

# Auditor's Annual Report

Leeds Teaching Hospitals NHS Trust –  
year ended 31 March 2022

July 2022



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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 2022. 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 21 June 2022. Our opinion on the financial statements was modified. This was due to us not being able to obtain sufficient appropriate audit evidence regarding the inventory balance as at 31 March 2021 (as a result of not being able to attend and test year end stock takes due to Covid-19 restrictions at that time).



### Wider reporting responsibilities

In line with group audit instructions issued by the NAO, on 21 June 2022 we reported that the Trust's consolidation schedules were consistent with the audited financial statements.



### Value for Money arrangements

In our audit report issued on the 21 June 2022 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 arrangements. No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.

Following the completion of our work we have issued our audit certificate which formally closes the audit for the 2021/22 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 2022 and of its financial performance for the year then ended. Our audit report was issued on 21 June 2022. Our opinion on the financial statements was modified. This was due to us not being able to obtain sufficient appropriate audit evidence regarding the inventory balance as at 31 March 2021 (as a result of not being able to attend and test year end stock takes due to Covid-19 restrictions at that time).

Our Audit Completion Report, presented to the Trust's Audit Committee on 16 June 2022, provides further details of the findings of our audit of the Trust's financial statements. This includes our conclusions on the identified audit risks and areas of management judgement, internal control recommendations and audit misstatements identified during the course of the audit.

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# 03

Section 03:

**Our work on Value for Money  
arrangements**

# 3. VFM arrangements

## Overall Summary





# 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

## Risk assessment and programme of work

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. We did not identify any risks of significant weaknesses through our work on Value for Money arrangements in 2021/22.

## Recommendations

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. We did not identify any significant weaknesses in arrangements in 2021/22.

We may also make recommendations where we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken. We call these recommendations 'other recommendations'. As in 2020/21, we have not highlighted any recommendations in regard to significant weaknesses, however we have made one 'other recommendation' in 2021/22.

The table below summarises the outcomes of our work against each reporting criteria. On the following pages 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	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
Financial sustainability	10	No	No	Yes
Governance	14	No	No	No
Improving economy, efficiency and effectiveness	17	No	No	No

Introduction

Audit of the financial statements

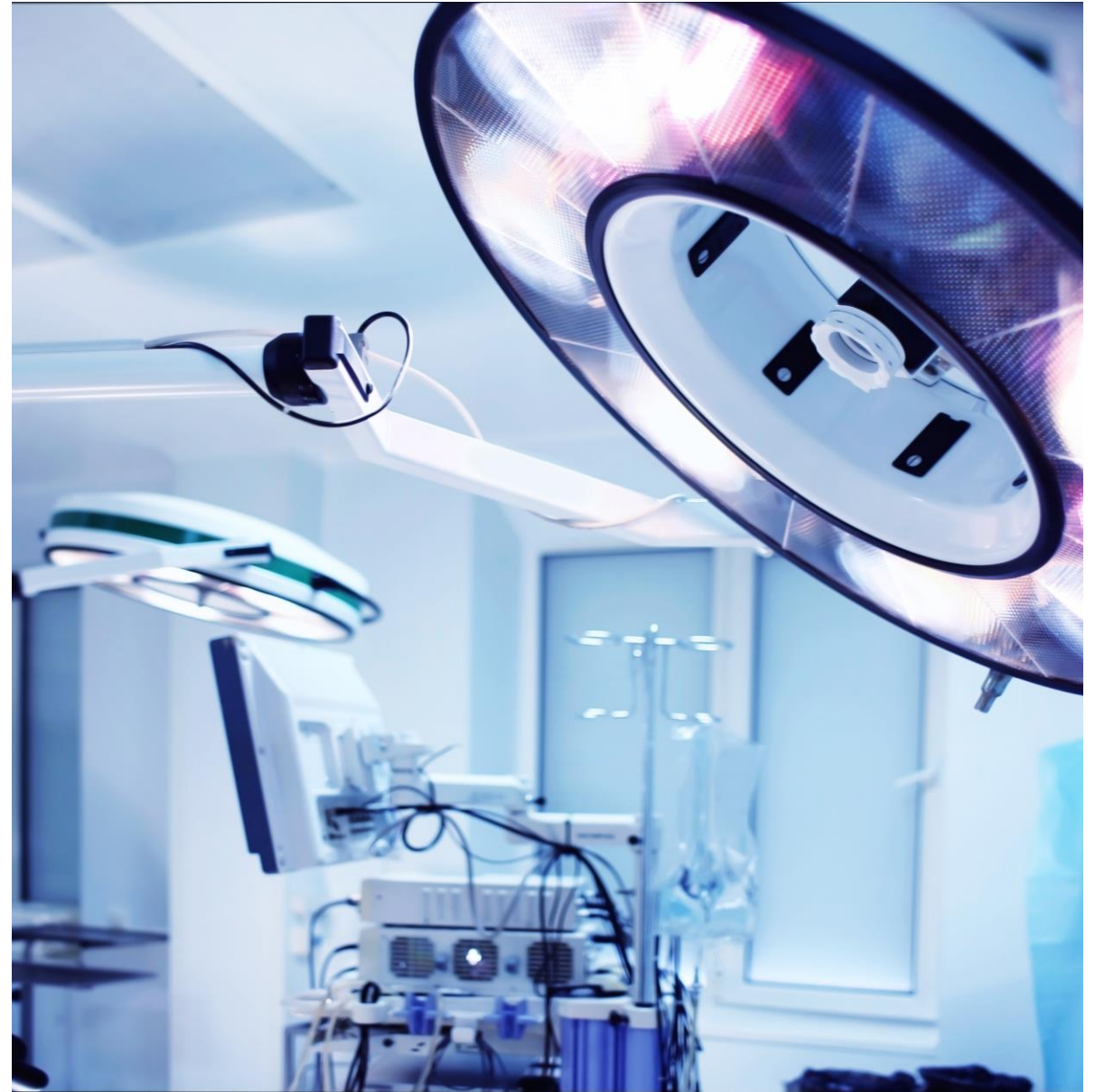
Commentary on VFM arrangements

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### 3. VFM arrangements

#### Financial Sustainability

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



# 3. VFM arrangements – Financial Sustainability

## Overall commentary on Financial Sustainability

### Background to the NHS financing regime in 2021/22

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 second half of the 2020/21 year (October 2020 to March 2021) there was a move to “system envelopes”, with funding allocations covering most NHS activity made at the system level, including resources to meet the additional costs of the Covid-19 pandemic. The 2021/22 financial year was also split into two halves, with a different funding regime in each. However, the regimes were largely a continuation of those introduced in 2020/21 in response to COVID-19, where system envelopes and block payment arrangements remained in place.

The 2021/22 H1 (April 2021 to September 2021) envelopes comprised of adjusted Clinical Commissioning Group (CCG) allocations, system top-up and COVID-19 fixed allocation, based on the H2 2020/21 envelopes, adjusted for known pressures and policy priorities. The 2021/22 H1 NHS guidance also confirmed that block payment arrangements would remain in place for relationships between NHS commissioners and NHS providers. The guidance for H2 (October 2021 to March 2022) confirmed that the arrangements would stay broadly consistent with a continuation of the H1 framework. The 2021/22 H2 “system envelopes” contained adjusted CCG allocations, system top-up and COVID-19 fixed allocation, based on the H1 2021/22 envelopes adjusted for additional known pressures, such as the impact of pay awards, and increased efficiency requirements.

Over the course of the year and into 2022/23, the focus of the funding regime has shifted from responding to the immediate challenges caused by COVID-19 to supporting recovery in the healthcare system.

This has facilitated the need for collaborative working between commissioners and providers, as local systems were expected to work together to deliver a balanced position in 2021/22, with additional funding available for those systems exceeding target activity levels through the Elective Recovery Fund. The planning guidance for 2022/23 supports the transition back to local agreement of contracts, and requires systems to achieve a break even position each year. This will necessitate further collaboration through the planning process, as individual organisations work together to achieve system-level outcomes.

### Overall responsibilities for financial governance

We have reviewed the Trust’s overall governance framework, including Trust Board and Committee Reports, the Annual Governance Statement, and Annual Report and Accounts to confirm the Trust Board has arrangements to meet its responsibility to make the best use of financial resources and deliver the services people need, to standards of safety and quality which are agreed nationally.

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

- oversight and scrutiny of 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; and
- making recommendations to the Board on actions needed to address any issues raised or to make improvements.

Our review of supporting papers confirmed that it did so effectively throughout 2021/22.

# 3. VFM arrangements – Financial Sustainability

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

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

Through our review of Board, Finance and Performance Committee reports, meetings with Management, review of key documents and relevant work performed on the financial statements, we are satisfied that the Trust’s arrangements for budget monitoring remain appropriate. Our review confirms these include:

- Standing Financial Instructions with procedures for budgetary control and reporting - these include arrangements for the Director of Finance, budget holders and Clinical Service Units (CSU) to support effective financial management of the Trust’s financial performance. Clear responsibilities are outlined for budget holders, including specific provisions for the preparation and approval of the Annual Plan and budget.
- Alignment of the budget with other planning processes, for example workforce planning, informs the budget setting process, along with operational activity planning which is considered when aligning the budget to the Business Plan. There is also an established Business Case process when services are faced with changes which impact on activity and/or require additional financial resources.

In December 2021, the Board approved the 5-year financial plan (2022 to 2027). As in previous years, this is an ambitious plan, that aims to breakeven in 2021/22 and deliver surpluses for the remainder of the plan. The plan is challenging, and there are numerous risks in achieving the plan. These risks have all been 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.

We have observed oversight from the Trust Board and the Finance and Performance Committee. Throughout 2021/22 there has continued to be regular and sufficiently detailed reporting on financial performance and planning through the Finance and Performance Reports. There is a reassessment of in-year forecasts and underlying run rate analysis throughout the financial year with bridge analysis provided to identify key changes. The Board Assurance Framework (BAF) also identifies the specific risks and controls regarding the ‘getting the basics right’ theme in the Trust’s Strategy.

There are established arrangements for effective year end financial reporting, meaning statutory deadlines have been met for 2021/22 and in previous years. We have not highlighted any significant concerns which adversely impact on this commentary in our Audit Completion Report and the final financial outturn was consistent with the forecast position during the year.

### The Trust’s arrangements and approach to Financial planning 2022/23

We reviewed the Trust’s 2022/23 financial plan submitted to NHSE/I in April 2022 and the supporting Board paper. We have discussed these with Management and in our view, the Trust’s arrangements are adequate.

For 2022/23 the NHS will revert to contracting arrangements instead of the current block payments system introduced to simplify arrangements during the pandemic. The financial plan submitted in April 2022 showed a breakeven I&E position and included targeted efficiency improvements of around £87.6m which was in line with the thresholds set out in the planning guidance. Although specific areas of planned saving had not been firmed up it was expected that the risks could be managed through cost control and reserves. The capital plan of totalling £105.3m was approved with ‘building the Leeds way’ accounting for £45.8m of the plan, consistent with our knowledge of the Trust’s capital programme.

NHSE/I required that all 2022/23 plans be resubmitted by 20 June 2022 and offered the ICSs additional funding to help broker breakeven positions in local plans. The Trust will receive additional funding totalling £7.6m, this has resulted in the Trust’s resubmitted plan projecting a £7.6m surplus for 2022/23. The plan shows that the efficiency improvement target for the year has increased to £110.9m (was £87.6m), with a £12.5m increase in recurrent efficiencies. In its June 2022 Board report, Management highlighted that this is a challenging target, which must deliver reductions in the run rate from July onwards to be successful. Whilst we have not identified a significant weakness in arrangements, in recognition of the significant challenge associated with delivery of this challenging efficiency target, we have raised the following ‘other recommendation’.

#### Other recommendation

1	While the Trust has a good track-record of delivering its financial plans and efficiency savings, achievement of the 2022/23 efficiency target totaling £110.9m (6.8% of operating expenditure) will be a significant challenge..	The Trust should ensure it continues its arrangements to identify how it will deliver un-costed efficiency savings included in the financial plan. It should also ensure that its scrutiny arrangements, to monitor and deliver its efficiency savings plans are maintained throughout 2022/23..
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# 3. VFM arrangements – Financial Sustainability

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

Management has provided the following response to our recommendation;

- the Trust will continue to apply its Financial Management Framework in managing its financial position. Risks are reported to the Executive team, Finance and Performance Committee and Board with mitigation plans established. The Trust is forecasting to achieve its planned surplus of £7.6m

The creation of the statutory ICS from July 2022, along with the introduction of new financial/contracting arrangements, will lead to the need for, and opportunity to, develop more medium-term financial and operational plans.

The Trust continue to work with the ICS, to shape new management arrangements and deliver improved service configurations in the coming years. The Trust is expected to respond to national requirements whilst endeavouring to work with patients and the public to deliver good services within available resources.

**Overall, we are satisfied that there are no indications of a significant weakness in arrangements under the financial sustainability criteria.**

### 3. VFM arrangements

#### Governance

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



# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### Overall Governance Arrangements

Based on our work, we are satisfied that the Trust continues to have established governance arrangements and we have not identified any significant weaknesses.

The Trust has a full suite of governance arrangements in place, supported by the Trust's Constitution, Standing Orders and Scheme of delegation. Governance arrangements are also set out in the Trust's Annual Report and Accounts, and Annual Governance Statement. We reviewed these documents as part of our audit and confirmed they were consistent with our understanding of the Trust's arrangements in place during 2021/22.

The Trust Board is responsible for the overall performance, having a clear set of strategic and supervisory roles. The Trust has established Committees to support these roles. The Trust carries out an annual review of the Board and its Committees, including an external review; each sub-committee completes an annual review of its effectiveness, with the results and any priorities for improvement reported to the Trust Board. We consider the committee structure of the Trust is sufficient to provide assurance that decision making, risk and performance management is subject to appropriate levels of oversight and challenge.

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.

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.

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

We reviewed the 2021/22 Annual Governance Statement and are satisfied it fairly reflects the arrangements in place. The Statement identifies significant matters that the Trust is focused on addressing but these are not identified as significant gaps in control in relation to the delivery of the Trust's strategic objectives and we are satisfied that they do not represent significant weaknesses in the Trust's VFM arrangements.

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria (continued)

The Trust's Internal Audit function is provided by an independent third party who provide an Annual Plan, Annual Report and regular progress reports to the Audit Committee, which we have read. The Head of Internal Audit Opinion is reflected in the published Annual Governance Statement. In respect of the 2021/22 period Internal Audit provided a rating of 'reasonable assurance' that there is a sound system of internal control, designed to meet the Trust's objectives and that controls are being applied consistently. The overall opinion and the detailed reports issued in the year do not identify any significant weaknesses in the Trust's VFM arrangements. The Audit Committee has received regular progress reports on the agreed annual counter fraud plan and provided oversight and challenge as required. None of the matters reported in the year or in the Anti-Crime Service Annual Report 2021/22 indicate any significant weaknesses in the Trust's VFM arrangements.

**Overall, we are satisfied that there are no indications of a significant weakness in arrangements under the financial sustainability criteria.**



### 3. VFM arrangements

#### Improving Economy, Efficiency and Effectiveness

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



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

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

### Overview

We have reviewed key reports scrutinised by the Board, Finance and Performance Committee and confirmed the Trust reports its performance in several different ways, including:

- an Integrated Quality and Performance Report, reviewed at each Trust Board; and
- the publication of the Annual Report and Accounts, and Annual Governance Statement, which are reviewed by the Audit Committee before adoption by the Trust Board.

The Trust’s Annual Report and Accounts sets out its performance against key indicators and how it evaluates and assesses performance and improvement opportunities.

Performance information presented to the Board of Directors includes benchmarking data to monitor services against the Trust’s plan and to ensure continuous improvement and efficiencies are identified. As part of our minutes review and attendance of Audit Committees , we have confirmed the Trust has procedures in place to effectively hold Managers to account where performance improvements are required.

### Partnerships

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.

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 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.

### Procurement

There is a Procurement Policy in place with a requirement to procure via open competition, framework agreements or to seek prior approval via a waiver. Waivers are reviewed by the CFO and reported to Audit Committee The Trust’s Standing Financial Instructions set out the procedures, controls and the authorisation sign offs that are required for the commissioning or procurement of services. There is a professional procurement team in place with a specification process used to ensure that the selected option and supplier gives best value for money. Legally compliant Framework Agreements are used where appropriate and there are instructions in place regarding the levels for delegated approval of expenditure. The Trust has policies in place regarding expected standards of business conduct, and gifts and hospitality, to mitigate the risk of conflicts of interests arising. The Trust has established arrangements for managing its Private Finance Initiative contracts, which are highly material in value and significant for the successful operation of the Trust’s hospitals and energy facilities.

**Overall, we are satisfied that there are no indications of a significant weakness in arrangements under the improving economy, efficiency and effectiveness 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. Leeds Teaching Hospitals NHS Trust was selected, by the NAO, as a sampled component in 2021/22 – requiring us to undertake supplementary audit procedures on their Consolidated Provider Accounts submission. We completed the required procedures and concluded and reported, on the 21 June 2022, that the consolidation data is consistent with the audited financial statements.

### Fees for work as the Trust's auditor

We reported our proposed fee for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in March 2022 i.e £85,000 plus VAT.

### 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

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