



Auditor's Annual Report
The Leeds Teaching Hospitals NHS Trust – year ended 31 March 2025
Agenda Item 4.2
June 2025

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A Appendix A - Further information on our audit of the financial statements

This document is to be regarded as confidential to The 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

Introduction

Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for The Leeds Teaching Hospitals NHS Trust ('the Trust') for the year ended 31 March 2025. 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 26 June 2025. Our opinion on the financial statements was unqualified.



Reporting to the group auditor

In line with group audit instructions issued by the NAO, on 26 June 2025 we reported that the Trust's consolidation schedules were consistent with the audited financial statements.



Value for Money arrangements

In our audit report we reported that we were not satisfied arrangements were in place for the Trust to secure economy, efficiency and effectiveness in its use of resources, this is because we issued a recommendation in relation to a significant weakness in those arrangements. Section 3 provides our commentary on the Trust's arrangements and a summary of our recommendations and the weaknesses identified.

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Audit of the financial statements

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 2025 and of its financial performance for the year then ended. Our audit report, issued on 26 June 2025 gave an unqualified opinion on the financial statements for the year ended 31 March 2025.

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 the Department of Health and Social Care Group Accounting Manual 2023/24, appropriately tailored to the Trust's circumstances.

Draft accounts were received from the Trust on 24th April 2024 and were of a good quality. The first draft of the annual report was received from the Trust on 30th May 2024 and was also of a good quality.

Accounting working papers and evidence to support the draft accounts and annual report were prepared in line with best practises and provided to the audit team in line with agreed timeframes.

Other reporting responsibilities

Reporting responsibility	Outcome
Annual Report	We did not identify any material misstatements or significant inconsistencies between the content of the annual report, the financial statements and our knowledge of the Trust.
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 England. We also did not identify any matters where, in our opinion, the Governance Statement is misleading or is not consistent with our knowledge of the Trust and other information of which we are aware from our audit of the financial statements.
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.

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Our work on Value for Money arrangements

VFM arrangements

Overall Summary



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 of 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.

VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	xx	Yes – see risk 1 on page 12	No	No
 Governance	xx	No	No	No
 Improving economy, efficiency and effectiveness	xx	Yes – see risk 2 on page 21	Yes – see recommendation A on page [y]	No

VFM arrangements

Financial Sustainability

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



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
<p>Financial sustainability - how the Trust plans to bridge its funding gaps and identifies achievable savings</p> <p>1 The Trust's financial plan at the start of the year was to achieve a £2.1m surplus. In November 2024, the Trust were reporting a £1.7m adverse variance to this plan. They are still forecasting to achieve the agreed plan at the year end. The Trust have a Waste Reduction Plan totalling £108m for the year. In November 2024, the Trust are forecasting to achieve £101m of the target. Although the Trust is reporting it is on track to deliver its financial plan, there are several risks involved. There is a risk savings are not achieved, or costs are above expectations placing further financial pressures on the Trust.</p>	<p>Work undertaken We reviewed the financial monitoring throughout the year, including progress on Waste Reduction Plans. We also considered the 2024/25 outturn position against the plan. We found that financial reporting has been consistent month on month, with variances to plan explained, and mitigating actions identified where possible. The receipt of additional income towards the year end was promptly reported and clearly explained. For 2024/25 we are satisfied that there is no significant weakness in arrangements to secure value for money. We have also considered the financial plan for 25/26 and although the Trust are in receipt of deficit funding, we are satisfied the Trust have arrangements in place to deliver financial sustainability. The WRP for 25/26 is lower than previous years, and the Trust have plans in place to deliver these reductions. The regular monitoring of the financial position, along with the Integrated Accountability Board for holding CSUs to account for delivery of their plans is suitably embedded within the organisation to enable the Trust to deliver its required savings.</p> <p>Results of our work We are satisfied that Trust has the expected arrangements in place to ensure financial sustainability.</p>

Background to the NHS financing regime in 2024/25

In 2020/21, NHS England established Integrated Care Systems (ICS) as the primary unit for financial allocations. In 2024/25, ICSs remain central to financial planning, with the aim of encouraging greater collaboration and collective responsibility for financial performance.

NHS England (NHSE) use a fair share allocation process, this is designed to distribute financial resources across Integrated Care Boards in a way that reflects local health care needs. There have been no changes to the formula in 2024/25 that determines the fair share allocations.

The Aligned Payment and Incentive Scheme (API) came into effect on 1 April 2023, this includes fixed and variable elements, and was in place for 2024/25. The fixed element covered funding for the expected level of activity for all services apart from those identified in the variable element. The API variable element means that the Trust is paid for the elective activity delivered at 100% of the published NHS Payment Scheme unit prices. The Elective Recovery Fund available for the Trust was based on specific elective activity targets set for the Trust by NHSE within the totality of the funding made available.

The allocations for primary medical care services and running costs by the Integrated Care Board (ICB) remained largely consistent with previous years, taking into account the demographics of the populations served and broader economic factors.

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

The Spending Review 2021 was a comprehensive financial plan outlining the government's spending priorities and budget allocations up to 2024/25.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria – continued

Context to NHS Spending

The calendar year 2025 has seen some significant developments across the NHS, starting in January 2025, when the Government issued its policy paper “Road to recovery: the government’s 2025 mandate to NHS England”, setting out three priorities:

- cut waiting times
- improve access to primary care
- improve urgent and emergency care.

Subsequently, in March 2025, the Government announced its decision to abolish NHS England in a process expected to take place over a two-year timeframe. Alongside this is the expectation of Integrated Care Boards to reduce running costs by 50% and increased expectation of organisational reform between 2026 to 2027.

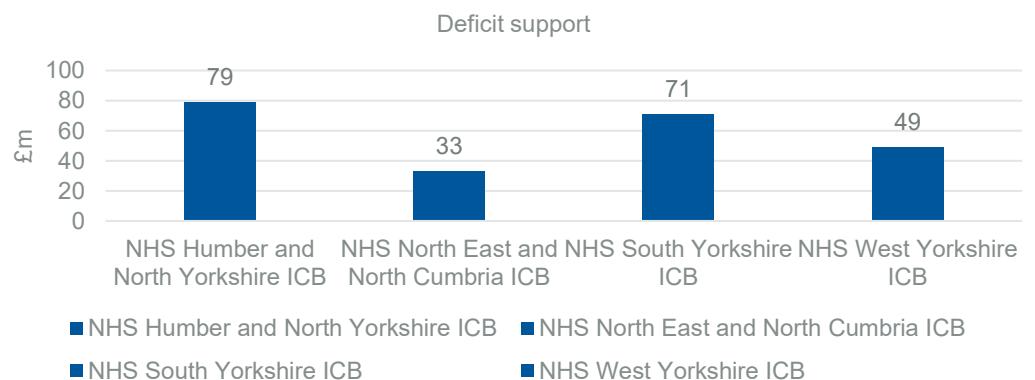
NHS finances remain in a highly challenged position. NHS England’s review of Month 11 financial performance (March 2025) provided some context on the financial challenges in 2024/25, where “systems planned to deliver the most significant efficiency savings that have ever been delivered totalling £9.3bn (equivalent to 6.1% of their total allocation)” and that at the forecast was to deliver slightly below that target at £8.7bn.

NHS systems have a collective requirement to seek to achieve system financial balance, as well as a duty to seek to comply with system resource use limits set by NHS England, after the inclusion of any non-recurrent support funding revenue allocation where this is applicable. In April 2025, the Interim Chief Executive of NHS England wrote to all ICBs and NHS trusts to provide detail on the Government’s reform agenda for the NHS. This includes¹ an overview of the financial position on 2025/26, which we have summarised in the charts below, which shows that the financial plans submitted for 2025/26 would have been a gross deficit of £2,516m had deficit support funding of £2,204m had not been available.

1. Source: www.england.nhs.uk/long-read/working-together-in-2025-26-to-lay-the-foundations-for-reform/#appendix-1-2025-26-financial-plan-summary-as-at-31-march-2025

Region	Gross position (£m)	Deficit support (£m)	27 March Plan (£m)
London	(284)	221	(63)
Midlands	(620)	620	0
East of England	(169)	169	0
North East & Yorkshire	(232)	232	0
North West	(714)	542	(172)
South East	(368)	329	(39)
South West	(129)	91	(38)
Grand Total	(2,516)	2,204	(312)

At a regional level, the North East and Yorkshire submitted an overall breakeven financial plan, with deficit funding split by integrated care system as set out in the chart below. All systems required deficit support to deliver a breakeven position.



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 2024/25 financial plan. Financial performance reports, detailing planned performance and actual outturn were issued to every Trust Board meeting 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 each CSU's performance and there was a clear escalation process in place where CSU's 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.

2024/25 financial outturn

At the 31 March 2025, the Trust achieved a surplus of £19.9m, against a financial plan surplus of £2.3m. The improved outturn position against plan was due to additional income allocation received from the ICB and NHS England.

We also performed a high-level review of the Trust's financial statements which showed:

- An operating surplus from continuing operations of £10.9m (prior year: £43m)
- An overall deficit for the year from continuing operations of £17.3m (prior year: £2.8m)
- An overall adjusted financial performance surplus of £19.9m (prior year: £12.3m)

Waste reduction programme (WRP)

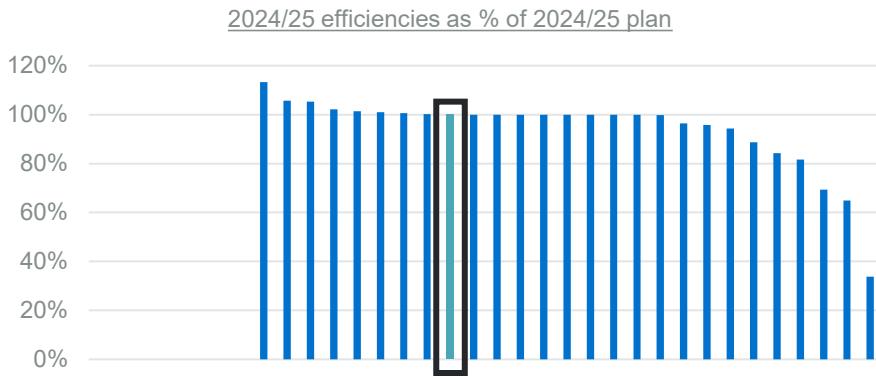
The financial plan for 2024/25 included a Waste Reduction Programme of £110.4m. The Trust achieved this programme in full. The below table shows the delivery of the plan between CSUs and central mitigations.

	Annual plan (£m)	Actual (£m)	Variance (£m)
CSU tactical schemes	52.5	40.2	(12.3)
Central Strategic and mitigations	57.9	70.2	12.3
Total WRP	110.4	110.4	0.0

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria – continued

Benchmarking of our NHS clients at Forvis Mazars illustrates the Trust's relative delivery in the chart below.



Of the £110.4m efficiencies the Trust achieved in 2024/25, £100.4m were recurrent (91%). Our benchmarking analysis is shown below. Achieving a higher proportion of recurrent savings will help the Trust improve its financial position over the longer term.



The Trust's arrangements and approach to financial planning 2025/26

The Trust has a strategic goal for financial sustainability, with the objective of securing a sustainable surplus by becoming the most efficient teaching hospital in England.

In December 2024, the Board approved the 5-year financial plan (2025 to 2030). The plan demonstrates the Trust's progress towards achieving its financial sustainability goal whilst taking into account the requirements around elective care recovery and workforce. The financial plan has been developed in an integrated manner across finance, planning, operations and workforce, ensuring consistency across departments.

As in previous years, the Trust describes the five year plan as ambitious, with a waste reduction plan that requires the Trust to materially outperform the sector in terms of waste reduction over the next five years. The plan also seeks to rebuild the cash position of the Trust to a 10-day cover level.

In March 2025, the Board approved the 2025/26 financial plan. This plan was consistent with the Five Year Plan, to deliver a breakeven position. As in previous years, the five year plan was developed in advance of the national planning guidance and therefore contained a number of assumptions based on the best information available at the time. The annual plan was updated to include national priorities outlined in the NHS Operational Planning Guidance and the plan for reforming elective care, which were both published in January 2025.

The final 25/26 plan includes £9.4m of deficit funding to support the Trust to deliver a break even position. The deficit funding is provided through the ICS and is earnable dependent on the achievement of a number of metrics, which at the year end were still being determined.

The approved plan includes a waste reduction requirement of £89m, of which £37.6m is planned to be delivered by CSUs, with the remaining £32.6m being delivered from central schemes. The WRP plan will be challenging in 25/26 as there is no ability to generate additional elective payment in 2025/26 from productivity gains. Instead, all areas of the Trust must focus on cost reduction to ensure delivery of the WRP programme.

The Trust's capital plan for 2025/26 is £110m, of which £37m is internally funded. The capital plan includes allocations of funds for specific elements including Constitutional Standards allocation of £25.3m for Chapel Allerton, Estates Safety fund allocation of £21m and £14.5m PDC funding for Aseptics. The capital programme is monitored through the Trust's Capital Planning Group.

The Trust has clearly set out several risks in achieving the financial plan. 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.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria – continued

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 2024/25.

The Trust continues to use its 'Trust Expenditure Review Group' (TERG). The group meets on a weekly basis to review all decisions which have an additional cost in excess of £50k. TERG are also responsible for providing an overview and challenge on the CSU vacancy control programme.

We have reviewed the Terms of Reference of TERG and also seen examples of TERG in operation. This has confirmed TERG is operating as intended and providing challenge of Trust spending decisions in advance of the expenditure being incurred.

Overall view on arrangements in relation to financial sustainability

Due to the challenging financial plan set in 2024/25 and the risks involved in delivery, we identified a significant risk of weakness in arrangements in place for securing value for money. In addressing this risk, we reviewed the delivery of WRPs throughout the year as well as the financial monitoring of the plan. We conclude the Trust has arrangements in place to identify and deliver planned savings and achieve the income measures in its financial plan. 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.

VFM arrangements

Governance

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



VFM arrangements – Governance

Overall commentary on Governance

Overall Governance Arrangements

Based on our work, we are satisfied that the Trust continues to have in place the governance arrangements we would expect to see 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 2024/25.

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.

The Audit Committee met five times in 2024/25 and its membership included three Non-Executive Directors. The terms of reference remain in place for the Audit Committee and were reviewed during the year. The Committee provides the Trust Board with an independent and objective view of financial and organisational controls, governance and risk management systems across the whole of the organisation's activities (both clinical and non-clinical). The Audit Committee Chair reports into the Trust Board after each meeting and an Annual Report of the work of the Committee is produced and presented to the Board. We have attended all Audit Committee meetings held during the year. In our view the Committee meetings are focused on its terms of reference, members understand their role, and discharge it in a supportive, but challenging manner, to ensure they have assurance on the operation of the Trust's internal control framework.

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, Standing Financial Instructions, a Scheme of Delegation and Standing Orders. 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 the year, the Trust had [governance arrangements in place for the Building the Leeds Way \(BtLW\) Programme with continued reporting to the Infrastructure Committee, Finance and Performance Committee and Capital Planning Group.](#)

On 20 January 2025, the Trust received notification that the Leeds Hospitals of the Future Project had been allocated to Wave 2 of the New Hospital Programme meaning that it should expect to commence on-site construction between 2033 and 2035. The letter stated that the Trust would need to "pause" development of its scheme until 2030/31 when it would receive the necessary Programme funding and support to enable progress to develop a H2.0 compliant scheme and Outline Business Case (OBC). Since the announcement, the Trust have reviewed its risk register in relation to the project. This has involved reviewing and redescribing the risk in relation to the 'failure to deliver the hospital of the future programme' and considering the impact of the existing risks whose mitigating actions were linked to the delivery of the new hospital programme.

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.

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

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.

We reviewed the 2024/25 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.

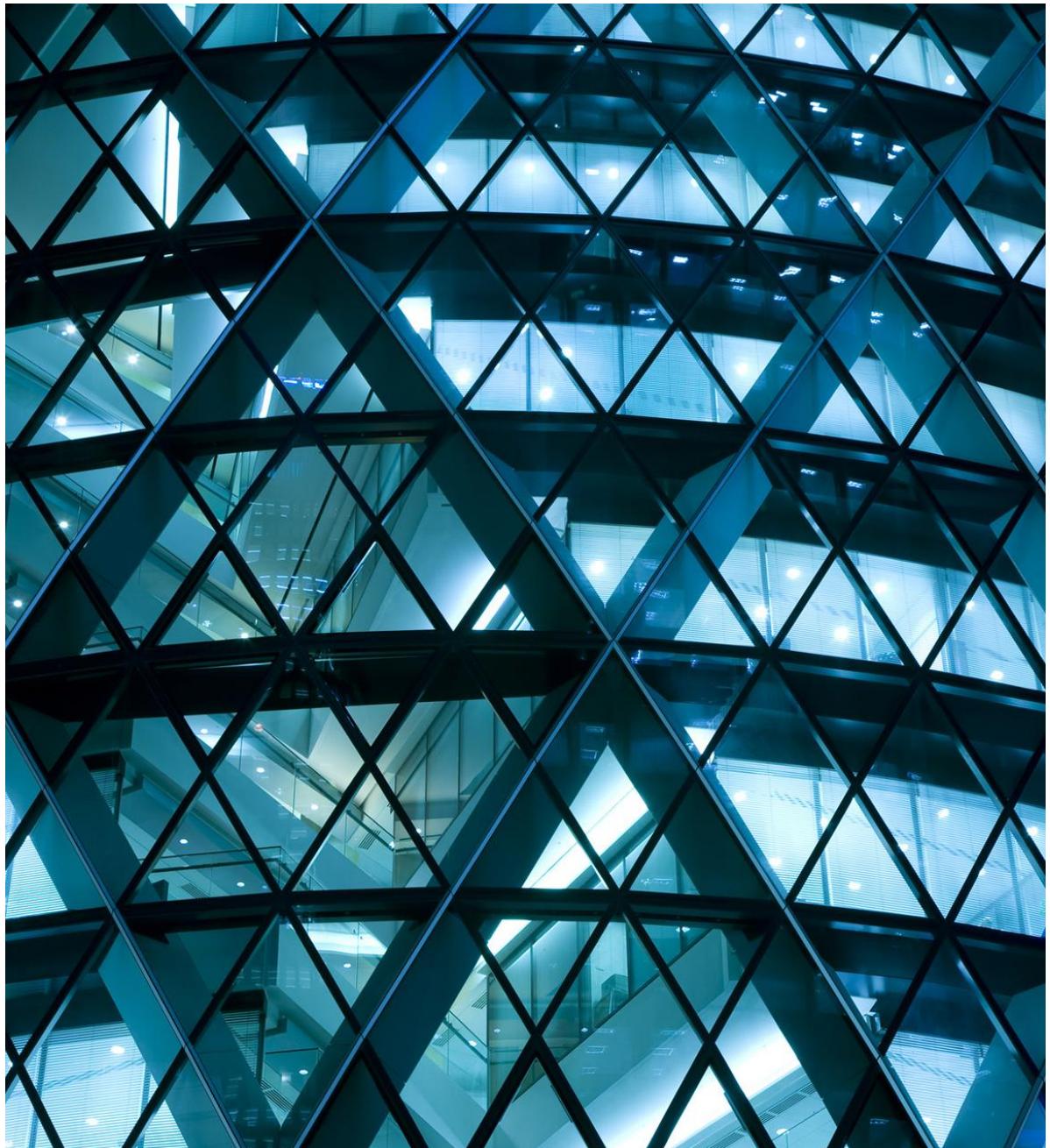
The Trust's Internal Audit function is provided by an independent third party who provide an Annual Plan, Annual Report and regular progress reports to the Audit Committee, which we have read. The Head of Internal Audit Opinion is reflected in the published Annual Governance Statement. In respect of the 2024/25 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 the Trust's governance arrangements.

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



VFM arrangements – Improving Economy, Efficiency and Effectiveness

Risks of significant weaknesses in arrangements in relation to Improving Economy, Efficiency and Effectiveness

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
<p>Improving economy, efficiency and effectiveness – The Trust's arrangements for evaluating the services it provides to assess performance and identify areas for improvement</p> <p>2</p> <p>In December 2024 and January 2025, the Care Quality Commission (CQC) undertook two unannounced inspections of maternity services and neonatal services respectively. The CQC informed the Trust on 20 June 2025 that it had rated maternity services as 'inadequate' and neonatal services as 'requires improvement'. CQC also issued the Trust with a warning notice to focus the Trust's attention on making specific improvements in maternity services at both its hospitals, to ensure there are safe staffing levels to meet people's needs.</p> <p>In our view, the CQC's findings and actions are evidence of a significant weakness in the Trust's arrangements for evaluating the services it provides to assess performance and identify areas for improvement specifically in the improving economy, efficiency and effectiveness reporting criteria. Without addressing the weaknesses in arrangement, there is a risk that the Trust will be unable to provide safe care to its patients.</p>	<p>Work undertaken</p> <p>To establish if there is a significant weakness in arrangements, we have reviewed the correspondence the Trust has had with the CQC as part of the inspection process and the published reports. We have discussed the findings and subsequent arrangements with Trust senior management and reviewed relevant Board and sub-committee papers.</p> <p>Results of our work</p> <p>Since the inspections took place, the Trust has taken actions to address the concerns raised. These actions include:</p> <ul style="list-style-type: none">Participating in the Maternity Safety Support Programme (MSSP)Creating a combined action plan to address the feedback from the CQC and MSSPCommissioning an external review of Neonatal services <p>Establishing a Maternity and Neonatal Improvement Programme Board, led by an independent chair</p> <p>In our view, the CQC's reports are evidence of a significant weakness in the Trust's arrangements for evaluating the services it provides to assess performance and identify areas for improvement specifically in the improving economy, efficiency and effectiveness reporting criteria.</p>

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. The Trust uses a variety of benchmarks to measure its performance such as Getting it Right First Time (GiRFT), the Model Health System and Patient Level Information and Costing Systems (PLICS). Within the Integrated Quality Performance Report presented to the Trust Board, national rankings are used against targets to provide context to the performance of the Trust.

Each month, 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.

In December 2024 and January 2025 the Care Quality Commission (CQC) undertook two unannounced inspections of maternity services and neonatal services. The CQC published their reports in June 2025, which rates maternity services as 'inadequate' and neonatal services as 'requires improvement'. **In our view this represents a significant weakness in the Trust's arrangements for evaluating the services it provides to assess performance and identify areas for improvement.**

During the year, the Trust implemented an IT upgrade to the Pathology service. There were a number of issues experienced as a result of the upgrade, and this impacted the services delivered by the Trust to GPs for blood test results.

As the issues became known, the Trust worked on implementing actions to resolve the issues. Once this was done, the Trust commissioned three reviews into the project covering:

- communication and escalation
- technical analysis of the system issues
- clinical and harms review of any patient impact.

The communication and escalation review has already been reported to the Executive and learning from the review was used for the next phase of the upgrade which took place in May 2025.

The review of the implementation process sets out are recommendations to be implemented, highlighting those that are considered a high priority. The Trust are implementing the findings more widely where relevant.

The implementation of this system was an upgrade impacting a specific service. Although there is some learning to be shared more widely, the audit team does not consider it to be a significant weakness in arrangements. The Trust have already taken action to learn from the implementation and share that learning across the organisation where relevant. There are no further upgrades to systems planned that would be similar to this either in scale, or type of service it impacts.

VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

As a result, we do not consider there to be a risk of significant weakness in arrangements.

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 (WYAAAT)), 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 WYAAAT, 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 WYAAAT 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 Chief Executive is the Senior Responsible Officer for the 'HomeFirst' programme within the Leeds Place of the WYICS.

The Trust has a documented Stakeholder Engagement Strategy which includes a mechanism to seek feedback from stakeholders to inform action by the Trust.

In 2024/25 Internal Audit conducted an audit on Stakeholder Engagement and Partnership working in relation to the Independent Sector Healthcare Providers (ISHP), which was given a moderate assurance rating. In addition, the audit committee conducts a deep dive each year into the risk appetite framework and in January 2025 covered partnership risk and the associated controls in place.

Procurement

The Trust has a Procurement Strategy and Plan in place which covers the periods 2022 to 2025. 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 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. The Trust has a professional procurement team 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.

During 2024/25 all Procurement staff have undergone the new Procurement Act 2023 training available via the cabinet office and are approved to at least practitioner level.

Overall, we have identified a significant weakness in arrangements under the improving economy, efficiency and effectiveness criteria in relation to the CQC findings for maternity services and neonatal services.

VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



VFM arrangements - Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work we have identified significant weaknesses in the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources. These identified weaknesses have been outlined in the table below.

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
<p>1 CQC Inspection In December 2024 and January 2025, the Care Quality Commission (CQC) undertook two unannounced inspections of maternity services and neonatal services respectively. The CQC informed the Trust on 20 June 2025 that it had rated maternity services as 'inadequate' and neonatal services as 'requires improvement'. CQC also issued the Trust with a warning notice to focus the Trust's attention on making specific improvements in maternity services at both its hospitals, to ensure there are safe staffing levels to meet people's needs.</p> <p>In our view, the CQC's findings and actions are evidence of a significant weakness in the Trust's arrangements for evaluating the services it provides to assess performance and identify areas for improvement specifically in the improving economy, efficiency and effectiveness reporting criteria. Without addressing the weaknesses in arrangement, there is a risk that the Trust will be unable to provide safe care to its patients.</p>			●	<p>The Trust should monitor the implementation and efficacy of the action plans developed to address the areas for improvement identified by the CQC.</p>	<p>The Trust have responded to the requests for information from the CQC and have been proactive in addressing the concerns, in advance of the final inspection reports being published.</p> <p>An Improvement Plan has been implemented that the Chief Nurse and Chief Medical Officer monitor and update weekly and is reviewed at the Quality and Safety Assurance Group and the Quality Assurance Committee.</p> <p>In January 2025 the Trust participated in a Rapid Quality Review meeting in relation to Maternity services, hosted by NHS England. Following this review, the Trust took part in an enhanced Maternity Safety Support Programme diagnostic in March 2025, the results of which were reported to the Quality Improvement Group in May 2025. The Trust are putting actions in place to respond to and address the areas for improvement identified. The oversight and governance of the status of the inspections and associated action plans is being managed by the Quality and Safety Assurance Group and the Quality Assurance Committee.</p> <p>In our view, the Trust have begun to take actions to address the weaknesses identified by the CQC.</p>

04

Other reporting responsibilities and our fees

Other reporting responsibilities and our fees

Wider 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 2024/25.

Section 30 referrals

Under Section 30 of the Local Audit and Accountability Act 2014, 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 group auditor

Whole of Government Accounts (WGA)

The Trust is consolidated into the Consolidated NHS Provider Account which is then consolidated into the Department of Health and Social Care (DHSC) group. The National Audit Office (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 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.

Audit fees

In addition to the contracted audit fee of £155,000, we have agreed additional fees of £21,400 as follows with the Director of Finance:

- Land and building valuations issues, £4,200
- Value for money risks and significant weakness and associated reporting, £9,700
- NAO Group audit requirements, £7,500.

All stated fees exclude VAT.

Appendices

A - Further information on our audit of the financial statements

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	Our audit response and findings
<p>Management override of controls</p> <p>Description of risk 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.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none">• 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. <p>• Our work on journals included identifying and analysing the total population of journals posted by the Trust during the year and as part of the account's preparation process. We identified a range of fraud risk factors that we then applied to the population and tested the validity of any journals that we identified for testing. We outline a summary of the risk factors, the number we identified and the outcome of our testing.</p> <p>Audit conclusion We have completed our planned procedures and have no matters to report in respect of the risk of management override of controls. We have included a control recommendation in relation to the posting of journals.</p>
<p>Risk of fraud in revenue recognition</p> <p>Description of risk The risk of fraud in revenue recognition is presumed to be a significant risk on all audits due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues.</p> <p>Previously, we communicated that this risk related to the accrued variable element of Aligned Payment & Incentive (API) income.</p> <p>We now consider there to be a risk that income recognised in the financial statements is understated and thus not recognised in line with the requirements of IFRS15.</p> <p>This is due to the change in financial position towards the year end due to the receipt of additional funding. Given the Trust has already over delivered its financial plan, there is a risk the Trust delay recognition of income until 2025/26.</p>	<p>Our planned response to the risk We tested a sample of income received in April, May and 1st week of June 2025 and confirmed it has been accounted for in the correct period. We selected two populations for testing to ensure our risk was appropriately covered:</p> <ul style="list-style-type: none">-Income recorded in the cashbook-Income recorded in the General Ledger <p>Audit conclusion We have completed our planned procedures and have no matters to report in respect of the risk of fraud in revenue recognition.</p>

Appendix A: Further information on our audit of the financial statements

Significant risks and audit findings (continued)

Risk	Our audit response and findings
<p>Valuation of land and buildings</p> <p>Description of risk</p> <p>Land and buildings are the Trust's highest value assets accounting for £500m of the Trust's £778m Property, Plant and Equipment balance at 31 March 2025. 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.</p> <p>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.</p> <p>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.</p>	<p>Our planned response to the risk</p> <p>We have updated our understanding of 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 uses and applies. Our work also included testing the underlying data to gain assurance of its accuracy.</p> <p>We have reviewed:</p> <ul style="list-style-type: none">• the scope and terms of engagement with Cushman and Wakefield; and• how management used the Valuer's report to value land and buildings in the financial statements. <p>We have engaged with Cushman and Wakefield to obtain information on their methodology and procedures to assess their objectivity and quality, including compliance with professional standards.</p> <p>We reviewed the valuation approach to understand how valuations derived.</p> <p>Audit conclusion</p> <p>We have completed our planned procedures and have no matters to report in respect of the valuation of land and buildings. We have included a control recommendation in relation to the information provided to the valuer.</p>

Appendix A: Further information on our audit of the financial statements

Summary of uncorrected misstatements

Description	Nature	SOCNE/SOCI		SOFP	
		Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
DR: Current Liabilities - Provisions CR: Expenditure <i>The Trust have recorded a provision for VAT payable to HMRC if the Court of Appeal rule in HMRC's favour. The information available does not meet the criteria for recording as a provision, as the Court of Appeal ruling has not yet been issued. As a result, provisions in the accounts are overstated, and a contingent liability should be included.</i>	Actual		(1,256)	1,256	
DR: Expenditure CR: PPE - Additions <i>The Trust have incorrectly capitalised an invoice for £234k, additional testing has not identified any further instances. This is the extrapolated error over the untested capital additions population.</i>	Extrapolated	521			(521)
DR: Accumulated depreciation CR: Revaluation reserve <i>DR Depreciation charge for the year CR Accumulated depreciation</i>				12,842	(12,842)
DR Revaluation reserve CR Income and Expenditure Reserve <i>This is an estimated maximum impact if all assets held at nil net book value were still in use, and therefore the asset lives were extended, and depreciated over a longer period. This is a high level calculation to demonstrate the impact is not material and not indicating the value of the actual error.</i>	Estimated	3,210		3,210	(3,210)
Aggregate effect of unadjusted misstatements		3,731	(1,256)	17,308	(19,783)

Appendix A: Further information on our audit of the financial statements

Internal control observations

Description of deficiency	Potential effects	Recommendation	Management response
Valuation of land and buildings <p>Management have been unable to provide evidence to support the floor areas used to determine the valuation of buildings. We would expect there to be a control in place for management to review the information provided to the Valuer, to ensure it can be reconciled to the Trust's records and is based on the latest information.</p>	<p>Whilst the work is ongoing to assess the impact, there is a risk the accounts are materially misstated if inaccurate floor areas are used in the valuation process.</p>	<p>We recommend the Trust put processes in place to review the information being provided to the Valuer and ensuring it can be reconciled to key information held by the Trust.</p>	<p>As part of the work to support the valuation of the Trust's estate, the following measures have been taken.</p> <p>The audit sample of estate has been reviewed in detail with Cushman and Wakefield (C&W), the Trust's professional valuers. This sample comprises approximately two thirds of the value of the Trust's estate. Together with the C&W, the Trust has reviewed its estate records (MICAD) to ensure the summarised functional areas used for the valuation align with the detailed building and room use records held by the Trust. C&W have confirmed that the values provided in their original valuation substantially match the results of this exercise.</p> <p>Going forward, the Trust will perform a review of its MICAD records to further simplify the matching of rooms and areas to the Building Cost Information Service (BCIS) functional categories used in the valuation. This exercise will be completed by next financial year end.</p>
Periodic review of the Fixed Asset Register <p>The accounts include assets with a gross cost of £84m and a net cost of £422k as disposals/derecognition in year. Our work on fixed asset disposals has confirmed these assets had been disposed of in previous years but the assets were identified by management in 24/25 as part of a cleansing exercise performed on the fixed asset register. We would expect a review of the asset register to be completed on a regular basis to ensure it remains up to date and reflective of the assets held by the Trust.</p>	<p>There is a risk that the Trust overstates its asset position by not removing asset disposals on a timely basis.</p>	<p>The Trust should carry out an annual review of the asset register to ensure that asset disposals are identified and processed each year.</p>	<p>The Trust will adopt the asset verification exercise performed as part of its data cleansing exercise 24/25 as an on-going yearly exercise to be completed by the 31 March of each financial year from 2026 onwards. The Trust will make sure that existing process and budgetary controls are adhered to to ensure that all disposals are authorised, notified and promptly actioned. The asset verification exercise will support the replacement programme, verify its remaining economic life and take corrective action to avoid assets being fully depreciated while still in use.</p>

Appendix A: Further information on our audit of the financial statements

Internal control observations (continued)

Description of deficiency	Potential effects	Recommendation	Management response
Approval of Exit Packages One of the exit packages paid in year, was paid without obtaining the necessary approval from NHS England. We would expect management to have a control in place to ensure all guidance is followed and approvals sought in advance of exit packages being made.	Unapproved payments are made.	A process should be in place to ensure all approvals are obtained in advance of exit package payments being made.	In the case of any similar event, the Trust will consult with NHS England to ensure it is compliant with the required procedures.
Monthly reconciliation of the Fixed Asset Register to the General Ledger During our walkthrough of the Fixed Asset System we were unable to obtain evidence to confirm the monthly reconciliation between the general ledger and the fixed asset register had taken place. We would expect management to have a control to ensure the fixed asset register is reconciled to the general ledger on a regular basis.	Inaccurate financial reporting as a result of systems not being reconciled on a regular basis.	A monthly reconciliation between the general ledger and the fixed asset register should be carried out, reviewed and evidenced on a timely basis.	The Trust is in the process of establishing a regular routine to reconcile the fixed asset register to the ledger, with a target implementation of 30 September 2025.
Posting of journals During our analysis of journals we identified 21 journals which had posting against the natural order (negative debit entries for example). There is a weakness in control as these have not been detected by the Trust.	Inaccurate financial reporting as a result of debits and credits not being input correctly.	Management should implement a control to prevent debits and credits being posted against the natural order, or input a review process to prevent these journals being posted.	Staff have been made aware of the posting errors and training will be given where necessary. The Trust has requested the service provider to modify the system to prevent such postings taking place.

Appendix A - Further information on our audit of the financial statements

Follow up on previous years recommendations

Income working papers

Description of deficiency

Whilst performing our testing of income from patient care income, unlike other aspects of the accounts, we found it difficult to reconcile the working papers to the financial statements. We were unable to agree the breakdown in the accounts to working papers, without the support of various members of the finance and income teams.

Potential effects

The accounts are materially mis-stated as a result of complex working papers, no overall co-ordination of the information required for the financial statements.

Recommendation

The Trust should ensure that working papers are provided to support the figures in the format they are presented in the financial statements.

Progress update

Working papers were provided that more easily reconciled to the format of the financial statements. The income team have continued to support us with our audit work.

We confirm this recommendation is now closed, having been appropriately addressed.

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