Auditor's Annual Report 2023/24

University Hospitals of Leicester NHS Trust

—

June 2024

Contents

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This report is addressed to University Hospitals of Leicester NHS Trust (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.

01

Executive Summary

Executive Summary

Purpose of the Auditor’s Annual Report

This Auditor’s Annual Report provides a summary of the findings and key issues arising from our 2023-24 audit of University Hospitals of Leicester NHS Trust (the ‘Trust’). 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.

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.

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities:

Accounts	We issued an unqualified opinion on the Trust’s accounts on27 June 2024. This means that we believe the accounts give a true and fair view of the financial performance and position of the Trust. We have provided further details of the key risks we identified and our response on page 7.
Annual report	We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust. We confirmed that the Governance Statement had been prepared in line with the Department of Health and Social Care requirements.
Value for money	We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money. We identified a significant weakness relating to the maturity of cost improvement plans to support the 2025 operational plan. We have followed up on the significant weaknesses in the prior year on page 20.
Other reporting	Due to the breach of the five year break even duty reported in the financial statements we have made a referral to the Secretary of State under s30 of the Local Audit and Accountability Act 2014.

02

Audit of the Financial Statements

Audit of the financial statements

KPMG provides an independent opinion on whether the Trust's financial statements:

- Give a true and fair view of the state of the Trust's affairs as at 31 March 2024 and of its income and expenditure for the year then ended;
- Have been properly prepared in accordance with the accounting policies directed by the Secretary of State for Health and Social Care with the consent of HM Treasury as being relevant to NHS Trusts in England and included in the Department of Health and Social Care Group Accounting Manual 2023/24; and
- Have been prepared in accordance with the requirements of the National Health Service Act 2006 (as amended).

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We have fulfilled our ethical responsibilities under, and are independent of the Trust in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Audit opinion on the financial statements

We have issued an unqualified opinion on the Trust's financial statements in 27 June 2024.

The full opinion is included in the Trust's Annual Report and Accounts for 2023/24 which can be obtained from the Trust's website.

Further information on our audit of the financial statements is set out overleaf.

Audit of the financial statements

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	Procedures undertaken	Findings
Existence of plant and equipment (inc. AUC) The Trust does not currently operate a fully functioning system to track and locate the plant and equipment held on the fixed asset register. We note that the Trust has continued to make improvements in this area during 2023-24 to date. The audit team have performed walkthroughs to confirm our understanding of the improved processes as part of our risk assessment procedures. The Trust are currently using a mixture of verification methods including physical verification and asset verification forms, maintenance reports, ping network reports (which highlight assets connected to the network) and third party confirmations for medical and leased equipment.	The Trust have implemented an asset verification control within the period whereby asset verification forms are sent to divisions to confirm the assets existed as at 31 March 2024. We found the asset verification controls to be operating effectively; We have worked alongside management during the past 18 months to ensure the asset verification exercise has been a robust process. Management reported their draft findings to the Audit Committee in December 2023. The exercise has resulted in £6.7m derecognised from assets, charged to operating expenses and £11.9m transferred from tangible to intangible assets. We have reviewed management's updated paper (as reported to the June audit committee) that discusses the size of the above adjustments and whether this represents a material error to the prior period. We concur with their conclusion that the ultimate impact of all the above adjustments is immaterial to the users of the accounts. We confirmed that maintenance and ping network reports were ran at year end to confirm that assets verified during the period remained held by the Trust at 31 March 2024; We inspected a sample of 45 assets to confirm their existence back to supporting evidence. This included physically verifying a portion of assets via an onsite visit to LRI as well as reviewing photographs, verification forms, delivery certificates, lease confirmations and confirming assets verified via a third party in July 2023; For the samples selected for additions and assets under construction, we also received existence evidence to confirm the assets were verified as at 31 March 2024; For the £11.9m of reclassifications identified by the Trust via the asset verification exercise, we confirmed the appropriateness of the accounting treatment by selecting a sample of assets to ensure the reclassification to the correct asset type; For the £6.3m of impairments and £0.4m of disposals identified by the Trust via the asset verification exercise, we confirmed the appropriateness of the accounting treatment had been applied to thein year derecognitions; and We reviewed the disclosures within the accounts to explain the response to the previous weaknesses in control and the treatment of any derecognition.	We did not identify any material misstatements relating to this risk.

Audit of the financial statements

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	Procedures undertaken	Findings
Valuation of land and buildings 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'. This is known as the depreciated replacement cost methodology (DRC). The net book value of the Trust's land and buildings at 31 March 2024 was £576.2m of which £519.4m is valued under DRC. The Trust is due to undertake a desktop revaluation of its land and buildings in year. The last full revaluation took place on 31 March 2021.	The valuer is deemed suitably qualified and experienced to carry out the review with no independence issues identified; The instructions issued to the valuers are appropriate and consistent with the requirements of the Group Accounting Manual (GAM); Samples were selected to confirm the accuracy of the data provided for floor areas, capital expenditure and useful economic lives. No deviations were found in the data; The methodology used in preparing the valuation is consistent with the requirements of the RICS Red Book and the GAM; We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used; We confirmed the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations; The key assumptions used within the valuation are reasonable and the modern equivalent asset assumptions applied are in line with the capital plan under the New Hospitals Programme; The movements in impairments and revaluation reserve are accurate, have been displayed correctly and are in line with the GAM; and We reviewed the disclosures concerning the key judgements and degree of estimation uncertainty involved in arriving at the valuation and confirmed their adequacy.	We did not identify any material misstatements relating to this risk. We considered the estimate to be balanced based on the procedures performed.

Audit of the financial statements

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	Procedures undertaken	Findings
Fraud risk from expenditure recognition - completeness As the Trust and system is set a financial performance target by NHS England there is a risk that non-pay expenditure, excluding depreciation, may be manipulated in order to report that the control total has been met. The setting of a control total can create an incentive for management to understate the level of non-pay expenditure compared to that which has been incurred. We consider this would be most likely to occur through understating accruals, for example to push back expenditure to 2024-25 to mitigate financial pressures	We evaluated the design and implementation of controls for reviewing manual expenditure accruals at the end of the year to verify that they have been completely and accurately recorded; We inspected a sample of invoices of expenditure, in the period after 31 March 2024, to determine whether expenditure has been recognised in the correct accounting period; We selected a sample of payments from the bank statements in the period after 31 March 2024 and agreed these to underlying supporting evidence to determine that all the liabilities are completely and accurately recorded in the correct accounting period; We selected a sample of year end accruals and inspected evidence of the actual amount paid after year end in order to assess whether the accruals have been accurately recorded. We inspected journals posted as part of the year end close procedures that decrease the level of expenditure and accruals recorded at the year end in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence; We performed a retrospective review of prior year accruals in order to assess the existence and accuracy with which accruals had been recorded at 31 March 2023 and consider the impact on our assessment of the accruals at 31 March 2024. We performed a year on year comparison of the accruals made in March 2024 and April 2024 and challenged management where the movement is not in line with our understanding of the entity.	We did not identify any material misstatements relating to this risk.
Management override of controls Professional standards require us to communicate the fraud risk from management override of controls as significant. Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. We note that whilst the journals review process has improved over the year, a risk remains that a journal can be posted without final review. We will take a substantive approach to auditing journals.	We performed screening and risk assessment routines over the journals population to establish high risk criteria for unexpected cash & borrowing pairings, unexpected revenue pairings and transactions reducing year end accruals. We analysed the population to identified 46 journals matching our criteria to test. We inspected supporting evidence to assess that these journals were recorded in the normal course of business and have no issues to report. We evaluated accounting estimates, including the consideration of BCIS & location factors as part of the valuation of Land and Buildings and did not identify any indicators of management bias. See page 12 for further detail. Our procedures did not identify any significant unusual transactions.	We did not identify any material misstatements relating to this risk.

03

Value for Money

Value for Money

Introduction

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or 'value for money'. We consider whether there are sufficient arrangements in place for the Trust for the following criteria, as defined by the National Audit Office (NAO) in their Code of Audit Practice:

- Financial sustainability: How the Trust plans and manages its resources to ensure it can continue to deliver its services.
- Governance: How the Trust ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness: How the Trust uses information about its costs and performance to improve the way it manages and delivers its services

Approach

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. 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 value for money.

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.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor's Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Trust.

Summary of findings

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
Commentary page reference	13 - 16	17 - 18	19 - 20
Identified new risks of significant weakness?	🟥 Yes	🟩 No	🟩 No
Actual significant weakness identified?	🟥 Yes	🟩 No	🟩 No
2022-23 Findings	Significant weaknesses remain as partially implemented.	Significant weaknesses identified no longer exist.	Significant weakness identified no longer exists.
Direction of travel	⇧	⇩	⇩

Significant weaknesses followed up from the prior years

A significant weaknesses surrounding financial sustainability was identified in the previous years and remains in the current year. In line with guidance, we have not raised a new recommendation this year but have followed up the progress in implementing the recommendation previously raised, see page 21.

On page 21 we have set out commentary on the significant weaknesses identified in governance and improving economy, efficiency and effectiveness and other findings identified in the prior years and whether the recommendations to address the weaknesses have been satisfactorily implemented.

Value for Money

NATIONAL CONTEXT

Financial performance

The 2023-24 financial year saw a significant increase in the level of financial pressures facing the NHS sector. This followed the end of Covid-19 related financing arrangements. The sector has faced cost pressures from a range of factors, most significantly the impacts of inflation felt during the year and the costs of industrial action.

At the end of January 2024 NHS England forecast that the NHS would record an overspend of £1.1bn against its agreed budgets. This came after additional funding had been made available earlier in the year to support with the costs of industrial action.

Operational performance

In January 2023 the Government announced five pledges for 2023, including reducing NHS waiting lists and the time people wait for procedures. Waiting lists had grown significantly during the Covid-19 pandemic as elective activity was postponed in order to prioritise the treatment of Covid patients and ensure safe working.

According to the Health Foundation the NHS waiting list had grown from 6.2 million patients at the beginning of 2022 to 7.2 million in January 2023. There had also been a significant increase in the number of patients with long waits. At the end of 2023 there remained 355,000 patients that had been waiting over a year for treatment. Income arrangements for the acute sector were revised in year to reimburse providers for elective activity based on the actual number of patients treated.

System working

The Health and Care Act 2022 formally established integrated care systems (ICSs), 42 partnerships within local geographies to promote closer working between the organisations responsible for healthcare delivery. Integrated Care Boards were formed on 1 July 2022, taking over commissioning responsibility from Clinical Commissioning Groups.

In their first full year of operation ICSs have continued to work to develop and embed governance arrangements both within the ICBs themselves and as systems.

LOCAL CONTEXT

UHL is one of the largest and busiest NHS Trusts in the country with over 17,000 staff. It is committed to working with partners across the Leicester, Leicestershire, and Rutland (LLR) Integrated Care System (ICS) and is split across three main sites, including Leicester General, Glenfield and Leicester Royal Infirmary.

The trust delivered an adjusted deficit of £52.8 million for the year ending 31 March 2024, against a forecast plan at the start of the year of £10 million. This included delivery of c.£64.2 million of cost improvement during 2024, 59% of which was recurrent. The Trust sits within System Oversight Framework segment 4, which requires mandated central intensive support to improve the financial position. During 2024, the Trust delivered a major capital investment programme of £122 million on the estate, medical equipment and IT, which was a record for the trust.

Plan for the year ended 31 March 2025

As a consequence of the Trust’s underlying deficit delivery, the Trust’s cash position is challenging, and the Trust has applied for additional revenue cash support in Q1 FY25. In May 2024, UHL agreed a deficit plan for adjusted financial performance of £64.8 for the year to 31 March 2025, including an ambitious £92 million cost improvement plan (5.7% of operating expenditure) to be delivered. The Trust also agreed a capital plan for 24/25 of £104.9 million which went through a comprehensive scoring, risk evaluation and moderation process to ensure it is only applied for the highest priority schemes

System working

The LLR system is recognised to have a challenging financial position. The overall outturn for the LLR System for the year to 31 March 2024 was a £68.4 million deficit, of which £52.8 million related to UHL’s year-end deficit position. For 2025, the system plan is to deliver a deficit of £90 million for FY 2025, of which £65 million relates to UHL.

The future Hospitals programme will reconfigure acute and maternity services for the people of LLR ICS by 2030, which will require large scale investment from the New Hospital Programme.

Financial Sustainability

How the Trust plans and manages its resources to ensure it can continue to deliver its services.

We have considered the following in our work:

- How the Trust ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Trust plans to bridge its funding gaps and identifies achievable savings;
- How the Trust plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Trust ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- How the Trust identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

Delivery against 2023-24 financial plan

The original Trust financial plan for 2023/24 was adjusted financial performance of a £10m deficit, which formed part of a wider ICS deficit budget. The budgets were prepared based on appropriate local and national planning assumptions and were approved at both a Trust and ICS level prior to submission. However, during the period, risks within the budget crystalised resulting in a reforecast of the ICS position during November 2023 to a £61m deficit (with the Trust contributing £49m of this deficit.

The Trust ultimately achieved adjusted financial performance of £52m, with the impact of HCA (healthcare assistants) industrial action (c£3m) in March 2024 the key driver for the Trust not achieving the reforecast position noted above. The main drivers for this overall adverse movement from the initial position including unfunded inflation (c£13m) and UEC/ESM pressures (c£11m).

The ICS reported draft 2023/24 performance of a £68m deficit (adjusted financial performance), with the Trust being the only provider contributing to the overall deficit.

The Trust identified CIPs (Cost Improvement Programmes) of £63m for 2023/24, with £38m relating to recurrent savings. The Trust achieved total CIPs of £64m in the year, being £24m recurrent and £40m non-recurrent. Whilst the delivery of CIPs remain a continued challenge, reliance on non-recurrent savings creates additional pressure for future periods and hence the Trust should prioritise recurrent savings where possible.

Financial reporting

Given the Trusts underlying financial performance, management have taken detailed recurring reports to Board, FIC (Finance and Investment Committee) and AC (Audit Committee) detailing the deterioration in position throughout the period. Key reporting of note is detailed below:

Financial Sustainability

- The Board were notified of LLR ICS' requirement from NHSE to submit a plan resulting in a £10m deficit when approving the 2023/24 financial plan in May 2023 (following the Trusts initial planning submissions). The Board were fully briefed of the risks included within this £10m deficit position, and were notified of a 'likely' deficit of c£70m should risks crystalise as were expected at the time of submission. Such risks included the key drivers causing the deterioration in performance;
- As part of a national H2 re-forecast in October/November 2023, the Trust and system were asked to re-base their financial plans. This exercise resulted in an extended position of £45m deficit agreed with NHSE. The Board were briefed on this movement in position and forecast on 21st November 2023, with clear and concise commentary included in relevant reporting (including information on relevant drivers etc).
- In February 2024, the Trust agreed a further extended position with NHSE of £49m deficit (£59m underlying, with £10m additional funding provided from NHSE). Again, the Board were briefed on this movement in position and forecast on 14th March 2024, with comprehensive analysis of key drivers (UEC pressures) included in relevant reporting.

We note that NHSE wrote to the Trust in July 2023 setting out a series of undertakings which the Trust had agreed to, in regard to financial performance. Through inquiry and review of relevant reporting throughout the period, we note the Trust has not specifically reported on the commitments made within the undertakings, as the Trust believe all relevant items are covered through standard reporting to Finance and Investment Committee as part of the recognised Recovery Support Programme.

Financial Sustainability

Cashflow reporting and monitoring

While the Trust did not require cashflow support (PDC) from NHSE during 2023/24, management that identified the need for such support in Q1 2024/25. Such requirement of support was identified as part of the Trusts ongoing cashflow monitoring arrangements, primarily as part of a specific ‘Working Capital Group’ who meet weekly. The Group discuss the Trusts approach and position in relation to working capital, resulting in specific action points (which are then tracked and followed up) to support the Trusts operations.

In terms of cashflow reporting, the Trust have a specific section within the monthly FPR (Financial Performance Report) which considers cashflow (including any requirement for support) in detail.

For Q1 of 2024/25, the Trust sought £24m of cash support, which has been approved (and received). Approval of submission for support was sought from Board prior to being actioned, with relevant reporting taking place.

Planning process for 2024-25

The Trust are currently forecasting adjusted financial performance of £65m. The ICS is forecasting an overall deficit of £90m. The plans include challenging cost improvement targets, with the trust expected to deliver greater than the CIP savings than that delivered in the current year (£92m v £63m).

The Trust has worked with ICS partner organisations to develop plans for 2024/25 in line with the national guidance, with planning initiatives, including but not limited to: planning workshops, recurring DOF meetings, challenge and confirm sessions and system development meetings. In particular, the Trust has engaged both Board and FIC (Finance and Investment Committee) throughout the process, with necessary background and detail included within such updates.

Prior to submission, management obtained approval from Board. The Board challenged management on UEC assumptions (given the issues faced in 2023/24), benchmarked the plan to other similar Trusts, and on CIP efficiencies (given the target and high level of risk – see below). As a result of this challenge, the Board requested further reporting to follow throughout the year (quarterly to Board) with regular update reports on key risks. The importance of the Trust Board maintaining an appropriately robust level of ownership over the key risks included within the plan was stressed.

The final financial plan for the Trust for 2024/25 includes a £64.8 million deficit for the year to 31 March 2025. This plan is reliant on the delivery of an ambitious Cost Improvement Programme (CIP) of £91.6 million, which is greater than the CIP delivered in the current year. Given the historic delivery performance on CIP, and the need for further work in order to fully develop the CIP schemes for 2024/25 we have concluded that there is a significant weakness in the arrangements in place at the Trust to develop sufficiently detailed CIP plans.

Financial Sustainability

Medium term financial planning

It is noted that a significant weakness was raised in relation to medium term financial planning during the 2021/22 audit. Progress was made in 2022/23 in regards to further development of system working and updating of a three year capital plan. However, a fully worked up MTFP aligned to system plans, was still a work in progress by March 2023. For the 2023/24 financial period, further progress has been made, with a model MTFP developed and submitted to NHSE via the LLR ICB in September 2023. However, it is noted that the model plan is highly reliant on the Trust's CIP position, with roughly £55m of efficiencies identified for each future financial period. It was noted during the August 2023 FIC meeting that the Trust would need to deliver a minimum CIP target of 3% which represents a significant challenge. A final MTFP has not yet been reviewed and approved by the Trust.

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.

Conclusion

we have concluded that there is a **significant weakness in the arrangements in place at the Trust to develop sufficiently detailed CIP plans**. We recommend that the Trust build on the current arrangements in place to identify recurrent CIP schemes and to monitor progress of the delivery of such schemes at the corporate directorate level in order to support

We consider the **significant weakness relating to MTFP arrangements to remain** as at March 2024. Refer to page 21 for follow up of this weakness.

Key financial and performance metrics:	2023-24	2022-23
Planned performance (adjusted financial performance)	£10.0 million deficit	Breakeven
Actual performance (adjusted financial performance)	£52.8 million deficit	£22.7 million deficit
Planned CIP as a % of spend - Recurrent - Non-recurrent	4.2% £37.6 million (59.6%) £25.4 million (40.4%)	2.6% £26.2 million (74.7%) £8.8 million (25.3%)
Actual CIP as a % of spend - Recurrent - Non-recurrent	3.9% £24.6 million (38.3%) £39.6 million (61.7%)	2.6% £24.3 million (62.3%) £14.7 million (37.7%)
Year-end cash position	£42.4 million	£108.0 million

Governance

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

We have considered the following in our work:

- how the Trust monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the Trust approaches and carries out its annual budget setting process;
- how the Trust ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Trust ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour

Summary of arrangements

We have **not identified any potential risk of significant weaknesses** in the Trust's arrangements in relation to governance.

Risk management process

The Trust has a robust risk management framework in place, which allows the Trust to identify and monitor risks, governed by the risk management policy. All identified risks are subject to scrutiny and challenge to ensure an appropriate risk score and mitigations in place.

Risks are identified at a CMG level, where thorough assessments and discussions take place to determine an appropriate risk score, in line with the Trust's risk scoring matrix. Risks are then taken to and discussed at Risk Committee before being escalated to all relevant committees. Both the full Board Assurance Framework (BAF) and BAF summary are presented to each sub committee at every meeting and to the Trust Board quarterly.

The Trust works in partnership with the Leicester, Leicestershire and Rutland Integrated Care System (LLR ICS) in order to align risks across the system. It is noted that a significant weakness was raised in relation to risk management during the 2021/22 audit. Progress was made in establishment of the Risk Committee and reporting of risks within 2022/23, however actions alignment of CMG and system-level risks remined ongoing at March 2023. For the 2023/24 financial period, improvements have been made over risk reporting from CMGs and also alignment between Trust and system-wide risks. As such, it has been concluded that the **significant weakness no longer exists** at the Trust. Refer to page 23 for follow up of this weakness.

Framework of control and audit arrangements

During the 23-24 financial period, the Trust had in place Standing Financial Instructions (SFIs) and a Scheme of Delegation, which align to best practice and show clear delegated responsibilities. There are Terms of References for each sub-committee which are reviewed on an annual basis to ensure they remain fit for purpose.

Governance

The Trust have a dedicated Internal Audit and local counter fraud service (LCFS) provided by 360 Assurance. Both the Internal Audit and LCFS have an agreed annual work plan and report progress to each Audit Committee, with an annual report taken at the end of the year.

The Trust has a robust system of internal controls in place to prevent and detect fraud. It is noted that a significant weakness was raised in relation to asset verification controls during the 2021/22 audit. Due to the timings of when the 2022/23 audit was performed and when the significant weakness was initially raised (May 23), limited progress was made over the asset verification controls within 2022/23. For the 2023/24 financial period, significant improvements have been made by the Trust, including performing a detailed asset verification exercise over the non-land, building and dwelling assets. This has included verifying assets through a number of ways including physical and virtual verification, as well as contracting a third party to externally verify their medical equipment. Asset verification controls were also introduced as at March 2024, to build upon the work performed through the period.. As such, it has been concluded that the **significant weakness no longer exists** at the Trust. Refer to page 25 for follow up of this weakness.

Decision making and oversight

During 23-24, there has been consistency in the structure and membership of the Trust Board and executive team when compared to previous periods. This has supported the delivery of Trust-wide improvement programmes and ensured sufficient oversight of arrangements. There are a number of sub-committees under the Trust Board, outlined as part of the SFIs, which were implemented in order to focus on key areas and issues identified by the Trust. The governance structure is robust enough to enable informed decisions, with an appropriate level of challenge and scrutiny.

Other board sub-committees also review business cases relevant to their remit, such as the Our Future Hospitals and Transformation Committee for all business cases relating to the New Hospitals Programme. The Trust are one of the 40 hospitals that are due to receive additional capital funding in order to build new hospitals by 2030. During 2023/24, the Trust remains in the early stages of development therefore the majority of capitalised costs relate to design, consultancy fees and capitalised salaries.

	2024	2023
Control deficiencies reported in the Annual Governance Statement	2	4
Head of Internal Audit Opinion	Moderate assurance	Limited assurance
Oversight Framework segmentation	UHL - Segment 4 (Mandated Intensive Support) LLR ICS – Segment 3 (Mandated Support)	UHL - Segment 4 (Mandated Intensive Support) LLR ICS – Segment 3 (Mandated Support)
Care Quality Commission rating	Requires improvement	Requires improvement

Improving economy, efficiency and effectiveness

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

We have considered the following in our work:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the Trust evaluates the services it provides to assess performance and identify areas for improvement;
- how the Trust ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
- where the Trust commissions or procures services, how it assesses whether it is realising the expected benefits.

Summary of arrangements

We have **not identified any potential risk of significant weaknesses** in the Trust's arrangements in relation to improving economy, efficiency and effectiveness.

Contract Management

The monitoring of outsourced services is carried out at a CMG level. Regular meetings are held with providers to ensure sufficient management and monitoring of individual contracts. This includes review of appropriate KPIs and identification of issues to determine if outsourced services are meeting the expected standards of delivery.

It is noted that a significant weakness was raised in relation to contract management during the 2021/22 audit. Progress was made in the delivery of the action plan within 2022/23, however actions over the delivery of training, review of regulatory clauses and review of supplier reliance remined ongoing at March 2023. For the 2023/24 financial period, improvements have been made over the outstanding actions, including implementation of training to contract managers, detailed review of regulatory clauses and appropriate steps to determine the level of supplier reliance. As such, it has been concluded that the **significant weakness no longer exists** at the Trust. Refer to page 24 for follow up of this weakness.

CQC

The Care Quality Commission (CQC) 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.

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.

Improving economy, efficiency and effectiveness

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. 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 CQC Steering Group on CQC matters.

The Trust received CQC inspections for its three maternity sites: St Mary's Birth Centre, Leicester Royal Infirmary and Leicester General Hospital site in February and March 2023. The St Mary's Birth Centre received a 'Good' overall rating from the report issued in September 2023, whereas the other two sites received overall 'Requires Improvement' ratings, with 'Inadequate' ratings over the 'Are services safe?' rating. The reports' ratings have not resulted in a change of the Trust's overall rating of 'Requires Improvement'.

The reports highlighted a series of actions to be undertaken and the Trust have developed a comprehensive action plan to address the points raised by the CQC. The action plan is overseen by Julie Hogg as the Executive Lead, and is reported at each meeting of the Maternity Assurance Committee and Quality Committee, with a summary also provided to Board. The latest update to the action plan noted that sufficient progress has been made in the six identified keys areas. The Trust have established a Maternity & Neonatal Safety Improvement Programme, aligned with the NHS 3-Year Delivery Plan and CQC actions. The programme is driven by four main themes: patients, workforce, culture and safety.

In January 2024, follow up inspections were carried out at the Leicester Royal Infirmary and Leicester General Hospital sites. The final reports issued in June 2024 provided an overall 'Requires Improvement' rating for both sites, however with an improvement to 'Requires Improvement' for the 'Are services safe?' rating.

Prior year findings

Significant weaknesses followed up from the prior year

In our annual auditor’s report for the financial year 2021-22 (and re-iterated in financial year 2022-23) we reported that the Trust had a significant weaknesses in arrangements over financial sustainability, governance and improving economy, efficiency and effectiveness. As required by the Code of Audit Practice we have revisited this issue and set out in the table below an update in regards to the arrangements in this area.

<table>
<tr><th>#</th><th>Recommendation (31 March 2022)</th><th>31 March 2023 position</th><th>31 March 2024 position</th></tr>
<tr>
<td>1</td>
<td>Medium Term Financial Planning (Financial Resilience)

During the 2021/22 financial year the Trust prepared a draft Medium Term Financial Plan (MTFP) 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. 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.

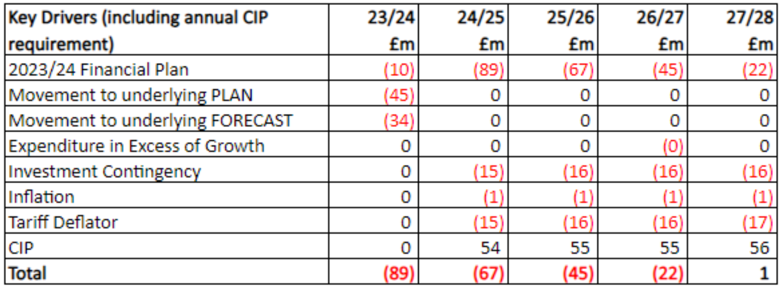
Recommendation

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.</td>
<td>While progress had been made, 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.</td>
<td>Progress has been made by the Trust in relation to the MTFP within the 2023/24 financial period.

The Trust are working closely with the Leicester, Leicestershire and Rutland Integrated Care System (LLR ICS) to ensure that the MTFP is in line with the system. This has included ensuring that the assumptions used for developing the plan align with the system.

A model MTFP has been developed and was submitted to NHSE via the LLR ICB in September 2023. Before submitting, the plan was reviewed by the Trust Leadership Team and taken to Finance & Investment Committee for discussion in August 2023.

The MTFP outlines the Trust’s plan to reach a breakeven position by 2027/28:


<table>
<tr><th>Key Drivers (including annual CIP requirement)</th><th>23/24 £m</th><th>24/25 £m</th><th>25/26 £m</th><th>26/27 £m</th><th>27/28 £m</th></tr>
<tr><td>2023/24 Financial Plan</td><td>(10)</td><td>(89)</td><td>(67)</td><td>(45)</td><td>(22)</td></tr>
<tr><td>Movement to underlying PLAN</td><td>(45)</td><td>0</td><td>0</td><td>0</td><td>0</td></tr>
<tr><td>Movement to underlying FORECAST</td><td>(34)</td><td>0</td><td>0</td><td>0</td><td>0</td></tr>
<tr><td>Expenditure in Excess of Growth</td><td>0</td><td>0</td><td>0</td><td>(0)</td><td>0</td></tr>
<tr><td>Investment Contingency</td><td>0</td><td>(15)</td><td>(16)</td><td>(16)</td><td>(16)</td></tr>
<tr><td>Inflation</td><td>0</td><td>(1)</td><td>(1)</td><td>(1)</td><td>(1)</td></tr>
<tr><td>Tariff Deflator</td><td>0</td><td>(15)</td><td>(16)</td><td>(16)</td><td>(17)</td></tr>
<tr><td>CIP</td><td>0</td><td>54</td><td>55</td><td>55</td><td>56</td></tr>
<tr><td>Total</td><td>(89)</td><td>(67)</td><td>(45)</td><td>(22)</td><td>1</td></tr>
</table>

<i>Continued…</i></td>
</tr>
</table>

Prior year findings (cont.)

#	Recommendation (31 March 2022)	31 March 2023 position	31 March 2024 position
1	**Medium Term Financial Planning (Financial Resilience)** During the 2021/22 financial year the Trust prepared a draft Medium Term Financial Plan (MTFP) 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. 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. **Recommendation** 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.	While progress had been made, 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.	***…Continued*** The Trust's plan is heavily reliant on the CIP position, with roughly £55m of efficiencies identified for each future financial period. It was noted during the August 2023 FIC meeting that the Trust would need to deliver a minimum CIP target of 3% which represents a significant challenge. Discussions have also been held with NHSE, to revise the model from 5 years to 4 years in order to develop further traction and fully implement and embed the MTFP. It has been noted from our initial conversations, that there is more confidence in the MTFP across the Trust as information for decision making. However despite the above progress, it is noted as at time of writing, the Medium Term Financial Plan is yet to be approved, and therefore is not fully implemented at the Trust. Due to internal delays, a Financial Sustainability / Recovery Plan is due to be taken to FIC on 28 June 2024. This will describe how the Trust intends to deliver the current year plan as well as future plans to return to a breakeven position. Therefore, the recommendation remains **partially completed**. 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, we will not report this as a new issue.

Prior year findings (cont.)

#	Recommendation (31 March 2022)	31 March 2023 position	31 March 2024 position
2	**Risk Management (Governance)** 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. 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. **Recommendation** 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.	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.	Progress has been made by the Trust in relation to risk management within the 23/24 financial period. Risks are now assessed at CMG level and are escalated and challenged through the Risk Committee, Finance and Investment Committee and then Trust Board. Risk registers are kept at both the CMG and Board level, with appropriate channels for reporting between committees. This has been corroborated by review of the risk register and applicable committee minutes. Non Executive Directors sit on the Risk Committee to ensure there is sufficient challenge and ownership over the risks identified. Per discussions with the Head of Risk Assurance, it is understood that at Board level, NEDs take ownership of these risks and work closely with the responsible executives to ensure a sufficient level of escalation, challenge and discussion. On a system level, representatives of the Trust sit on the LLR ICS board, including the chief executive. Review of system board papers confirm attendance and input from the Trust. These individuals are responsible for informing the system of UHL specific risks in order to flag these to the wider system. They also take part in discussions around system level risk, and ensure these are sufficiently captured in the Trust's risk register. An internal audit was carried out over the risk assessment process performed at a CMG level. The report was published in February 2024 and significant assurance was given over the clinical management group risk management. It has been confirmed that due to CMG risk registers being embedded within the Trust and full alignment of Trust and system wide risks, that the **significant weakness no longer exists regarding risk management.**

Prior year findings (cont.)

#	Recommendation (31 March 2022)	31 March 2023 position	31 March 2024 position
3	**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 contact 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.	Following elements of the action plan were considered in progress at the end of March 2023: • Delivery of training (as designed by the Government Commercial Function) • A review of regulatory clauses within contracts, including the right to audit, was ongoing as at the year end. • A review of supplier reliance on sub-contractors, to inform consideration of the risk within each contract, is ongoing.	Progress has been made by the Trust in relation to contract management within the 23/24 financial period. In August 2023, a paper was taken to Audit Committee outlining the progress made in relation to contract management and the actions implemented by the Trust. This outlined the delivery of training that had been implemented across the organisation. 3 recommendations remained outstanding: 2 in relation to monitoring of regulatory clauses and 1 for supplier management activities. In September 2023, the Head of Procurement & Supplies received an in-depth update paper, detailing the work performed for all 3 recommendations. This has been reviewed by the audit team and confirmed that all 3 recommendations are now addressed. A paper was taken to the Audit Committee in December 2023 to confirm that all recommendations made from the internal audit report had been followed up and resolved. It has been confirmed that due to completion of all action plan points during the financial period, that the **significant weakness no longer exists regarding contract management**.

Prior year findings (cont.)

#	Recommendation (31 March 2022)	31 March 2023 position	31 March 2024 position
4	**Asset Verification Control (Governance)** 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. **Recommendation** 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.	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.	Significant progress has been made by the Trust in relation to asset verification within the 23/24 financial period. The Trust have undertaken a number of verification methods to gain initial assurance over the existence of the non-land, buildings and dwellings assets. These include: physical verification, maintenance and service records, IT network reports, and third party lease confirmations. The Trust has demonstrated strong collaboration between the divisions and finance to complete the initial asset verification confirmation throughout the period. A third party specialist asset tracking company (assetTRAC) were employed to perform a tagging exercise for medical equipment in July 2023. The Trust has performed a mapping exercise to match any medical equipment identified by the third party to the asset register. An asset verification control has been introduced in March 2024. This includes CMG leads completing asset verification forms to confirm that assets remain held by the Trust as at 31 March 2024. This ensures that previously verified assets remain held by the Trust. It has been confirmed by the Trust that the asset verification control will be carried out monthly going forward. As at 31 March 2024, the Trust have verified 80.5% of their plant and equipment assets, with £27.7m of assets remaining unverified. As part of the verification exercise, the Trust have also identified £0.4m of assets to be disposed of, £6.3m of impairments and £11.9m of assets which required reclassification to another asset type. It has been confirmed that due to the asset verification control in place at the Trust as at 31 March 2024, the **significant weakness no longer exists regarding the asset verification control**.

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