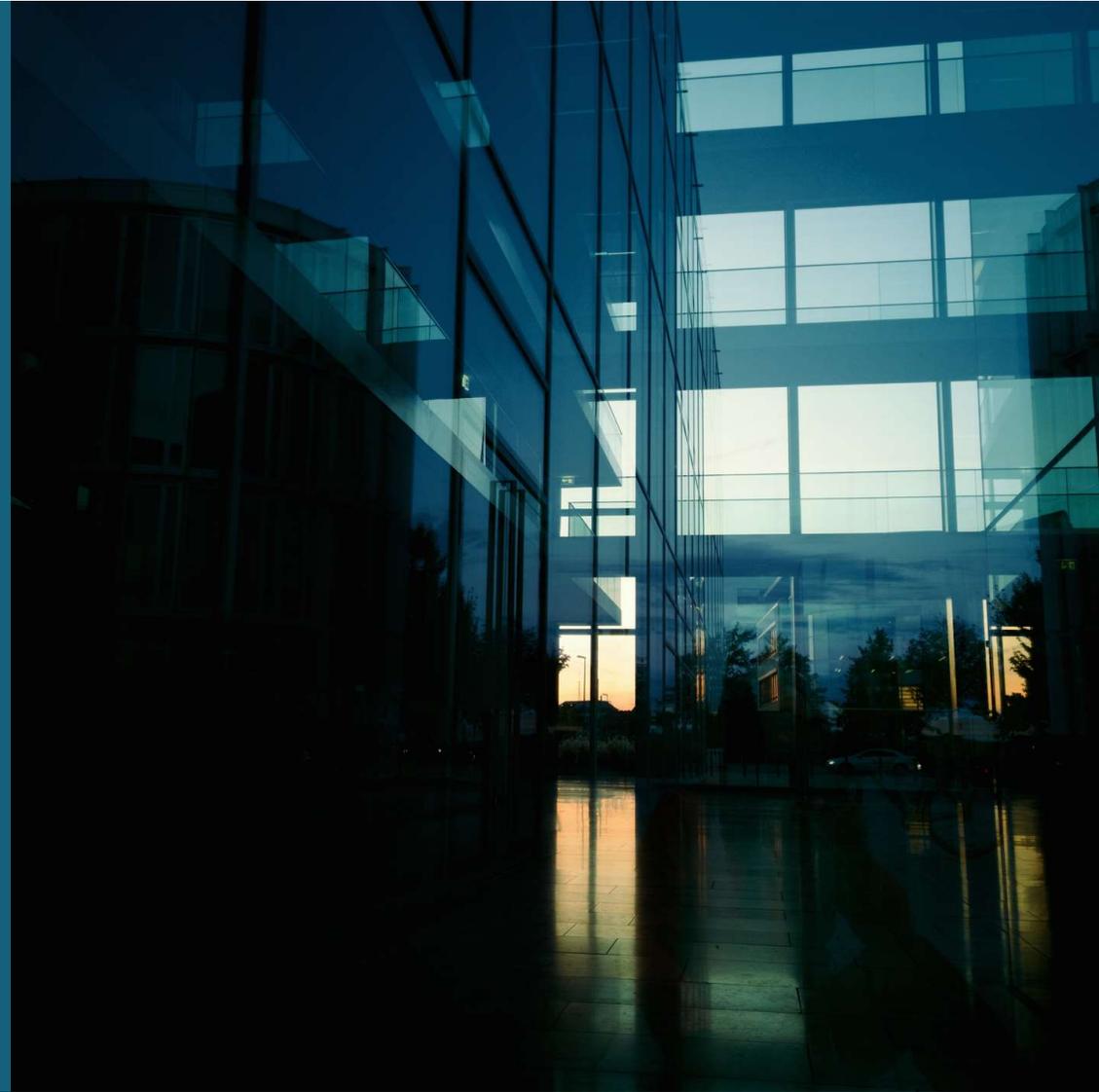


# Auditor's Annual Report

Leeds Teaching Hospitals NHS Trust—  
year ended 31 March 2021

July 2021



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This document is to be regarded as confidential to Leeds Teaching Hospitals NHS Trust. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance by the Board of Directors. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

# 01

## Section 01: **Introduction**

# 1. Introduction

## Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Leeds Teaching Hospitals NHS Trust ('the Trust') for the year ended 31 March 2021. Although this report 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 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



### Opinion on the financial statements

We issued our audit report on 10 June 2021. Our opinion on the financial statements was modified. This was due to us not being able to obtain sufficient appropriate audit evidence, through stocktake attendance, regarding the condition and existence of inventory at 31 March 2021 as a result of the COVID-19 government guidance.



### Wider reporting responsibilities

In line with group audit instructions issued by the NAO, on 24 June 2021 we reported that the Trust's consolidation schedules were consistent with the audited financial statements.



### Value for Money arrangements

In our audit report issued we reported that we had not completed our work on the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Trust's.

Following the completion of our work we have issued our audit certificate which formally closes the audit for the 2020/21 financial year.

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# 02

Section 02:

**Audit of the financial statements**

# 2. Audit of the financial statements

## The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

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 2021 and of its financial performance for the year then ended. Our audit report, issued on 10 June 2021 gave a modified opinion on the financial statements for the year ended 31 March 2021. This was due to us not being able to obtain sufficient appropriate audit evidence, through stocktake attendance, regarding the condition and existence of inventory at 31 March 2021 as a result of the COVID-19 government guidance.

## Qualitative aspects of the Trust's accounting practices

We reviewed the Trusts accounting policies and disclosures and concluded they comply with Department of Health and Social Care Group Accounting Manual 2020/21, appropriately tailored to the Trusts circumstances.

Draft accounts were received from the Trust on 27 April 2021 and were of a good quality.

## Significant difficulties during the audit

We did not encounter any significant difficulties during the course of the audit and we had the full co-operation of management. Our audit work was carried out through remote working arrangements as a result of the constraints imposed by the COVID-19 pandemic. This included the effective use of technology and close liaison with finance and other officers of the Trust. We would like to thank the Finance Team for the quality of their supporting working papers and for being available throughout the audit to answer our queries.

## 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 did not identify any significant deficiencies in internal control as part of our audit.

# 03

Section 03:

**Commentary on VFM arrangements**

### 3. VFM arrangements – Overall summary

#### Approach to Value for Money arrangements work

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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **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

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Trust has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement.

The table below summarises the outcomes of our work against each reporting criteria. On the following page we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	9	No	No
Governance	11	No	No
Improving economy, efficiency and effectiveness	13	No	No

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# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### Overall responsibilities for financial governance

We have reviewed the Trust’s overall governance framework, including Board and committee reports, the Annual Governance Statement, and Annual Report and Accounts for 2020/21. These confirm the Trust Board undertook its responsibility to define the strategic aims and objectives, approve budgets and monitor financial performance against budgets and plans to best meet the needs of the Trust’s service users.

The Finance and Performance Committee oversees all aspects of financial management and operational performance on behalf of the Board. This includes:

- overseeing and assuring financial and operational performance
- considering and advising the Board on the risks associated with any material financial transactions
- considering the financial and operational risks involved in the Trust’s business and how they are controlled and monitored by management.
- making recommendations to the Board on action needed to address issues raised or to make improvements.

Our review of supporting papers confirmed that it did so effectively throughout 2020/21.

### Background to the NHS financing regime in 2020/21

Following the onset of the Covid-19 pandemic in March 2020, the original NHS Planning Guidance 2020-21 was suspended and a new financial regime was implemented. For the first half of the year (April to September 2020) all NHS trusts and NHS foundation trusts were moved to block contract payments ‘on account’ and the usual Payment by Results national tariff payment process was suspended. The Financial Recovery Fund was also suspended and NHS providers were able to claim for additional costs due to COVID-19. Whilst commissioner allocations for 2020-21 had already been notified, individual commissioner financial positions were kept under review and top-up payments were issued to CCGs to cover the difference between allocations and expected costs to pass on to providers.

For the second half of the year (October 2020 to March 2021) there was a move to “system envelopes” with funding allocations covering most NHS activity made at the health economy or system level, including resources to meet the additional costs of the Covid-19 pandemic. There were no further general retrospective top-up payments and all Covid-19 costs from that point were funded through the fixed Covid-19 funding allocation with a few exceptions.

Systems were expected to achieve financial balance within this envelope and individual organisations were able to deliver surplus or deficit positions by mutual agreement within the system. However, NHS trusts and foundation trusts were still required to meet statutory break-even duty and CCGs required to meet their resource limits.

### The Trust’s financial planning and monitoring arrangements

In response to the new finance regime, the Trust approved and submitted a revised financial plan. This plan included a requirement for top-up funding for the first half of the year to support the Trust in achieving its forecast break-even position.

At 31 March 2021 the Trust reported an adjusted surplus of £7.5m against a plan to break even. This was due to a number of non-recurrent nationally funded items.

Throughout the year the Trust reported its financial position to the Finance and Performance Committee and subsequently to the Board. These reports detailed any variances from the plan and provided explanations. The financial position was challenged at these meetings, with appropriate corrective action identified and implemented. There was also evidence of oversight of the Trust’s Waste Reduction Programme through these reports. The Waste Reduction Programme is considered in further detail below.

# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria - continued

### The Trust's arrangements and approach to 2021/22 financial planning

#### Financial Planning 2021/22

On 25 March 2021 NHSE/I published the priorities and operational planning guidance for 2021/22. This overarching document sets out six priorities for the year ahead and asks local health systems to develop fully triangulated plans across activity, workforce and finances for the next six months. These arrangements are supported by an additional NHS wide £8.1bn of funding to reflect the ongoing impact of Covid-19. This included the details of the finance and contracting arrangements for the first half of 2021/22 (April to September 2021). The financial arrangements are similar to the latter half of 2020/21, including:

- a financial envelope for the local health system based on the financial envelope for October to March 2021, adjusted for known pressures and policy changes;
- the continuation of block contract payments and no requirement for signed contracts between commissioners and providers;
- uplifting specialised and directly commissioned services from NHS England by 0.5%; and
- additional funding to support the delivery Long-Term Plan priorities.

The Trust have submitted a financial plan up to September 2021 to NHS Improvement which is in accordance with national guidance and plans to deliver a breakeven position.

In line with previous years, in October 2020, the Trust updated its 5 year financial plan covering the period 2021 – 2026. This is an ambitious plan, that aims for the Trust to breakeven in 2021/22 but deliver significant surpluses in the following years. The plan is challenging, and there are numerous risks in achieving the plan. These risks have all been carefully considered and the plan includes some sensitivity analysis in relation to these risks. The risks have also been clearly communicated, to ensure the Board are fully aware of the risks and challenges within the plan and to enable decisions to be made on an informed basis. The creation of a 5 year plan is in line with good practice and demonstrates a focus on the longer term finances of the Trust.

The Trust's five year financial plan includes assumptions that appear reasonable around staffing levels, pay awards contract income, non recurrent healthcare income and activity growth. The plan includes a Waste Reduction requirement in each of the five years. This was based on the Trust's prudent assumptions of income levels known at the time of producing the plan and in advance of receiving formal guidance on funding arrangements for the second half of the 2021/22 financial year. Recognising the prudence in the assumptions made, the Trust set a Waste Reduction Programme target of £40.1m for the year. Work has been underway since July 2020 to develop schemes as part of the Waste Reduction Programme. The Waste Reduction Programme aims to deliver efficiencies and savings whilst driving service improvements across the Trust. Waste Reduction targets are built into the Trust's annual financial planning at a Clinical Support Unit (CSU) and corporate level. The annual cycle for developing WRP schemes is overseen by the Trust's Finance Team and includes a timetable for development of plans.

We have reviewed the weekly monitoring reports for the WRP for both 2020/21 and 2021/22 and confirmed it includes a summary of identified schemes, split by CSU. Values are assigned to each scheme, and each scheme is risk rated. Monitoring to date shows the Trust is on track to deliver this WRP programme for 2021/22. In previous years, the Trust have built a strong track record of delivering significant Waste Reduction Programmes.

We have critically assessed the underlying assumptions used in the 2021/22 financial plan (and 5 year plan). We have also considered the Trust's achievement of waste reduction in 2020/21 (and prior years). It is clear that the Trust is closely monitoring the progress against plan to date, is fully aware of where the risks lie and continues to identify mitigating actions to address these risks.

#### Conclusion

Given the above, we are satisfied there is not a significant weakness in the Trust's arrangements in relation to the financial sustainability reporting criteria.

### 3. VFM arrangements – Governance

#### Overall commentary on the Governance reporting criteria

##### The Trust's risk management and monitoring arrangements

The Trust has a comprehensive risk management system in place which is embedded into the governance structure of the organisation. The processes are supported by the Trust's Risk Management Strategy and the Trust leadership plays a key role in implementing and monitoring the risk management process.

All risks, externally and internally generated including financial, are managed and monitored through the Trust's risk management arrangements. The Risk Management Committee meets on a monthly basis. At each meeting, representatives from the CSUs are invited to attend (on a rolling cycle) to discuss in details the highest risks on their risk registers. The Committee discusses the risks, the mitigating measures in place and agree on a risk score. Risk registers are updated following the meeting. During the meetings, horizon scanning takes place to identify new or emerging risks for the Trust. Appropriate action is taken following these discussions. The Corporate Risk Register is also reviewed at these meetings. Any strategic issues emerging from the meetings are escalated to the Board via the Chair's Summary Report.

We have reviewed minutes of the Risk Management Committee meetings and confirmed detailed discussion and challenge has taken place on high level risks. The risks are clearly linked to the Strategic Aims of the Trust and are cross-referred to the Board Assurance Framework, providing a thread from operational to strategic risk management. The minutes include an action tracker allowing for timely monitoring of risks scheduled for review by the committee.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, the Trust has a co-sourced internal audit arrangement and in-house local counter fraud specialists. Work plans are agreed with management at the start of the financial year and reviewed by Audit Committee prior to final approval.

We have reviewed the Internal Audit Plans for 2020/21 and 2021/22 and confirmed planned work is based around the risk register and Board Assurance Framework. Progress reports are presented to each Audit Committee meeting including follow up reporting of recommendations not fully implemented by agreed due dates. This allows the Committee to effectively hold management to account on behalf of the Board. Our attendance at Audit Committees throughout the period confirms the significance placed on internal audit findings. Members of the committee actively request management attendance at committees to discuss findings from internal audit reports.

Audit Committee members are appropriately skilled to undertake their role and provide appropriate challenge to Management and Internal and External Audit.

##### The Trust's arrangements for budget setting and budgetary control

The Trust's budget process is informed by the annual planning process. The timetable for the planning process sets out the dates for key returns to NHSE/I. The Trust's five year financial plan and annual plan is taken through the Trust governance process including Finance and Performance Committee and Board of Directors. Our review of minutes confirms this to be the case with papers covering the Trust's income and expenditure position, statement of financial position, forecast cash and capital expenditure and links into the Trust's Waste Reduction Programme.

Budget information is held within the Trust's general ledger system and reconciled to the approved annual plan. The Trust's finance team operates on a day one closedown timetable, meaning budget statements are provided to budget holders on the first working day of the month allowing for timely review and scrutiny. We have reviewed an example budget report and confirmed it contains a detailed variance analysis which is linked to the Trust's general ledger. This allows the budget holder to drill down to transactional level for detailed review.

As noted above, the financial regime changes for 2020/21 removed the need for Trust's to produce detailed annual budgets as previously required. However, the Trust did continue to monitor and report its financial position on a monthly basis which included reasons for any variances to the plan and any mitigations that had been put in place.

On a monthly basis the Trust have reported their performance against the required NHS standards to the Finance and Performance Committee. The reports detail the Trust's performance against the target for all standards, as well as highlighting the key concerns, most improved and most deteriorated. As part of the reporting, peer comparison is included to assess the Trust's performance against its peers. Mitigating actions are also reported to show how poor performance will be improved

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

### The Trust’s decision making arrangements and control framework

The Trust has an established governance structure in place which is set out within its Annual Governance Statement. This is supported by the Trust’s Constitution and scheme of delegation. Executive Directors have clear responsibilities linked to their roles and the Board Sub-Committee structure in place at the Trust allows for effective oversight of the Trust’s operations and activity. We reviewed these documents as part of our audit and confirmed they were consistent with our understanding of the Trust’s arrangements in place and were fully operational. This includes arrangements such as registers of interests being maintained and published and the Board completing an annual review and self certification of its compliance with the conditions of the NHS provider licence.

At the start of the COVID-19 pandemic the Trust acted swiftly to implement revised financial governance arrangements which would allow the Trust to maintain appropriate governance whilst expediting necessary operational actions. Our attendance at Audit Committee confirmed these revised arrangements were reviewed by those charged with governance at the start of the pandemic and subsequently reviewed on a regular basis by Trust management thereafter.

### Conclusion

Given the above, we are satisfied there is not a significant weakness in the Trust’s arrangements in relation to the governance reporting criteria.

# 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

### The Trust's arrangements for assessing performance and evaluating service delivery

One of Trust's strategic objectives is financial sustainability. The objective is to deliver a sustainable surplus by becoming the most efficient hospital. This will be achieved through an efficiency strategy and with the use of benchmarking data.

The Trust has continued to operate its Financial Management Framework throughout the year to ensure that the Trust is meeting one of its strategic targets of financial sustainability. Each quarter a fundamental review of the financial position takes place and this is reviewed by the Board and relevant action plans developed. We have reviewed the fundamental reviews that have taken place during the year and confirmed they are appropriately detailed, linked to the annual financial plan, and clearly set out the risks to delivery and what actions are being taken.

The Trust has a Project Management Office in place to develop and deliver plans which focus on finance, the Leeds Improvement Method and ensuring overarching quality within the Trust. Alongside this the Trust benchmarks its performance against such measures as Getting it Right First Time, the model hospital and Patient Level Costing Data (PLiCS).

Performance information is presented to the Board of Directors on a regular basis. This includes benchmarking the services provided by the Trust against other similar providers, to ensure continuous improvement and efficiencies can be achieved. In 2020/21 the Board has received a wide range of performance related reports. The Board has paid particular focus to the impact of the COVID-19 pandemic on performance. We have reviewed the performance information provided to Board as part of our review of Board papers and minutes. Through this we have confirmed the Board effectively hold managers to account where performance improvements are required.

The Trust has a Quality Assurance committee that considers lessons learned and supports the development of a learning culture and safety culture, particularly following Serious Incident Investigations. The Board is advised of any escalation issues following each meeting by the Non-Executive Quality Assurance Committee Chair. This escalation process ensures issues are communicated and addressed across the Trust.

The CQC carried out the Use of Resources Inspection assessment during August 2018 and rated the Trust as Outstanding. During September 2018 the CQC carried out a Well-led review with a rating of Good.

### The Trust's arrangements for effective partnership working

The Trust has historically demonstrated strong partnership working with key stakeholders across the West Yorkshire and Harrogate Integrated Care System (WYICS). The Trust actively engages Commissioners, regulators (NHS Improvement), system functions (WYICS and West Yorkshire Association of Acute Trusts (WYAAT)), staff and others as necessary to develop and agree detailed financial and operational plans. Planning takes account of system initiatives and their impact to ensure that planning within the broader ICS is aligned. These detailed operational plans and budgets are approved by the Board.

Due to the revised arrangements in place in 2020/21, the Trust has had to work with partner organisations across the WYICS to deliver a sustainable financial position for the wider area in addition to agreeing the Trust's financial control totals.

The Trust has strategic partnerships with WYAAT, is engaged with the ICS, and engaged in Leeds Place for healthcare and social care with the city of Leeds. In addition, there are partnership agreements on working with the university. All partnerships are reported at Board Committees.

The Trust is a key member of the WYAAT with the Committee in Common (CiC) meeting four times per year for the governance and accountability of workstreams to support transformation across West Yorkshire, reporting and accountable to each sovereign Board. The CiC has membership from each provider organisation with both Executive and Non-Executive membership from each, usually by the Chief Executive and Chair.

The Trust has a documented stakeholder management strategy which includes a mechanism to seek feedback from stakeholders to inform action by the Trust.

During 2020-21 the Trust hosted the NHS Nightingale Yorkshire and the Humber (NNYH) as a surge resource to the wider region to accommodate 500 more inpatients. Also, the Trust's Chief Medical Officer has been the Senior Responsible Officer for the West Yorkshire Vaccination Programme with the Trust hosting 2 sites. Governance, assurance and risk management of both NNYH and the vaccination centres has been reported through the Board and its Committees during the year.

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# 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

### The Trust’s arrangements for commissioning services

The Trust has a central procurement function which covers all expenditure outside of pharmacy. There is a separate pharmacy procurement team within the Trust.

The Trust uses an electronic requisition system that uses in- built authority levels that are consistent with the Standing Financial Instructions. Our work on the audit has confirmed this is in place and operating effectively.

The central procurement team has achieved Level 2 accreditation for procurement. The procurement team benchmarks itself with other trusts using the Model Hospital return. At the last publication the Trust achieved a rank of 7th out of 142 providers.

These schemes help the procurement function assess its operations to ensure delivery of value for money. As part of this there is an annual review against the Public Contract Regulations to ensure compliance. In line with the Carter Review, the procurement team use national frameworks established by bodies such as Crown Commercial Service or North of England Commercial Procurement Collaborative to ensure they are achieving value for money and following best practice.

### Conclusion

Given the above, we are satisfied there is not a significant weakness in the Trust’s arrangements in relation to the economy, efficiency and effectiveness reporting criteria.

# 04

Section 04:

**Other reporting responsibilities and  
our fees**

## 4. Other reporting responsibilities and our fees

### Matters we report by exception

The Local Audit and Accountability Act 2014 provide auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make a referral to the Secretary of State; and
- make a written recommendation 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 relevant guidance 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.

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. Leeds Teaching Hospitals NHS Trust was selected, by the NAO, as a sampled component in 2020/21 – requiring us to undertake supplementary audit procedures. We completed the required procedures and concluded and reported, on the 24 June 2021, that the consolidation data is consistent with the audited financial statements.

# 4. Other reporting responsibilities and our fees

## Fees for work as the Trust's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in March 2020. Having completed our work for the 2020/21 financial year, we can confirm that our fees are as follows:

Area of work	2020/21 fees
Planned fee in respect of our work under the Code of Audit Practice	£80,000
<b>Total fees</b>	<b>£80,000</b>

## Fees for other work

We confirm that we have not undertaken any non-audit services for the Trust in the year.

# Mark Dalton, Director – Public Services

## **Mazars**

5<sup>th</sup> Floor

3 Wellington Place

Leeds

LS1 4AP

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