system level. Therefore our recommendation from FY2022 is considered as being **partially complete at the end of March 2023** and will require follow up in the subsequent financial period.

As the progress made during the period is consistent with the timelines highlighted by management when the issue was first raised during our FY2022 audit in May 2023 it is considered that there is not evidence that the arrangements to respond to the weakness raised contain a significant weakness.

Value for money

Governance

Description

This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- Processes for the identification and management of strategic risks;
- Decision making framework for assessing strategic decisions;
- Processes for ensuring compliance with laws and regulations;
- How controls in key areas are monitored to ensure they are working effectively.

Commentary on arrangements

Board composition and oversight of strategic decisions

During FY2022 the Trust was subject to significant changes at Board level in response to the issues reported by the previous auditor related to the FY2020 and FY2021 periods. The changes at the start of the period included a change of Chair and a series of changes at Executive level with interim appointments made.

Specifically NHSE seconded in a Deputy FD (Transformation) to oversee the implementation of a financial turnaround programme. This included the set up of a process to oversee delivery of an action plan agreed with NHSE to enable the Trust to exit special measures - the first step of this was to achieve the closure of the FY2020 and FY2021 audits. This structure is robust and includes regular reporting to the Board on the status of the various work streams in place.

This is an additional structure in place to the usual board level/operational structure in place at a Trust of this size. This includes all of the committees required by regulation and a specific committee dealing with financial matters (FIC), Operational Matters (OPC) and the Audit Committee with sub groups within each of these committees where required for a particular matter (for example in regard to Procurement or the Data Quality Forum). For each of these groups a terms of reference is approved by the Board or Executive Team.

In FY2022 the executive team initially included a high number of interim postholders however during the period moved to one with substantive appointments in key posts. From a review of papers and meetings held since our appointment it is clear that the new appointments (including CEO, Governance Lead, CFO and some changes to NEDs) were having an impact to refresh the approach in place.

In our 2023 review of arrangements we have noted that, following the large number of changes in the structure and membership of the Trust Board during the prior period, the Trust continued to make improvements in core areas of arrangements such as the approach to risk management and the overall focus on improving financial governance.

This was supplemented with the ongoing delivery of the Trust wide improvement programmes in response to the oversight in place from NHSE. This oversight was in place for the full period with some changes noted below. As the Trust is on an improvement journey there is further work needed, however the Board have a good oversight of the different programmes in place and we have noted no additional significant weaknesses in the arrangements in place in regard to governance arrangements to oversee this improvement.

Value for money

Governance	
Description	Commentary on arrangements
<p>This relates to the arrangements in place for overseeing the Trust’s performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> ▪ Processes for the identification and management of strategic risks; ▪ Decision making framework for assessing strategic decisions; ▪ Processes for ensuring compliance with laws and regulations; ▪ How controls in key areas are monitored to ensure they are working effectively. 	<p>Framework of control and audit arrangements</p> <p>During FY2022 the Trust had in place Standing Financial Instructions (SFIs) and a Scheme of Delegation. During FY2022 these were both in the process of being updated to respond to recommendations from the previous auditor. In FY2023 they were further updated during the period to align to best practice. Terms of reference of Audit Committee FIC and the Risk Committee have been revisited during FY2023 to maintain a clear role for each committee as part of the overall control framework at the Trust.</p> <p>The Trust have a dedicated Internal Audit and counter fraud service provided by 360 Assurance. Both the Internal Audit and LCFS have an agreed work plan and reported progress to each Audit Committee, with an annual report taken at the end of the year. These arrangements were in place during both periods, moving from an alternate supplier during the FY2022 period.</p> <p>Control over existence of plant and equipment</p> <p>Our FY2022 financial accounts audit noted that a control covering the existence of plant and equipment (noted as a significant weakness in 2021) had not been implemented during the period and had led to a qualification in our audit opinion on the FY2022 financial statements. As this control weakness is sufficiently significant in order to drive a modified audit opinion and the recommendation made by the previous auditor and has not been addressed in the period since it was first reported in December 2021 this represents a significant weakness in arrangements at the end of March 2022.</p> <p>This weakness has two aspects – the control weakness in itself is a serious weakness in the final accounts process and insufficient progress is considered to have been made against the action agreed in response to the recommendation made by the previous auditor. See page 21 for our recommendation in regard to this matter.</p> <p>We revisited this matter for the FY2023 audit and from our financial statements work it is noted that a control was not established by the 31 March 2023 year end and as such the financial statements audit opinion was again qualified for this matter. Therefore the significant weakness remains as at the end of March 2023. As this weakness was reported in the prior period, under the guidance issued by the NAO we are not required to repeat this weakness in our FY2023 audit opinion.</p> <p>This area of accounting is the key ongoing aspect which impacts the audit opinion of the financial statements and resolving this issue will be an important step in aligning the nature of financial reporting and oversight for the Trust to similar sized NHS bodies.</p>

Value for money

Governance	
Description	Commentary on arrangements
<p>This relates to the arrangements in place for overseeing the Trust’s performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> ▪ Processes for the identification and management of strategic risks; ▪ Decision making framework for assessing strategic decisions; ▪ Processes for ensuring compliance with laws and regulations; ▪ How controls in key areas are monitored to ensure they are working effectively. 	<p>Response to reports from regulators</p> <p>As reported on page 29, during FY2022 the Trust Board changed and additional arrangements were in place to oversee the change programme in place in regard to financial management. This structure remained in place until the completion of the FY2020 and FY2021 audits in FY2022 and for most of FY2023.</p> <p>During FY2023, in December 2022, NHS England wrote to the Trust setting out a series of undertakings which the Trust had agreed to. These covered:</p> <ul style="list-style-type: none"> • Operational Performance (Urgent and Emergency Care, Elective Care and Cancer); • Financial Performance; and; • Development of a Financial Recovery Plan <p>In addition to these agreed undertakings the Care Quality Commission published a report in November 2022 relating to an inspection which took place in April, June and September that year. This review covered the services of urgent and emergency care at the Leicester Royal Infirmary and surgery at Glenfield Hospital. The CQC also considered the well-led domain for the trust overall</p> <p>The outcome of this inspection was a reduction in the overall rating for the Trust, including the rating for well-led, to ‘requires improvement’. The report included actions that the trust ‘should’ take in order to improve and one ‘must do’ action relating to equipment maintenance for surgical services at Glenfield hospital. The undertakings noted in December 2022 were agreed jointly between the Trust and NHSE. For each matter the Trust were required to prepare an action plan, report this to NHSE and establish arrangements to enable the Trust Board to have sufficient oversight of the progress against this plan.</p> <p>Our review of these arrangements has not found evidence of a significant weakness in arrangements being present. This is due to action plans being in place to respond to each matter and sufficient oversight of these being in place via the monthly Operational Performance Committee (for the NHSE matters) and the CQC Steering Group on CQC matters.</p> <p>Post the period of our review, and consistent with this above, NHSE removed the undertakings relating to operational matters in a letter to the Trust published in June 2023 and also reduced the frequency of the oversight meetings held with the Trust in regard to these operational matters. The letter notes that the Trust is subject to the same risks and pressures as many other Trusts in regards to the achievement of operational recovery and so the Trust remains under the oversight framework in place for all Trusts in this regard.</p>

Value for money

Improving economy, efficiency and effectiveness

Description

This relates to how the Trust seeks to improve its systems so that it can deliver more for the resources that are available to it.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- The planning and delivery of efficiency plans to achieve savings in how services are delivered;
- The use of benchmarking information to identify areas where services could be delivered more effectively;
- Monitoring of non-financial performance to assess whether objectives are being achieved; and
- Management of partners and subcontractors.

Commentary on arrangements

Planning and delivery of efficiency plans

During FY2022, as part of the ongoing financial recovery work, the transformation programme team has been working across the Trust, supplemented by help from external consultants, to identify potential CIP schemes for FY2023. Reporting took place to the Board and FIC on a regular basis during FY2022 to monitor delivery of the FY2022 plan and on the progress of designing the FY2023 plan. Similar arrangements continued to be in place during FY2023.

Progress against the efficiency programme is monitored each month at; the Trust's Executive Finance and Performance Board (with input from CMGs); FIC to provide the Board with assurance; and; with NHSE at a regional finance interface meeting. The Trust have a quality impact assessment process in place which is actively tracked for all schemes and overseen as part of transformation progress meetings. The delivery of the FY2022 plan was tracked appropriately during the period however due to the financial regime in place. With additional resource being put into the Trust in order to improve financial control these targets are not overly challenging and were achieved for FY2022 (£20.5m against at target of £14.6m, of which £12.5m was recurrent).

For FY2023 the Trust have identified key efficiency workstreams within the full year programme. Each had workstream leads and reported to relevant Trust committees for oversight. Updates on the development of the FY2023 plan is reported to FIC and the Trust Board on a regular basis during the period however the headline target changed on a regular basis – this is considered a function of the changing financial leadership (there were three CFOs during the period) and the lack of detail within the MTFP which sets the overall context for required savings. The reporting kept the Board up to date and there is robust challenge at each meeting.

Tender waivers

In June 2021 the Trust took a report to FIC which reported that there had been a steady increase in the number of waivers to procurement processes made at the Trust in the three years from 2018/19 (when 88 were reported) to a total of 174 during 2020/21. The report notes that a key driver of this increase is due to the pandemic. However, our review of the waiver report taken to each Audit Committee during FY2022 notes that a high number of waivers are still being processed up until September 2021, from at which point it can be seen to reduce.

During FY2022 Tender waivers were reviewed on an ongoing basis at the Audit Committee during the period. We have been able to note a clear reduction in the number of waivers sought in FY2023. This reduction can be linked to the actions being taken as part of the procurement action plan referred to on the next page but is informed by the robust review and challenge at each Audit Committee, where the AC chair undertakes a deep dive review of a sample from each report in order to understand the drivers / reasoning of a waiver being required.

Value for money

Improving economy, efficiency and effectiveness

Description

This relates to how the Trust seeks to improve its systems so that it can deliver more for the resources that are available to it.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- The planning and delivery of efficiency plans to achieve savings in how services are delivered;
- The use of benchmarking information to identify areas where services could be delivered more effectively;
- Monitoring of non-financial performance to assess whether objectives are being achieved; and
- Management of partners and subcontractors.

Commentary on arrangements

Procurement

In July 2021 Internal Audit issued a report in regard to the processes in place for contract management and wider procurement. This report was assessed as high risk and made nine recommendations. The two high risk recommendations were that the Trust establish a database of contracts held by the Trust (it noted that 86% of suppliers did not have details included in the central register in place at the time) and that a governance framework is set up to support the devolved contract management structure in place (as once a contract is signed it is generally managed at the CMG level).

In response to this report a detailed action plan was put in place during FY2022 and regular reporting has been made to Audit Committee. From the detail of the papers and quality of discussion noted in the minutes it is clear that the procurement team and Non-Executives are engaged in responding to the issues raised and progress is being made. In addition to the recommendations made by Internal Audit the Trust have self assessed against a best practice standard (as issued by the Cabinet Office) the Commercial Continuous Improvement Assessment Framework and this is noted as good practice. The regular reporting on this matter continued during FY2023.

During FY2022 updates were made to the Standing Orders and SFIs in order to tighten control and a Procurement and Contracts Committee was established in order to reduce the number of waivers. Further to this a Trust wide No Purchase Order No Pay policy is in the process of being established. However, due to the findings above we have determined that there was a **significant weakness in the Trust's arrangements in place to secure economy efficiency and effectiveness at the end of March 2022** in this regard. This weakness is noted due to the responses to the Internal Audit report not being fully embedded for the period under review. See page 20 for more information.

During FY2023 progress has been made in delivery of the action plan however some key elements are still in the process of being delivered at the end of March 2023. In particular; the delivery of training did not progress as planned; a review of regulatory clauses within contracts was ongoing as at the year end; and; a review of supplier reliance on sub-contractors to inform consideration of the risk within each contract was also in progress at the end of 2023.

Value for money - 2022

Improving economy, efficiency and effectiveness

Description

This relates to how the Trust seeks to improve its systems so that it can deliver more for the resources that are available to it.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- The planning and delivery of efficiency plans to achieve savings in how services are delivered;
- The use of benchmarking information to identify areas where services could be delivered more effectively;
- Monitoring of non-financial performance to assess whether objectives are being achieved; and
- Management of partners and subcontractors.

Commentary on arrangements

Performance reporting

During FY2022 an integrated performance report was prepared on a monthly basis. This report contains non financial metrics related to operations, people and quality. This is scrutinised through executive boards, sub committees and Trust Board. Each report includes performance indicators and complies with the content requirements of the NHS Oversight Framework so that that the relevant elements of the Trust performance metrics are included.

For each of the domains a series of KPIs are reported in a summary with key messages and then for each KPI there is a slide setting out the current performance/forecast/comparison with others/root cause of issues/key actions and expected impact and timescale. This is then followed up by a report from each board committee covering more detailed areas of focus for the previous month. Overall these papers and presentations allow the Board to be kept up to date on key issues and actions in progress.

Performance Review meetings are held with each CMG on a regular basis. In addition to this, the Trust has a Operations Performance Committee which maintains oversight of key operational performance. Each committee also provides highlight reports and escalation reports to the Board, regularly, which flags any issues around performance when wider consideration is required.

In FY2021 it was recommended by the previous auditor that the IPR contain a finance report, as well as the people, quality, and operations reports that it already contained – this change was implemented during FY2023 which enables more fully formed decisions to be made. The Integrated Progress Report (IPR) in place during FY2023 includes metrics and performance of various key areas of the Trust and is reported to the board on a monthly basis. As per the previous year this paper contains all items required by the oversight framework in 2023.

In FY2023 the IPR KPIs for each domain are reported in a summary with key messages and are subject to an appropriate level of scrutiny at Trust Board. Plans, goals, and timeframes are also reported and discussed during the report for key projects underway relevant to that element of the report. This is then followed up by a report from each board committee covering more detailed areas of focus from the previous month. Overall, these papers and presentations allow the Board to be kept up to date on key issues and actions in progress.

Value for money

Improving economy, efficiency and effectiveness

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- Monitoring of non-financial performance to assess whether objectives are being achieved; and
- Management of partners and subcontractors.

Commentary on arrangements

Partnership working

In regard to working with partners a key development during the two periods covered by this report was, as part of a nationwide change in arrangements, the creation of the Leicester, Leicestershire, and Rutland Integrated Care System (LLR ICS) on 1 July 2022 as a formal structure for the Trust to work with the other NHS bodies in the local area. The ICS contains the LLR Integrated Care Board which replaced the Leicester City, East Leicestershire and Rutland and West Leicestershire clinical commissioning groups.

Since LLR ICS's beginning, the Trust have consistently had a high ranking board member at the board meetings of LLR ICS which has then informed the discussion across a variety of matters at the Trust. For financial and some specific operational matters the CFO, CEO and other senior executives represent UHL on LLR working groups as they are established. Specifically the system finance meetings taken place on a monthly basis to enable joined up decision making and planning and we have seen evidence of the UHL CFO attending such forums and contributing to decision making which has then directly informed the content of Trust plans for FY2024.

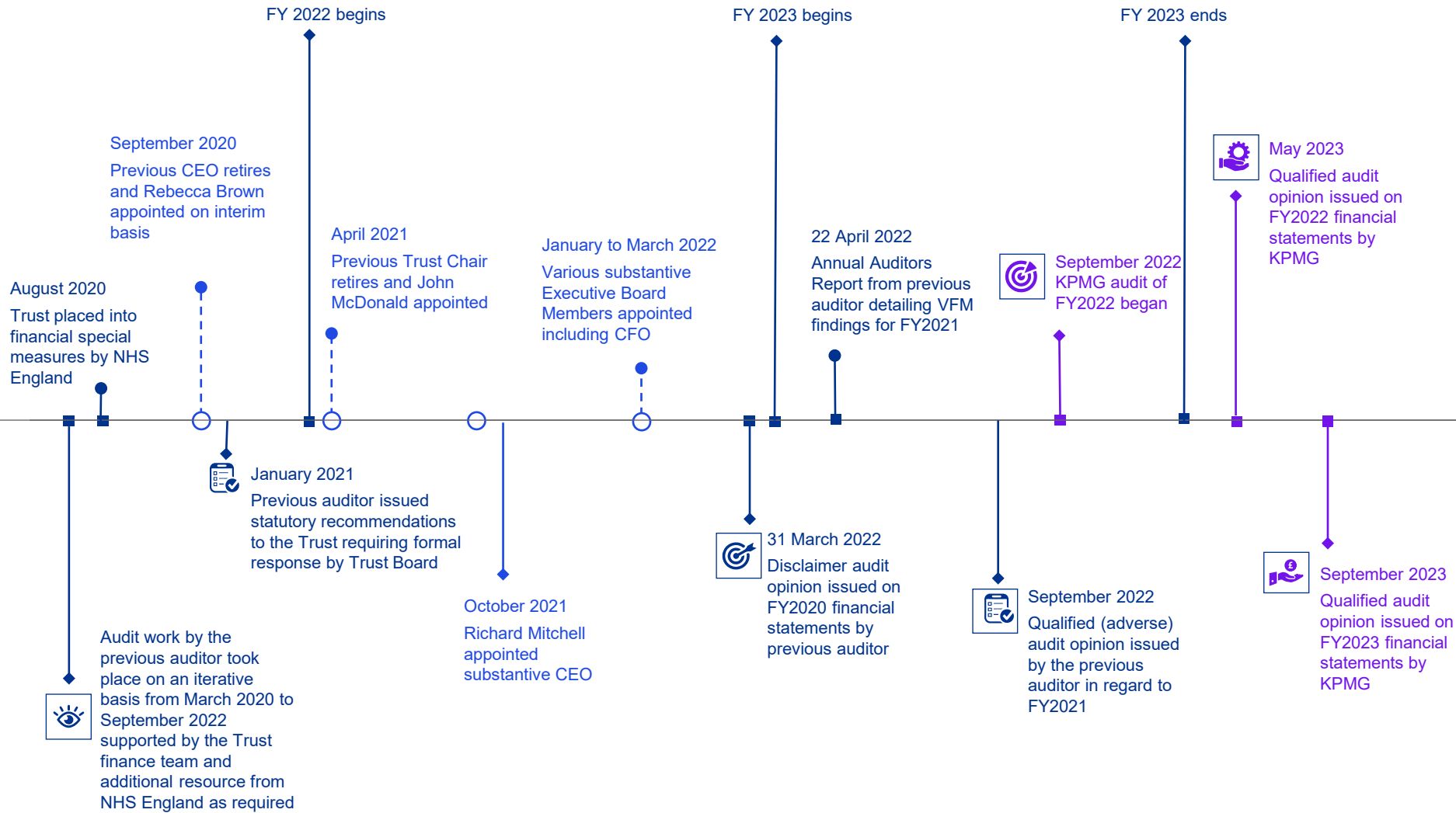
The financial planning, CIP and MTFP processes were all completed jointly during FY2023 and it can be seen that the same messages are being delivered internally to the Trust Board and to the LLR system.

Similarly to other ICSs, and partly due to the formal establishment of the ICB only taking place during the year, it is clear that this is a developing arrangement. While in some areas (e.g. finance) a regular structure is set up, for others (e.g. risk management) things are developing following the creation of the ICB in July 2022. The reporting of financial risk to the LLR system finance committee was undertaken in detail however the alignment of risk reporting across each member of LLR ICS would further improve the effectiveness of this.

Appendices

Timeline of milestones

Note – this is an illustrative summary and is not a complete summary of all stages in the complex timeline of events. We have attended audit committees and met with the Trust from the FY2021 period onwards.



Summary of Audit Reports

2019

31 March 2019

Unqualified Audit Opinion issued by previous auditor.

Adverse VFM conclusion issued noting that the Trust had weaknesses in arrangements for setting a sustainable budget

2020

31 March 2020

Disclaimer of opinion issued by previous auditor as the auditor concluded that they were unable to obtain sufficient audit evidence to enable them to form an opinion.

Auditor noted errors arising from management override of controls which they considered to be intentional misstatement of the financial statements.

Adverse VFM conclusion issued highlighting numerous significant weaknesses in financial controls and governance.

2021

31 March 2021

Qualified Audit Opinion (Adverse) issued by previous auditor due to concerns relating to:

- Non-payroll expenditure and payables
- Assets Under Construction
- Poor control over the existence of equipment assets

Three significant weaknesses in VFM arrangements reported which have a broad scope

2022

31 March 2022

Qualified Audit Opinion due to:

- Impact of prior issues on comparator I&E and Balance Sheet
- Poor control over the existence of equipment assets

Four significant weaknesses in VFM arrangements reported which are narrower in focus than those reported in 2021

2023

31 March 2023

Qualified Audit Opinion due to:

- Impact of prior issues on comparator I&E
- Poor control over the existence of equipment assets

No new significant weaknesses in VFM arrangements

Trust Annual Governance Statement reports that progress still needed to fully clear issues previously reported

Each of the above sections relates to the headline findings reported by the auditor for the period ending 31 March of the year highlighted.

The reports relating to periods before 2022 and 2023 were not reported by KPMG and are included here for context only. For 2019 and 2020 the VFM work was completed under different guidelines as required at the time.

Predecessor auditor

KPMG



Status of statutory recommendations

In this section we provide an update as to the current status of the statutory recommendations raised by the previous auditor in January 2021. For each matter we have reviewed the current status reported by management and challenged whether this is consistent with the work we have completed since our appointment.

Status of statutory recommendations	
Recommendation	Position as at March 2023
<p>1 - Board influence on financial reporting <i>The Trust Board should seek to create a culture that is focused on accurate financial reporting. In particular, the Board should discourage the use of aggressive accounting policies and practices and should provide appropriate challenge of management</i></p>	<ul style="list-style-type: none"> It is noted that the membership of the Board has changed significantly since the initial recommendation was made. The current board have undertaken a board development session specifically focussing on the role Non-Executive Directors have on scrutiny and challenge. The structure of the Board and associated sub-Committees has been updated alongside the changes in Board membership. Where new members of the Board have been recruited appropriate experience of financial challenge has sought, with additional Non-Executive posts added to increase the oversight and challenge of financial performance. This action is considered closed by the Trust and we agree with this assessment.
<p>2 - Annual Governance Statement <i>The Trust Board should finalise and publish its Annual Governance Statement at the earliest opportunity</i></p>	<ul style="list-style-type: none"> Note – this recommendation was linked to the 2019/20 Annual Governance Statement (AGS) which was not finalised at the time the recommendation was made. The 2019/20 AGS was approved and published in March 2022. Subsequent to this the AGS for the periods 2020/21, 2021/22 and 2022/23 have been published as part of the Annual Report and Accounts. This action is considered closed by the Trust and we agree with this assessment.
<p>3 - Training of management teams <i>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</i></p>	<ul style="list-style-type: none"> A training programme covering ethical, financial and governance matters was implemented for all budget holders as at the end of March 2022 and added to the ongoing development programme. In February 2023 the Trust have updated and approved Standing Financial Instructions and a Scheme of Delegation and communicated these to staff. As at March 2023 training on finance matters for non-finance staff was being developed. A cultural and behaviour action plan has been implemented and this included new appraisal paperwork being implemented from May 2022 in order to require consideration of training needs for each individual via that process. Aside from the specific element of training for non-finance staff the action is considered closed by the Trust and we agree with this assessment.

Status of statutory recommendations

Status of statutory recommendations	
Recommendation	Position as at March 2023
<p>4 - Review of finance team structure <i>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</i></p>	<ul style="list-style-type: none"> The restructure of the finance department was completed in the period October 2021 to January 2022. This process was informed by a benchmarking process to compare the structure in place to that in other comparable Trusts. All posts identified in the new structure were filled and the management of specific vacancies and recruitment was moved to a business as usual process. Due to the increased level of workloads associated with additional audit procedures and multi-year reporting the finance team has been supported by specialist contractors and secondments from NHS England. This action is considered closed by the Trust and we agree with this assessment.
<p>5 – Review of financial procedures <i>The Trust Board should undertake a review of its financial procedures and controls to ensure that they are 'fit for purpose</i></p>	<ul style="list-style-type: none"> The Standing Financial Instructions and a Scheme of Delegation have been reviewed and approved by the Board in December with a final version being approved by Audit Committee in February 2023 and is now live and communicated to staff. As per the response to SR3 this was supplemented by a training programme of budget holders and finance staff so that the culture which oversees the implementation of these controls is informed appropriately. This action is considered closed by the Trust and we agree with this assessment.
<p>6 – Journal Controls <i>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</i></p>	<ul style="list-style-type: none"> An updated journal control process was implemented in December 2020 (with external support and review by outside advisors) and has been subject to Internal Audit as part of the ongoing audit programme. The control was further updated in December 2022 to implement an electronic authorisation process which is designed to prevent authorisation of journals above delegated limits. The updated control has been reviewed as part of our external audit work for the audit relating to the period ending March 2023. As a result of this audit we have made recommendations for improvement relating to system access, self authorisation and the evidence attached to individual journals. Due to the changes made the action is considered closed by the Trust. As our recommendations for improvement are similar in nature to those raised at other Trusts and will be revisited as part of the ongoing External Audit we consider it closed with further improvements being suggested and implemented by new recommendations that will be followed up as part of the standard audit process.

Status of statutory recommendations

Status of statutory recommendations	
Recommendation	Position as at March 2023
<p>7 – Process to prepare financial statements</p> <p><i>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</i></p>	<ul style="list-style-type: none"> Alongside external support the Trust have undertaken a systematic review of accounts preparation and in the period since the recommendation was made have prepared financial statements for four accounting periods. The FY2022 and FY2023 accounts were submitted to NHS England in line to the standard timetable in each period and the nature of audit opinion received has reflected an improved position in each period since the March 2020 year end (see page 37 for more details). At the end of March this was considered ongoing by the Trust however it is clear that this is now closed following the completion of our audit.
<p>8 – Revision of 2019/20 financial statements</p> <p><i>The Trust Board should take urgent action to complete the revision and audit of its financial statements</i></p>	<ul style="list-style-type: none"> The 2019/20 financial statements were revised and a disclaimer opinion was received from the previous auditor. This action is considered closed by the Trust and we agree with this assessment. Subsequent to this action the 2020/21, 2021/22 and 2022/23 financial statements have been prepared and audits completed and reported.
<p>9 – Long term financial outlook</p> <p><i>The Trust Board should agree with its Commissioners, NHS England and Improvement to return the Trust to a long term sustainable financial position</i></p>	<ul style="list-style-type: none"> As reported in the Value for Money section of this report this remains a challenging issue for the Trust and work is ongoing with system partners to finalise a Medium Term Financial Plan. The Trust are being supported by NHS England through this process and the Board held a specific development session in March 2023 to consider the national and local financial position to inform the development of the plan. The Trust consider this recommendation to be outstanding and we agree with this assessment.

Conclusion

The Trust consider the status of the statutory recommendations on a regular basis and the status reported to the Board is consistent with our understanding of the arrangements in place. The Trust and have made significant progress in implementing the recommendations since they were first raised in January 2021. As at the end of March, two are outstanding (the delivery of finance training to the full suite of staff envisaged and agreement of a Medium Term Financial Strategy) with a third (Journals Controls) being subject to ongoing recommendations as part of the External Audit process.



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