Auditor’s Annual Report

The Leeds Teaching Hospitals NHS Trust – year ended 31 March 2023

29 June 2023

mazars

Contents

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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 Hospital NHS Trust (‘the Trust’) for the year ended 31 March 2023. 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 29 June 2023. Our opinion on the financial statements was unqualified.

Wider reporting responsibilities

In line with group audit instructions issued by the NAO, on 29 June 2023 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 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. Section 3 provides our commentary on the Trust’s arrangements.

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

Our audit of the financial statements

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 2023 and of its financial performance for the year then ended. Our audit report, issued on 29 June 2023 gave an unqualified opinion on the financial statements for the year ended 31 March 2023.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

Qualitative aspects of the Trust's accounting practices

We have reviewed the Trust's accounting policies and disclosures and concluded they comply with Department of Health and Social Care Group Accounting Manual 2022/23, appropriately tailored to the Trust's circumstances.

With respect to the audit of the 2022/23 financial statements, we noted:

- draft accounts were received from the Trust on 27th April 2023 and were of a good quality; and
- a substantially complete version of the Annual Report, including the Accountability Report sections which are covered by our auditor report, on 28th April 2023.

The Trust provided the majority of supporting working papers required for the audit either at, or shortly after the start of the audit, and these were of a good quality. The finance team have been very responsive to dealing with our audit queries and throughout we have both maintained a collaborative approach to the audit.

Other reporting responsibilities

Reporting responsibility	Outcome
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 Department of Health and Social Care (DHSC) requirements.
Annual Governance Statement	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by NHS Improvement.
Remuneration and Staff Report	We report that the parts of the Remuneration and Staff Report subject to audit have been properly prepared in accordance with the National Health Service Act 2006.

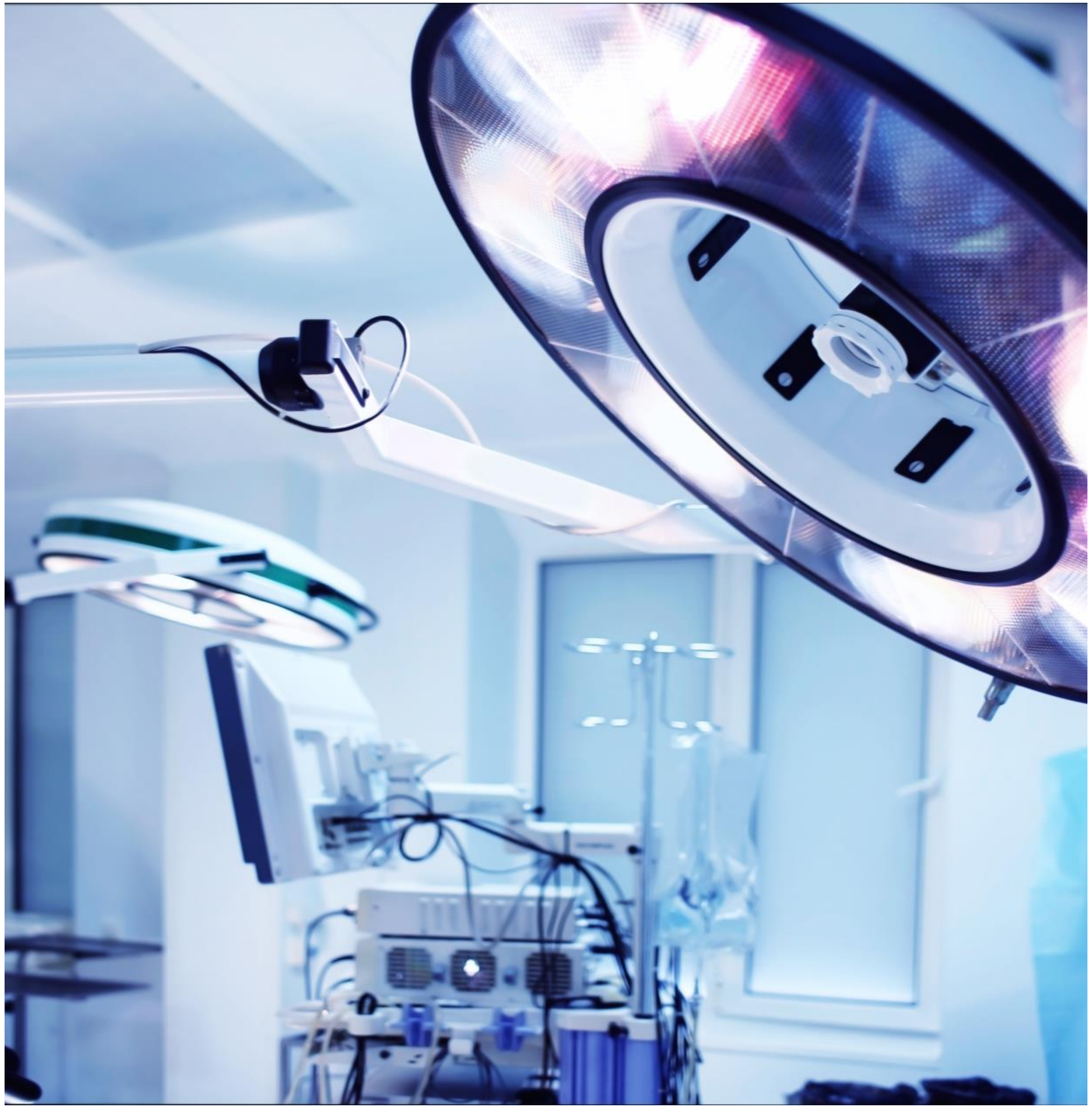
03

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

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

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.

We obtain our understanding or arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

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.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risks that we have identified and the work we have done to address those risks on page [x].

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Trust . We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**
  We make these recommendations for improvement where we have identified a significant weakness in the Trust arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**
  We make other recommendations when 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

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

3. VFM arrangements – Overall summary Trust

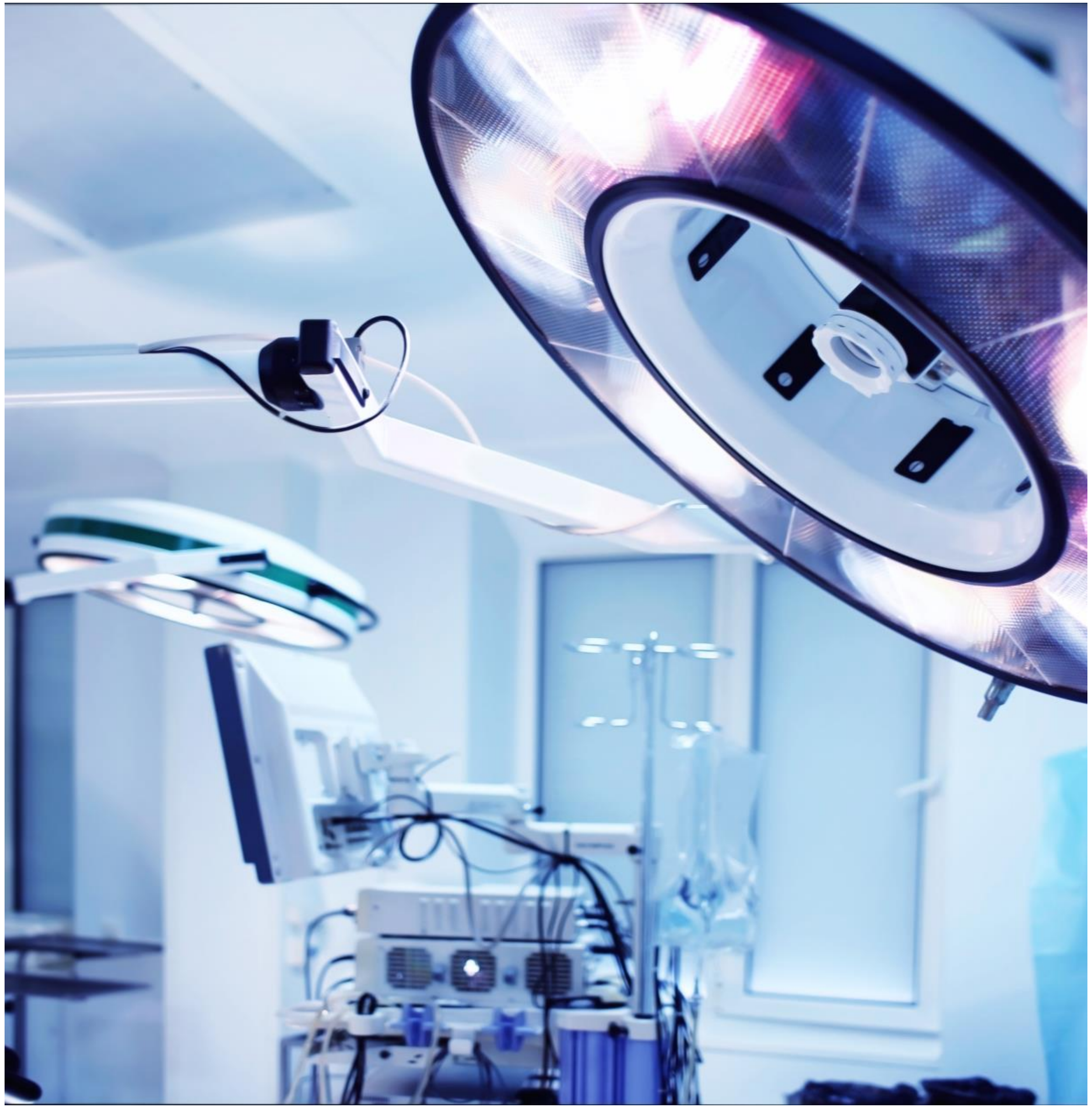
Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
Financial sustainability	**12**	Yes – see risk A on page 12	No	No
Governance	**16**	No	No	No
Improving economy, efficiency and effectiveness	**19**	No	No	No

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

Risks of significant weaknesses in arrangements in relation to Financial Sustainability

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements		Work undertaken and the results of our work
1	**How the Trust plans to bridge its funding gaps and identifies achievable savings** NHS England put in place a process for challenging and scrutinising the financial plans drafted by provider trusts. In common with the majority of trusts, the Trust were required to re-submit a revised return that brought the Trust to breakeven position. There is a risk that the Trust have either failed to identify achievable savings in the initial plan or will have included unrealistic savings in the re-submitted plan.	**Work undertaken** To establish if there is a significant weakness in arrangements, we reviewed the re-submitted 2023/24 financial plan to evaluate the reasonableness of the actions taken to reduce the planned deficit. **Results of our work** We reviewed the changes to the 2023/24 financial plan that have reduced the February 2023 deficit of £186m to a breakeven position in May 2023. We found that the movement is adequately explained and supported by reasonable assumptions to support the revised financial position. The Trust has arrangements in place to identify and deliver planned savings and achieve the income measures in its financial plan. The Board recognises the challenging nature of the revised targets. For 2022/23 we are satisfied that there is no significant weakness in arrangements to secure value for money.

Overall commentary on Financial Sustainability

Background to the NHS financing regime in 2022/23

The NHS was operated under special financial arrangements in 2022/23. In 2020/21 and 2021/22, systems were established as the key unit for financial allocations. In 2022/23, this approach has been continued, with the aim to encourage greater collaboration and collective responsibility for financial performance.

The Covid-19 pandemic necessitated the implementation of interim ‘block’ allocations to ensure that systems had sufficient resource to respond to the pandemic. From 2022/23, programme funding allocations were reset to move back towards a ‘fair share’ distribution of resource. ICB programme allocations have been based on annualised system funding envelopes (comprising previous CCG allocations and system top-up components) for H2 of 2021/2. These were then annualised for 2022/23, and adjusted to include uplifts for inflationary pressures and further adjustments (replacing CCG pace of change) to drive convergence to fair share allocations.

Fair share allocations are updated in line with the recommendation of the Independent Advisory Committee for resource Allocation and policy updates. These allocations also include an updated approach, using a nationally consistent methodology to reflect the excess financing costs of historical private finance initiative (PFI) contracts on trusts. Historical PFI support payments were therefore wrapped up into system funding envelopes for 2022/23.

In support of programme allocations, trusts also received a number of other ICB funding allocations. Moving out of the pandemic, Covid-19 block payments have been replaced by local contracting and commissioning. Elected funding was allocated to commissioners at 104% of the pre-pandemic 2019/20 levels. Systems, working with providers, agreed activity plans with funding adjustments then based on the percentage of this activity achieved. ICB allocations for primary medical care services and running cost allocations remain broadly consistent with the previous system delivered by CCG’s, reflecting demographics of the serviced populations and broader economic factors.

As under previous arrangements, systems are required to achieve a breakeven position. This will continue to necessitate further collaboration through the planning process, as individual organisations work together to achieve system-level outcomes.

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.

Throughout the year, the Trust monitored its progress against the 2022/23 financial plan. Financial performance reports, detailing planned performance and actual outturn were issued to the Trust Board and the Finance and Performance Committee monthly. This consistently reported the forecast outturn position, and contained detailed explanations for variances to the plan. In-year forecasts and underlying run rate analysis were re-assessed throughout the financial year with bridge analysis provided to identify key changes. The Board Assurance Framework (BAF) also identified the specific risks and controls regarding the 'getting the basics right' theme in the Trust's Strategy.

The Trust used the 'Integrated Accountability Framework – Finance' to monitor the financial performance of Clinical Support Unit's ('CSU's') against the control totals that were set by central finance. A RAG rating was used to assess CSU's performance and there was a clear escalation process in place where CSUs did not meet their control totals. It is evident that the escalation process has been in operation during the year, and we have reviewed evidence of mitigating actions that have been taken place at a CSU level to improve their performance.
At the 31 March 2023, the Trust achieved its planned surplus of £7.6m. The Trust delivered waste reduction and mitigations of £119.3m against the plan of £138.1m. Although the waste reduction and mitigation target was not achieved, the CSU waste reduction target was overachieved (£1.8m), and the reliance on technical non recurrent measures was not as high as forecast (£13.4m). The Trust also received additional Elective Recovery Fund and other year-end income (£11.3m).

The Trust's arrangements and approach to financial planning 2023/24

In December 2022, the Board approved the 5-year financial plan (2023 to 2028). As in previous years, the Trust describes it as an ambitious plan, that aims to breakeven in 2023/24 and deliver surpluses for the remainder of the plan. The Trust recognises that the plan is challenging and includes a five-year waste reduction plan of £278m. Achievement of this plan will significantly improve the Trust's efficiency relative to organisations who deliver only the base national efficiency requirement, moving the Trust towards its financial sustainability goal of being the most efficient teaching hospital in England. The December 2022 plan was written before the national planning guidance was issued later in December 2022 and therefore contained a number of assumptions on both income and expenditure.

The Trust has clearly set out several risks in achieving the financial plan. A sensitivity analysis was included in the plan in relation to the risks identified. Sufficient information was included in the plan to ensure the Board were fully aware of the risks and challenges the Trust face in delivering the plan, enabling fully informed decisions to be made. The Trust have operated with a five-year plan for a number of years, updating it annually. The creation of a five-year plan is in line with good practice and demonstrates a focus on the longer-term finances of the Trust.

Since the National Planning Guidance was issued in December 2022, there have been several iterations of the financial plan, as NHSE central policy measures evolved. The final financial plan submitted in May 2023 showed a breakeven Income and Expenditure position and included a total Waste Reduction Programme of £120.7m, which is significantly higher than the minimum expectations set out in the planning guidance. Although individual savings plans had not been identified in all areas by the time of the final plan submission, a number of schemes had been identified which were supported by detailed plans of how the waste reduction will be achieved. The Trust's capital plan for 2023/24 is £116.9m with £50m internally funded through the past surpluses that have been achieved.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

Due to the iterative nature of the national planning process for 2023/24 and the movement in the Trust's financial plan target, we identified a significant risk of weakness in arrangements in place for securing value for money. In our view there was the risk the Trust had either failed to identify achievable savings in its initial plan or would include unachievable savings in its re-submitted plan to achieve a break-even position. In addressing this risk, we reviewed the changes to the plan that have reduced the deficit (£186m in February 2023 to a breakeven position in May 2023), and concluded the reduction in the deficit is adequately explained and supported by reasonable assumptions to support the revised financial position. The Trust has arrangements in place to identify and deliver planned savings and achieve the income measures in its financial plan. The Board recognises the challenging nature of the revised targets. For 2022/23 we are satisfied that there is no significant weakness in arrangements to secure value for money.

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:

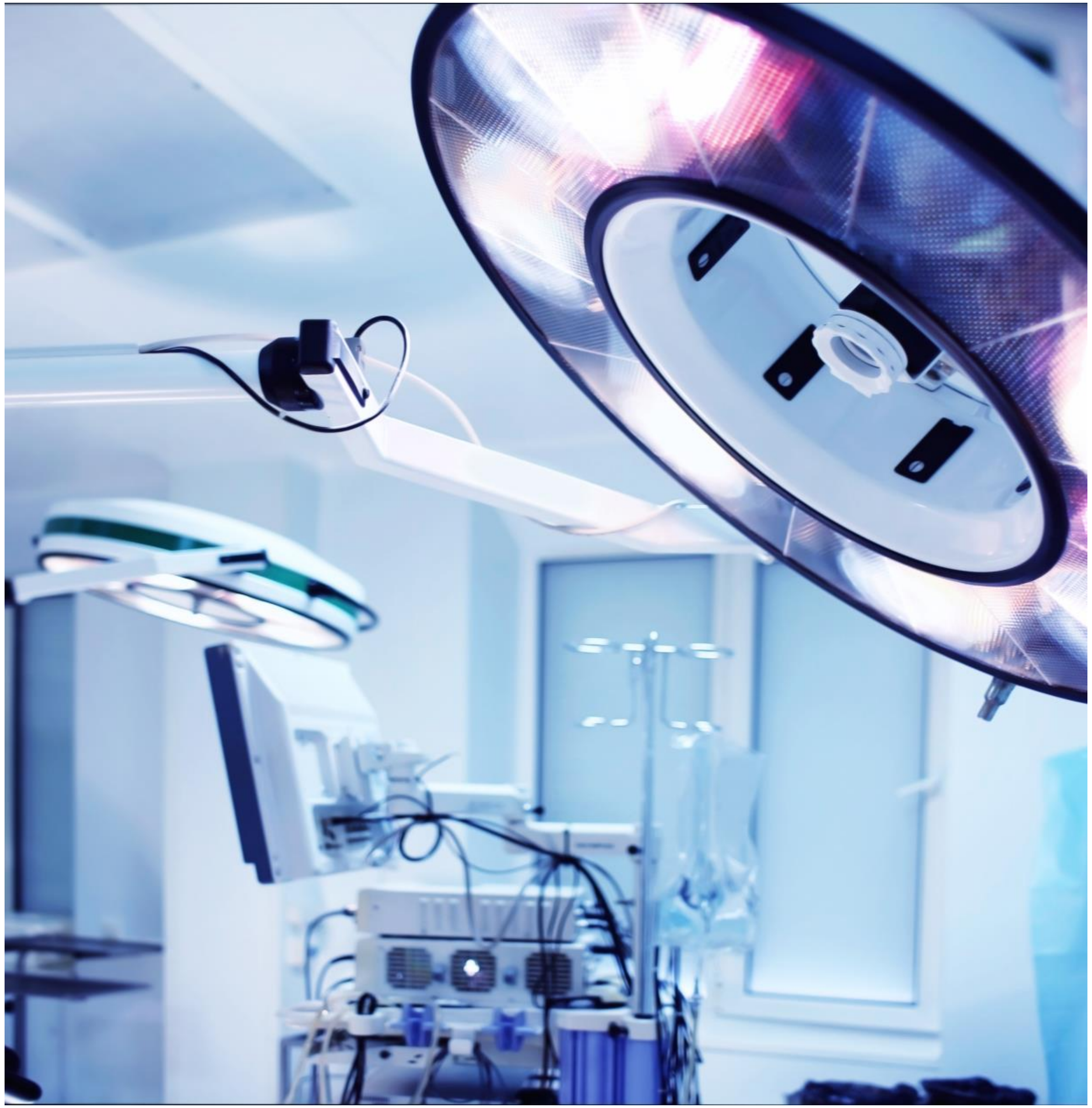
- oversight and scrutiny of financial and operational performance;
- considering and advising the Board on the risks associated with any material financial transactions;
- considering the financial and operational risks involved in the Trust's business and how they are controlled and monitored by Management; 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 2022/23.

Overall view on arrangements in relation to financial sustainability

During the audit process, we have identified and brought to the attention of those charged with governance a risk of there being a significant weakness in arrangements at the Trust to secure value for money in relation to financial sustainability. As a result of further work performed, we are satisfied that no such weakness exists and the Trust has the expected arrangements in place to ensure financial sustainability.

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 Governance

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 2022/23.

The Trust Board is responsible for 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; 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 allows for effective oversight of the Trust's operations and activity. Arrangements include 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. 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.

The Trust has a comprehensive Risk Management Framework 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. During 2022/23 the Trust updated its Risk Appetite document, which provides a summary of the Trust's Risk Management Framework and details of the Trust's Risk Appetite Statements which are being embedded across the Trust's committees.

The Trust have governance arrangements in place for the Building the Leeds Way Programme, with the Trust Board retaining overall responsibility for the project. During the year the Outline Business Case was submitted, with it being formally approved in May 2023.

All risks, externally and internally generated including financial, are managed and monitored through the Trust's risk management arrangements. The Risk Management Committee meets monthly. At each meeting, representatives from the CSUs are invited to attend (on a rolling cycle) to discuss in detail 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 then updated. 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.

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.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

We reviewed the 2022/23 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.

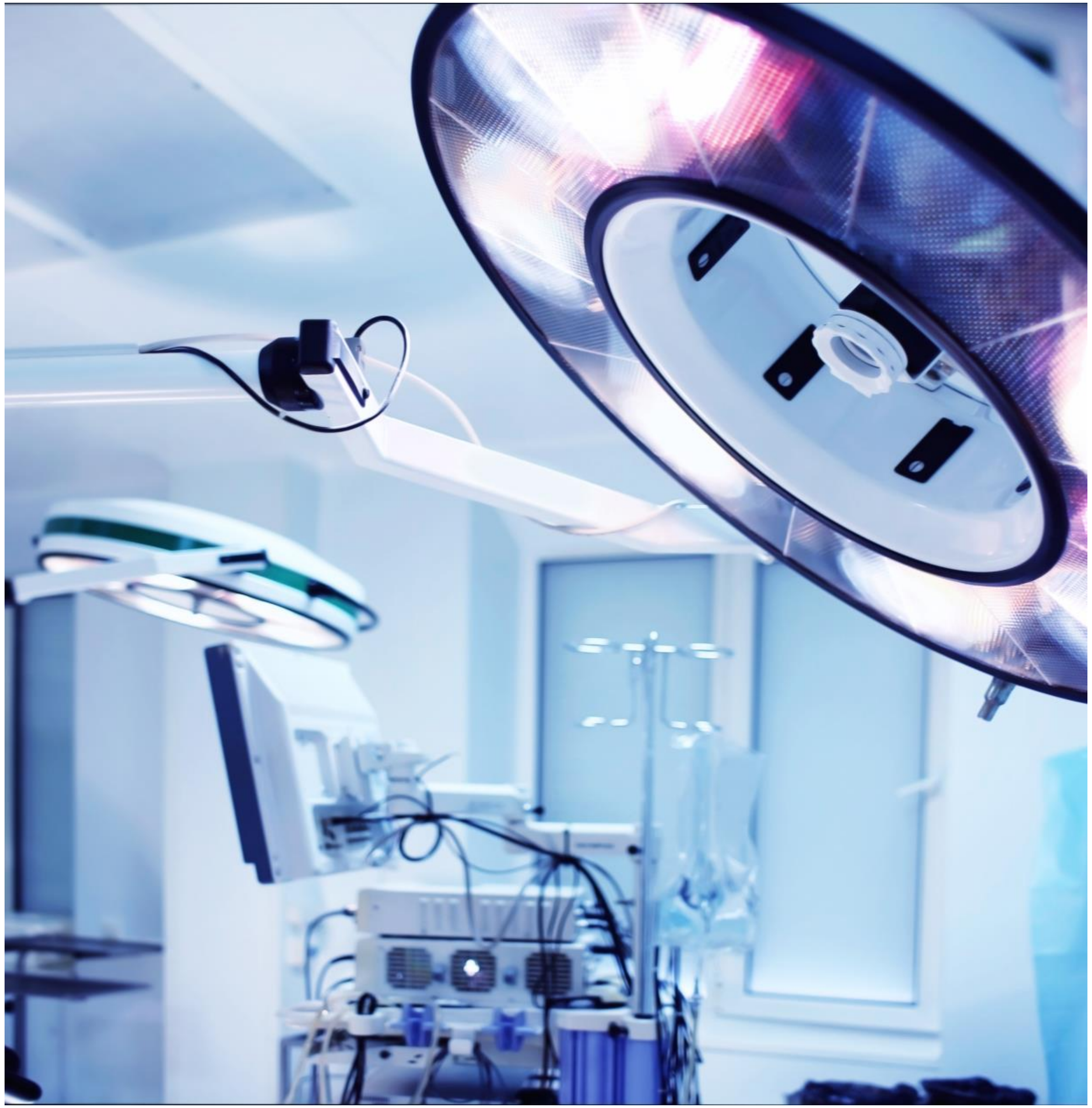
The Trust's Internal Audit function is provided by an independent third party who provide an Annual Plan, Annual Report and regular progress reports to the Audit Committee, which we have read. The Head of Internal Audit Opinion is reflected in the published Annual Governance Statement. In respect of the 2022/23 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.

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 Improving Economy, Efficiency and Effectiveness

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, and its Quality Account set 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.

On a monthly basis, the Finance and Performance Committee receive reports on the financial position and organisational performance. These reports contain both financial and non-financial information and explain any variances to plan or areas of concern. Every 2 months the Integrated Performance and Quality Report is presented at the public Board. We have reviewed these reports as part of our work, and confirmed they contain detailed information on key elements of the organisations performance.

As part of our review of Board and Committee minutes 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 (NHSE), 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 within 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 Engagement Strategy which includes a mechanism to seek feedback from stakeholders to inform action by the Trust.

Procurement

During 2022 the Procurement 3-year Strategy and Plan was updated to cover the periods 2022 to 2025. This Strategy builds on the previous 5-year strategy but considers the evolving national direction of procurement. The Trust continues to support the wider ICS in implementing changes to procurement systems, for example around catalogue management and Procure to Pay processes.

The Trust has a central procurement function which covers all expenditure outside of pharmacy. There is a separate pharmacy procurement team within the Trust. During 2022/23 the Procurement Team has achieved a rating of 'Best' under the Government Commercial Continuous Improvement & Assessment Framework. The Trust achieved an overall score of 91.5% against the 8 themes. It was within the top 3 performers in several 'Practice Areas'.

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.

3. VFM arrangements – Prior year recommendations

Progress on ‘other recommendations’ made in the prior year

As part of our 2021/22 audit work, we identified one ‘other recommendation’ for improvement in the Trust’s arrangements to secure economy, efficiency and effectiveness it its use of resources. The Trust’s progress against the recommendation made has been outlined in the table below.

	Previously identified significant weakness in arrangements	Reporting criteria	Our views on the actions taken to date	Overall conclusions
1	**Other Recommendation** While the Trust has a good track-record of delivering its financial plans and efficiency savings, achievement of the 2022/23 efficiency target totalling £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	Financial Sustainability	For 22/23 the Trust delivered £119.3m of the £138.1m target. The Clinical Service Units (CSUs) Waste Reduction Programme (WRP) overdelivered by £1.8m which demonstrates that the Finance Performance Framework is effective and the Trust are able to deliver planned recurrent waste reduction schemes. Although the Trust did not achieve its full target for 22/23, it did achieve its planned financial performance of £7.6m surplus. The Trust received additional Elective Recovery Fund income and other year end income from NHSE. The Trust uses a number of measures to identify savings and actions that will help achieve the plan, this includes central measures (non recurrent), the mitigation plan (which is revisited throughout the year), and the CSU WRP. These are regularly monitored throughout the year with risks of delivery on all elements being clearly reported. Where there is a risk, further mitigations are included, to ensure the Trust can meet its financial responsibilities. The detailed and regular financial reporting enables the Trust to implement mitigation plans when needed.	The Trust have had sufficient arrangements in place during 2022/23 to monitor and deliver its efficiency savings plans.

04

Section 04:

Other reporting responsibilities and our fees

4. Other reporting responsibilities and our fees

Other reporting responsibilities

Statutory recommendations and public interest reports

Under section 7 of the Local Audit and Accountability Act 2014, auditors of an NHS body can make written recommendation to the audited bodies. Auditors also have the power to make a report if they consider a matter is sufficiently important to be brought to the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue any statutory recommendations or exercised our power to make a report in the public interest during 2022/23.

Section 30 referrals

Auditors of an NHS body have a duty to consider whether there are any issues arising during their work that indicate possible or actual unlawful expenditure or action leading to a possible or actual loss or deficiency that should be referred to the Secretary of State, and/or relevant NHS regulatory body as appropriate.

We have not issued a Section 30 referral to the Secretary of State.

Reporting to the National Audit Office (NAO)

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. The NAO also included the Trust in its sample of component bodies for the purpose of its audit of the DHSC group.

We reported to the NAO that consolidation data was consistent with the audited financial statements. We also reported to the NAO in line with its group audit instructions.

Fees for our 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 2023. Having completed our work for the 2022/23 financial year, we can confirm that our fees are as follows:

Area of work	2022/23 fees	2021/22 fees
Planned fee in respect of our work under the Code of Audit Practice	£85,000	£85,000
Additional fees in respect of implementation of IFRS16	£10,000	-
Additional fees in respect of Property, Plant and Equipment as a result of the implementation of a new Fixed Asset Register	£3,500	-
Additional fees in respect of Whole of Government Accounts audit work as an NAO sampled component	£3,000	-
Total fees	**£101,500**	**£85,000**

Fees for other work

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

A

Appendix

A. Further information on our audit of the financial statements

Significant risks and audit findings

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Description	Our audit response and findings
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 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. We completed our planned procedures and have no matters to report in respect of the risk of management override of controls.
Risk of fraud in expenditure recognition	The risk of fraud in expenditure recognition is a presumed significant risks on all audits due to the potential to inappropriately shift the timing and basis of expenditure recognition as well as the potential to record fictitious expenditure or fail to record actual expenditure. For the Trust we deem the risk to relate specifically to: • recognition of year end accruals; and • recognition of year end capital expenditure	**How we addressed this risk** We evaluated the design and implementation of the controls that the Trust had in place which ensured that only items that meet the criteria of capital are recognised as capital expenditure. We substantively tested a sample of year end accruals and obtained evidence to support the accrual. We substantively tested a sample of year end capital additions and obtained evidence to support: - The expenditure met the capital criteria. - The expenditure aligned to the stage of project completion. We conducted the above testing using a higher risk factor (thereby increasing the sample size). We identified £6.4m of accruals that have been incorrectly classified. The full £6.4m has been adjusted to be shown as a provision in the revised set of accounts. We completed our planned procedures on capital expenditure and have no matters to report.

A. Further information on our audit of the financial statements

Significant risks and audit findings (continued)

Risk	Description	Our audit response and findings
Valuation of property, plant and equipment	Land and buildings are the Trust's highest value assets accounting for £455m of the Trust's £749m Property, Plant and Equipment balance at 31 March 2023. The level of estimation uncertainty arising from the extensive use of judgement in the valuation process along with the size of the asset base means that we consider valuation of land and buildings to be a significant risk. Management engages Cushman and Wakefield as an expert to assist in determining the current value of land and buildings to be included in the financial statements. In addition, in common with many organisations, the Trust adopts a modern equivalent asset (MEA) approach to the valuation of its main hospital sites. Any significant changes to the Trust's MEA judgements and assumptions can impact values. Changes in the value of land and buildings, as well as additional capital works being completed in the year, may impact on the Statement of Comprehensive Income depending on the circumstances and the specific accounting requirements of the Group Accounting Manual.	We liaised with management and updated our understanding on the approach taken by the Trust in its valuation of land and buildings, including documenting our review and challenge of the methodology, with a specific focus on MEA judgements that the Trust has used. Our work also included reviewing the underlying data, and sample testing to gain assurance of its accuracy. We reviewed: • the scope and terms of the engagement with Cushman and Wakefield; and • how management use Cushman and Wakefield's report to value land and buildings in the financial statements. We contacted Cushman and Wakefield to obtain information on the methodology and their procedures to ensure objectivity and quality, including compliance with professional standards. We reviewed the valuation approach and assessment in respect of capital additions within the year to ensure we understand how valuations have been updated and amended as the assets have been brought into use. We tested a sample of valuation movements to gain assurance that the accounting treatment is appropriate, and we also considered evidence of regional valuation trends. We completed our planned procedures and have no matters to report in respect of the risk of valuation of property, plant and equipment.

A. Further information on our audit of the financial statements

Enhanced risks and audit findings (continued)

Risk	Description	Our audit response and findings
Implementation of IFRS 16	IFRS 16 has been applicable from 1 April 2022 and is designed to report information that better shows lease transactions and provides a better basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The Trust was required to re-classify a number of lease arrangements in line with this new standard for the first time in the 2022/23 accounts. The Trust holds significant lease balances which have been subject to re-classification under the new standard.	We reviewed the work that the Trust has carried out for the implementation of IFRS 16 on 1 April 2022. We substantively tested lease liability and Right of Use Asset balances using a higher risk factor and obtained evidence to support that they have been correctly classified and accurately measured under the new standard. We completed our planned procedures and have no matters to report in respect of the risk of the implementation of IFRS16.

Summary of uncorrected misstatements

		SOCI		SOFP	
		Dr (£'000)	**Cr (£'000)**	**Dr (£'000)**	**Cr (£'000)**
1	Dr: Provisions			3,400	
	Cr: Operating Expenses		3,400		
	Being the reversal of the restructuring provision that does not meet the criteria for a provision within IAS 37.				
	Total unadjusted misstatements	-	3,400	3,400	-

A. Further information on our audit of the financial statements

Internal control observations

1. Use of the new fixed asset register – Level 2

Description of deficiency

During 2022/23 the Trust have implemented a new Fixed Asset Register (CARS). It was noted during the audit, the system is not yet being used to its full potential, with information in relation to assets, particularly previous impairments and revaluations being held outside the system.

Potential effects

Inefficient processes due to manual intervention being required. Potential loss of information due to it being held outside the system.

Recommendation

The Trust should review their use of the CARS system to ensure they are obtaining the maximum benefit from it.

Management response

A development plan is already underway to assess how we can more fully utilise the CARS functionality. Regular contract management meetings are being set up to agree clear objectives and a delivery timetable to ensure we maximise efficiency regarding our fixed asset register processes.

2. Lease documentation – Level 2

Description of deficiency

During our work on leases we identified 4 leases with other NHS trusts where there was no signed agreement in place.

Potential effects

Insufficient documentation in place that could result in the Trust not being clear what its obligations are, and at risk of dispute.

Recommendation

Signed agreements should be maintained for all leases.

Management response

All 4 leases which currently do not have a signed agreement in place are already under reviewed with the Leaseholder by the Trusts Head of Property. Signed lease agreements are expected to be in place during 2023/24.

A. Further information on our audit of the financial statements

Internal control observations

3. Journal controls – Level 2

Description of deficiency

We identified one instance where a journal had been prepared and posted by the same person. Following further work, it was established this journal had been retrospectively reviewed shortly after the journal had been posted.

Potential effects

Inaccurate or inappropriate journals are posted. There is also an increased risk of fraud or error within the financial statements.

Recommendation

The Trust should review its processes and controls to ensure journals cannot be prepared and approved by the same person.

Management response

We will raise the ability to self-approve journals with NEP as this is a feature of the system. For the instance in question this was picked up by management at the time. In addition, we will introduce a regular monthly review of all journals posted to ensure that any self-approved journals are identified and dealt with.

4. Working papers for property, plant and equipment – Level 3

Description of deficiency

It was noted during the audit, the working papers provided to support the work done on Property, Plant and Equipment, were not easy to follow and there was no clear reconciliation to the figures in the accounts.

Potential effects

Additional time taken to perform the audit and additional audit queries for the finance team to deal with.

Recommendation

The Trust should review its working papers for Property, Plant and Equipment, to ensure they are easy to follow and clearly reconcile to the accounts.

Management response

Due to the implementation of the new fixed asset register, there was a change in the format of reports used to complete our working papers for the year ending 31 March 2023. As part of the Capital Finance Team's "Finance the Leeds Way Plan", which focuses on continuous improvement, all processes and working papers will be being reviewed during 2023/24 to ensure they are created efficiently and provide simple reconciliations which are easy for to follow. This review will be complete and actions implemented in time for the year ending 31 March 2024.

A. Further information on our audit of the financial statements

Follow up on previous internal control points

1. Income reconciliations – CLOSED

Description of deficiency

As part of our testing of the block income included in note 3 of the financial statements, we found reconciliations between the bank, ledger and 3rd party confirmations had been completed, however the reconciliations did not reconcile income by nature per the financial statements. Management and the audit team had to complete additional procedure to gain assurance that these amounts were classified correctly

Potential effects

The Trust could misstate its block contract income figures or errors could go undetected for some time.

Recommendation

The Trust should complete regular reconciliations of its block contract income on an individual Commissioner basis and by income type - to the ledger and confirmations from its Commissioners by nature. This should also be reconciled to the block income figures included in the financial statements at year-end.

Completing this reconciliation will reduce audit input at the year end.

2022/23 update

We did not note any issues in relation to this area during our audit.

2. ESR reconciliations - CLOSED

Description of deficiency

As part of our review of the payroll, we noted the Trust does not complete a reconciliation of ESR data to ensure payroll data has migrated accurately to the GL, sometimes referred to as a gross to net reconciliation.

Potential effects

Payroll data could be mis-stated in the GL and the accounts.

Recommendation

The Trust should complete regular reconciliations of the ESR data, agreeing the gross to net report to the GL. This will provide additional assurance that payroll data is accurately transferred from the payroll system into the GL.

2022/23 update

We did not note any issues in relation to this area during our audit.

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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