Annual Audit Letter

The Leeds Teaching Hospitals NHS Trust

Year ending 31 March 2020

MAZARS

Reports and letters prepared by the auditor and addressed to The Leeds Teaching Hospitals NHS Trust are prepared for the sole use of The Leeds Teaching Hospitals NHS Trust and we take no responsibility to any member or officer in their individual capacity or to any third party.

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for The Leeds Teaching Hospitals NHS Trust (the Trust) for the year ended 31 March 2020. Although this letter is addressed to the Trust, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 25 June 2020 included our opinion that: • the financial statements give a true and fair view of the Trust's financial position as at 31 March 2020 and of its financial performance for the year then ended.
Value for Money conclusion	Our auditor's report stated that we had no matters to report in respect of the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 25 June 2020 we reported that the Trust's consolidation schedules were consistent with the audited financial statements.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under schedule 10 of the 2006 Act to issue a report in the public interest. Our auditor's report confirmed that we did not use our powers under the 2014 Act to: • issue a report in the public interest; • make a referral to the Secretary of State (where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; or • make written recommendations to the Trust which must be responded to publicly.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	**Unqualified**

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Trust and whether they give a true and fair view of the Trust's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Trust's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Trust on 25 June 2020, stated that, in our view, the financial statements give a true and fair view of the Trust's financial position as at 31 March 2020 and of its financial performance for the year then ended.

However, Note 17 in the Trust's financial statements highlights a material valuation uncertainty in relation to the valuation of land and buildings as follows:

In the light of the Covid-19 pandemic and in accordance with RCIS guidance, the independent valuer has included the following in the report: "The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organization as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID 19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation(s) is / are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuations than would normally be the case"

The Trust is not in a position to quantify the degree of uncertainty but will keep the valuation of its estate under review during 2020/21.

In line with ISA706, we determined that the auditor's report should draw the reader's attention to this disclosure given its significance to the financial statements. As a result, our auditor's report included the Emphasis of Matter paragraph highlighted below. ISA (UK) 706.7 describes Emphasis of Matter paragraphs as 'a matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to the users' understanding of the financial statements'.

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 17 to the financial statements concerning the material valuation uncertainty statement made by the Trust's valuer.

As highlighted, our opinion was not modified in respect of this matter.

2. AUDIT OF THE FINANCIAL STATEMENTS

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 1.1% of gross revenue expenditure.	£15m
Trivial threshold	Our trivial threshold is set in accord with the National Audit Office's reporting requirement.	£0.3m
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Related Party Transactions - Officer Remuneration	 £50k £5k

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2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Trust's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls In all entities, management at various levels within an organisation are 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. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits	We addressed this risk through performing audit work over: • Accounting estimates impacting on amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.	Our work has provided the assurance we sought in each of these areas and did not highlight any material issues to bring to your attention.
Revenue Recognition Auditing standards include a rebuttable presumption that there is a significant risk in relation to the timing of income recognition, and in relation to judgements made by management as to when income has been earned. The pressure to manage income to deliver forecast performance in a challenging financial environment increases the risk of fraudulent financial reporting leading to material misstatement and means we are unable to rebut the presumption. We consider specific risks in relation to revenue recognition to be in the following areas: • Recognition of income and receivables around the year end; • Recognition of Provider Sustainability Funding (PSF) income during the year. Furthermore, the Trust recognised additional income of £8m from the Department of Health and Social Care (DHSC), to fund the Trust's expenditure incurred to respond to the Covid-19 pandemic in 2019/20. We consider there to be a further specific risk in relation to this funding because of the incentive and opportunity to claim for the reimbursement of expenditure that is not Covid-19 related.	We evaluated the design and implementation of controls the Trust has in place which mitigate the risk of income being recognised in the wrong year. In addition we undertook a range of substantive procedures including: • testing of income and year end receivables for accuracy, completeness and occurrence.; • testing receipts in the pre and post year end period to ensure they have been recognised in the right year; • reviewing intra-NHS reconciliations and data matches provided by the Department of Health and Social Care; • testing of PSF income to the year end confirmation from NHS Improvement; • testing a sample of expenditure items for which the Trust has recognised additional funding from the DHSC to obtain assurance that these were correctly recorded as Covid-19-related expenditure items.	Our work has provided the assurance we sought in the above areas and did not highlight any material issues to bring to your attention.

2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Our response	Our findings and conclusions
Valuation of Land and Buildings Land and buildings are the Trust's highest value assets accounting for £424m of the Trust's £533m Property, Plant and Equipment balance. Management engages the Cushman and Wakefield as an expert to assist in determining the fair value of land and buildings to be included in the financial statements. Changes in the value of land and buildings, including the choice of single site valuation, may impact on the Statement of Comprehensive Income depending on the circumstances and the specific accounting requirements of the Group Accounting Manual. The significant risk of material misstatement is further increased due to the additional estimation uncertainty arising from the Covid-19 pandemic and Note 17 of the Trust's financial statements discloses a 'material valuation uncertainty' in relation to this uncertainty.	We evaluated the design and implementation of any controls which mitigate the risk. This included liaising with management to update our understanding on the approach taken by the Trust in its valuation of land and buildings. We: • assessed the scope and terms of engagement with Cushman and Wakefield; • assessed how management use Cushman and Wakefield's report to value land and buildings in the financial statements; • reviewed the valuation methodology used, including the appropriateness of the single site valuation, given the development of Building the Leeds Way. This included testing the underlying data and assumptions; • assessed the competence, skills and objectivity of Cushman and Wakefield; • considered the reasonableness of the valuation by comparing the valuation output with market intelligence and challenging the Trust and the valuer where required; and • assessing the effect of the valuation uncertainty disclosed by the Trust's valuer and the adequacy of disclosure in Note 17 of the financial statements. This has included engaging our own expert to assist in this assessment. .	Other than the points highlighted on page 3 in relation to the material valuation uncertainty (and the Emphasis of Matter paragraph within our auditor's report), and the internal control recommendation on page 7 in relation to the valuer's work, our work has provided the assurance we sought in the above areas and did not highlight any other matters of significance to bring to your attention.

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit. The control deficiency was not significant in nature.

Description of deficiency	**Property, Plant and Equipment – Valuations** We found opportunities to strengthen the Trust's controls relating to the checks undertaken on the BCIS indices used by the valuer within the valuation report. For a sample of assets, we have agreed the calculations completed by the valuer to supporting BCIS data. For 6 out of the 29 assets sampled we identified the valuer had used the incorrect BCIS or transposed the figures. This had the effect of changing the calculated valuation of these assets. The total value of this error was £246k.
Potential effects	The Trust's property, plant and equipment could be incorrectly stated.
Recommendation	On receipt of information from the valuer, the Trust should complete a check of assets to ensure the correct BCIS rates have been used in the valuation.
Management response	To mitigate the risk of any future errors we will ensure we check the valuer's completion sheets supporting all future reports, and raise issues prior to taking the valuation into account. **Responsibility:** Deputy Director of Finance **Implementation date:** Immediately.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion	Unqualified

Our approach to Value for Money

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider. We are only required to report if we conclude that the Trust has not made proper arrangements..

The overall criterion is that, 'in all significant respects, the Trust had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our auditor's report, issued to the Trust on 25 June 2020, confirmed that we had no matters to report in respect of the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.

Sub-criteria	Commentary	Matters to report
Informed decision making	Our work has identified the Trust's arrangements include: • established strategic and operational plans; • integrated performance, risk and assurance reporting; • an established governance structure and systems of internal control; and • a risk management policy and arrangements for risk identification, validation, mitigation, monitoring and reporting.	None
Sustainable resource deployment	Our work has identified that the Trust's arrangements include: • an effective Financial Performance Framework that is delivering the required outcomes; • well developed productivity and efficiency plans; • medium term financial modelling linked to service plans. See page 9 for further details.	None
Working with partners and other third parties	Our work has identified that the Trust's arrangements include: • strong engagement and lead role in the West Yorkshire and Harrogate Health and Care Plan. This collaboration aims to develop and transform health and care by creating sustainable organisations, systems and partnerships. • working with partner health agencies and the Leeds City Council on Building the Leeds Way – for regeneration at the Leeds General Infirmary. • active membership of West Yorkshire Alliance of Acute Trusts (WYAAT) to try to secure shared improvements to patient care and efficiency across the West Yorkshire area; • significant research partnerships.	None

3. VALUE FOR MONEY CONCLUSION

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Trust being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant Value for Money risk(s). The work we carried out in relation to significant risks is outlined below.

Risk - Financial Sustainability - Achievement of financial trajectories

For the 19/20 financial year, the Trust has agreed a control total surplus of £12m. This includes the receipt of £17.2m PSF. As in previous years, the achievement of the planned financial performance is dependent on delivering significant WRPs, of which the overall target is almost £52m. The Trust needs to achieve agreed financial trajectories to access the £17.2m from the Provider Sustainability Fund.

Whilst the control total above was agreed with NHS Improvement, the Trust are working internally to deliver a larger surplus.

Work undertaken

To evaluate the Trust's arrangements for securing value for money in its use of resources we:

- reviewed the performance of the in-year financial trajectories;
- reviewed the arrangements for delivering recurrent waste reduction schemes;
- reviewed the continued application of the Financial Performance Framework during the year; and
- challenged the underlying assumptions and rationale supporting the Trust's 2020/21 financial plan.

Conclusion

We completed our work as planned and found the Trust has adequate arrangements in place for planning its finances effectively.

- The Trust delivered a year-end financial outturn of a £12.6m surplus. This is a £0.6m improvement on the Trust's financial plan.
- Through its Waste Reduction Programme (WRPs), the Trust planned to achieve efficiency savings of £51.9m in 2019/20. The Trust actually achieved savings of £54.5m.
- The Trust has agreed contracts with commissioners and agreed a control total with NHS Improvement for 2020/21. The Trust's planned outturn for the year is breakeven. The Trust's internal plan, which was agreed in February 2020 is to deliver a surplus of £1.5m. To achieve the agreed control target the Trust will need to deliver further savings of £45m. The Trust has made good progress in identifying plans to deliver these savings through its 2020/21 Financial Plan.
- Revised NHS financial arrangements are being put in place to cope with the consequences of Covid-19, but these are still evolving. The Trust's 2020/21 Financial Performance Framework has been put on hold for the first four months and a number of assumptions and risk remains around the delivery of the financial plan. However, this is a position faced by all trusts and the Trust has put interim financial arrangements in place to enable the monitoring of financial performance. The overall objective of the Trust's evolving 2020/21 Financial Plan is to achieve financial balance and discipline whilst supporting efforts to manage the Covid-19 outbreak and, ultimately, the restarting and maximising of non Covid-19 services.
- If and when revised 2020/21 financial trajectories are agreed, the Trust may need to deliver further productivity and efficiency gains. The progress made on the 2020/21 plan provides a strong indication that the Trust's arrangements, through its 'Financial Performance Framework', are working effectively in practice and position them well for the challenges faced.

Through this work, whilst we recognise the challenges going forward, we identified no residual risks that affected our ability to form our VFM conclusion.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Governance Statement	**No matters to report**
Consistency of consolidation data with the audited financial statements	**Consistent**
Other information published alongside the audited financial statements	**Consistent**

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Trust's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- make written recommendations to the Trust which must be responded to publicly.

We have not exercised any of these statutory reporting powers.

We are also required to report if, in our opinion, the governance statement does not comply with the guidance issued by NHS Improvement or is inconsistent with our knowledge and understanding of the Trust. We did not identify any matters to report in this regard.

Reporting to the NAO in respect of consolidation data

The NAO, as group auditor, requires us to report to them whether consolidation data that the Trust has submitted is consistent with the audited financial statements. We have concluded and reported that the consolidation data is consistent with the audited financial statements.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Trust. In our opinion, the information in the Annual Report is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Trust's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit Committee in March 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£80,000 (excluding VAT)	£82,000* (excluding VAT)

* The additional audit fees of £2,000 relate to additional work undertaken on Property, Plant and Equipment testing against the backdrop of the valuation uncertainty resulting from Covid-19.

Fees for other work

We commenced our assurance work in relation the Trust's Quality Report, however we ceased our work on 20 March 2020 when NHS England and NHS Improvement wrote to all NHS Trusts and Foundation Trusts to outline the next steps on the NHS Response to COVID-19 Financial Arrangements. In this communication, it was made clear that "auditor assurance work on quality accounts/reports should cease for 2019/20".

A fee of £8,500 (excluding VAT) was originally envisaged for our assurance work in relation the Trust's Quality Report. At the end of March 2020 we had completed the planning phase of our work, undertaken early testing of the selected performance indicators and liaised with key officers. We are therefore charging a reduced fee for the work completed of £2,410 (excluding VAT).

6. FORWARD LOOK

Financial outlook

The Trust continues to face significant financial pressures for 2020/21 reflecting the impact of Covid-19 and the continued national drive to re-establish financial control over the NHS provider sector. The current NHS financial regime offers block contract payments for April-July based on the 2019/20 cost base + inflation (no efficiency requirement, but no growth). The arrangements post July are less certain and block contracting arrangements may continue for a period of time. To summarise the Trust faces uncertainty in 2020/21 as a result of the national NHS resourcing arrangements, however there is understood to be a commitment within the system to support all trusts to break even in 2020/21.

The Trust has made good progress in putting plans in place to help to meet the uncertainty faced through its 2020/21 Financial Plan and continues to plan efficiency savings for 2020/21 and future years. The Trust recognises the significant risks and challenges in delivering these savings in 2020/21 and beyond.

Operational challenges

The Trust continues to modernise and develop its services and estate to best meet the needs of patients. This includes a number of operational challenges as follows:

- successfully planning and delivering the Hospitals of the Future project;
- Improving performance against the national targets and standards, including Referral to Treatment times, Emergency Care Standard, Cancer 2 week wait and diagnostic tests.

In addition, the COVID-19 outbreak presented significant clinical and operational challenges for the Trust. As the NHS moves into recovery and reset, the estate, infrastructure and capital programme will need to continue to adapt and respond to meet patient needs.

How we can work with the Trust

In the coming year we can continue to support the Trust by:

- attending Audit Committee meetings and presenting Audit Progress Report including updates on regional and national developments;
- continued liaison with management and completion of early work to deliver a 'no surprises' audit; and
- hosting events for staff, such as our NHS Accounts workshop.

The Trust has taken a positive and constructive approach to our audit and we wish to thank the Board, Audit Committee, and Trust staff for their support and co-operation during our audit in the past year.

We are committed to supporting the Trust as its external auditor. We will meet with the Trust to identify any learning from the 2019/20 audit and will share our insights from across the NHS and relevant knowledge from the wider public and private sector.

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