Auditor’s Annual Report

The Leeds Teaching Hospitals NHS Trust – year ended 31 March 2024

June 2024

Contents

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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 2024. 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 27 June 2024. Our opinion on the financial statements was unqualified.

Wider reporting responsibilities
In line with group audit instructions issued by the NAO, on 27 June 2024 we reported that the Trust's consolidation schedules were consistent with the audited financial statements.

Value for Money arrangements
We did not identify any significant weaknesses in the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources. Section 3 provides our commentary on the Trust's arrangements.

02

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 2024 and of its financial performance for the year then ended. Our audit report, issued on 27 June 2024 gave an unqualified opinion on the financial statements for the year ended 31 March 2024.

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 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 England.
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 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 12.

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	13	Yes – see risk 1 on page 12	No	No
Governance	17	No	No	No
Improving economy, efficiency and effectiveness	20	No	No	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
1	**Financial sustainability - how the Trust plans to bridge its funding gaps and identifies achievable savings** The Trust's financial plan at the start of the year was to achieve a breakeven position. As at December 2023, the Trust was reporting a deficit of £9.5m, which was £2.9m adverse to the plan. The Trust have a Waste Reduction Plan totalling £131.5m for the year. At December 2023, the Trust had achieved savings of £77.3m against a plan of £77.9m Although the Trust is reporting it is on track to deliver its financial plan, there are a number of risks involved. There is a risk savings are not achieved, or costs are above expectations placing further financial pressures on the Trust.	**Work undertaken** We reviewed the financial monitoring throughout the year, including progress on Waste Reduction Plans. We also considered the 2023/24 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. **Results of our work** We are satisfied that Trust has the expected arrangements in place to ensure financial sustainability.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to the NHS financing regime in 2023/24

In 2023/24, Integrated care systems (ICSs) continued to be a key unit for NHS financing, fully replacing the CCG's that previously operated. Since 2020/21, the NHS has adopted emergency payment arrangements in response to the COVID-19 pandemic, in the form of 'block' allocations. In 2022/23, allocations were reset to move back towards a 'fair share distribution resource'. These arrangements included the establishment of nationally calculated block payments with the balance of funding to support system breakeven issued as a 'system top-up'.

As a consequence, funding did not necessarily flow to the Trust from the appropriate responsible commissioner (ICB or NHS England). An exercise was run in 2022/23 to correct material issues with contract values and allocations, and the outcome of this exercise has been used to adjust 2023/24 allocation baselines and underpin convergence trajectories. In 2023/24, all final adjustments were required to be considered when setting the initial contract value, such that the funding does flow back to the Trust as intended. The formula that determines fair share ('target') allocations has been updated in line with the recommendations of the independent Advisory Committee for Resource Allocation (ACRA) and policy updates.

The majority of the Trust's NHS income is earned from NHS commissioners under the NHS Payment Scheme (NHSPS) which replaced the National Tariff Payment System on 1 April 2023. The NHSPS sets out rules to establish the amount payable to trusts for NHS-funded secondary and specialised healthcare services.

In 2023/24, Aligned Payment and Incentive contracts (API's) formed the main payment mechanism under the NHSPS. In 2023/24 API contracts contain both a fixed and variable element. Under the variable element, providers earn income for elective activity (both ordinary and day case), out-patient procedures, out-patient first attendances, diagnostic imaging and nuclear medicine, and chemotherapy delivery activity. The precise definition of these activities is given in the NHSPS. Income is earned at NHSPS prices based on actual activity. The fixed element includes income for all other services covered by the NHSPS assuming an agreed level of activity with 'fixed' in this context meaning not varying based on units of activity.

In 2023/24 a local pilot system variation was allowed which set income against a target of waiting list reduction to a specified number of patients on waiting lists was allowed over a set time period of 52 weeks. Where the allowed number was exceeded then a potential clawback of funding would be applied determined by a locally agreed price times the number of patients. If the Trust delivered an improved position on the 52 week wait target, then this would be funded via the ERF National allocation to ensure equal treatment for providers on the National system. The allowable number of patients was adjusted in year to account for strike action over which the Trust had no control. The local scheme only applied to West Yorkshire patients across both the West Yorkshire ICB and NHSE Specialised Commissioning.

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.

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.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

Throughout the year, the Trust monitored its progress against the 2023/24 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 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.

At the 31 March 2024, the Trust achieved a surplus of £12.3m, against a financial plan to breakeven. The improved outturn position against plan was due to additional income received from the ICB in relation to strike action and winter pressures. The Trust delivered waste reduction and mitigations of £131.8m against the revised plan of £131.5m.

During the year the Trust established a 'Trust Expenditure Review Group' (TERG). This was in response to the additional financial controls mandated by the NHS England. 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.

The Trust's arrangements and approach to financial planning 2024/25

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 November 2023, the Board approved the five year financial plan (2024 to 2029). 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 (WRP) of £282m, requiring the Trust to materially outperform the sector in terms of waste reduction over the next five years. 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.

In December 2023, the Board approved the 2024/25 financial plan. This plan remained the same as set out in the five year plan, to deliver a breakeven position and £116.5m of WRPs. As in previous years, the annual 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.

In February 2024, the Trust submitted an updated financial plan, following the issued national planning guidance. The Trust plan remained to deliver a breakeven position. The final WRP included in the financial plan was £100.4m (this was made up of the £116.5m from the December plan, minus £18.7m which had been included as the Trust's contribution to Leeds Place when there was no system plan in place plus a further £2.6m to bring the Trust's plan to 5.5% of turnover).

There was a national re-submission of financial plans on 2nd May 2024 which required the West Yorkshire ICB to improve the deficit plan from £154m to breakeven. The plan that was resubmitted by the ICB improved the deficit by £54.6m to a £99.1m deficit overall. In the resubmitted plan, the Trust continued to plan to deliver a breakeven position in 2024/25. As part of the Trust's contribution to the Leeds Place financial deficit, the revised plan did include an increase in the internal waste reduction target to £110.4m (the target from the February plan plus a further £10m to reflect run rate pressures).

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

Following the month 1 financial results for 2024/25, where an £8.6m deficit was reported, representing a significant risk to the achievement of the plan, the Trust strengthened its Financial Mitigation Plan. This included a Trust wide Rapid Process Improvement Workshop (RPIW) focusing on reducing variable pay costs across the organisation. A target condition was set to enable affordable levels of variable pay (reduction of 35%) whilst maintaining high quality care. Daily reporting was initiated to show the improvements made across each CSU and the extent of the challenge. Learning was shared across the Trust to ensure maximum benefit was achieved.

The aim of RPIW's was to focus on specific areas and generate improvement ideas to be used across the Trust to deliver savings. They are also used to equip teams with the relevant knowledge and tools to deliver these savings across the Trust.

The Trust's capital plan for 2024/25 is £84.1m, with £55.7m of this being internally funded through the past surpluses that have been achieved.

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.

Due to the challenging financial plan set in 2023/24 and the risks involved in delivery, we identified a significant risk of weakness in arrangements in place for securing value for money. In our view there was the risk that the identified savings could not be achieved. 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. 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 2023/24.

Overall view on arrangements in relation to financial sustainability

During the audit process, we have identified and brought to the attention of the Audit Committee 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.

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, Standing Orders, Standing Financial Instructions 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 2023/24.

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 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 2023/24 and its membership included four 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 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 2022/23, the Trust reviewed its articulation of its risk appetite. The Board approved the definition of risk appetite for Counter Fraud risk as being "We will adopt a zero-tolerance approach to workforce fraud through the maintenance of an anti-fraud culture, investigating all reported instances of fraud and following disciplinary and criminal proceedings". During 2023/24 the Audit Committee conducted deep dives into the organisation's risk appetite. The Audit Committee reviewed the Counter Fraud risk appetite at its meeting on 7 September 2023 receiving assurance on the control framework in place within the Trust and the appropriateness of the risk appetite rating.

The Trust have governance arrangements in place for the Building the Leeds Way (BtLW) Programme. In accordance with the programme governance arrangements, the BtLW Programme Board have oversight management responsibility within the Programme, however, the Trust Board Committee assurance responsibilities are as follows:

- Building Development Committee - Hospitals of the Future Project and Pathology Project
- Innovation District Committee – LGI Development Site Project.

In autumn 2023, the Innovation District Committee was merged with the Research and Innovation Committee reporting to the Board.

The Trust Board have received Programme Summary Progress Reports at regular intervals throughout the year, which have detailed the progress on each of the projects, key delivery risks and issues and associated financial implications.

VFM arrangements – Governance

Overall commentary on Governance - continued

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 and corporate functions are invited to attend (on a rolling cycle or by escalation) 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. The updated Corporate Risk Register is received at each Board meeting. 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 2023/24 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 2023/24 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

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 hospital 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.

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 or 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.

VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness - continued

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 Manual in place, backed up through the Standing Financial Instructions, with a requirement to procure via open competition, framework agreements or to seek prior approval via a waiver. Waivers are reviewed by the Director of Commercial & Procurement 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 standard 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.

VFM arrangements

Identified significant weaknesses in arrangements and our recommendations

04

Other reporting responsibilities and our fees

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 2023/24.

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 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 February 2024 . Having completed our work for the 2023/24 financial year, we can confirm that our fees are as follows:

Area of work	2023/24 fees	2022/23 fees
Planned fee in respect of our work under the Code of Audit Practice	£125,000	£85,000
Additional fees in relation to Property, Plant and equipment as a result of the implementation of a new Fixed Asset Register	-	£3,500
Additional fees in respect of IFRS16 implementation for the Private Finance Initiative (PFI)	£15,000	-
Additional fees in respect of IFRS16 implementation (non-PFI)	-	£10,000
Additional fees in respect of group audit requirements	£3,000	£3,000
Total fees	**£143,000**	**£101,500**

Fees for other work

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

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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
Management override This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. 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 there is a risk of material misstatement due to fraud on all audits.	We addressed this risk through performing audit work over: • Material 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. • 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. **Audit conclusion** 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 revenue recognition 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. This risk is compounded by the 2023/24 funding arrangements within the NHS and in the local ICS, placing an emphasis on funding adjustments based on activity reporting. The potential for adjustments increase the scope for manipulation. This may represent a significant risk if these funding adjustments based on activity, are material. For the Trust we deemed the potential risk to relate specifically to 'Non-block' contracted income subject to activity-based adjustments and rebutted the risk of inappropriate recognition for 'block' contract income due to the limited scope for manipulation and absence of management judgement.	We have developed our understanding of how the funding adjustments in relation to variable aligned performance and incentive income were calculated at the year end. To address the significant risk, we have assessed the design and implementation of controls over the accuracy of the calculation of variable aligned performance and incentive income accruals. Our work confirmed there were no material accruals at year end in relation to variable elements of income based on performance and incentives. As a result, we do not consider there to be a significant risk in relation to 'non-block' contracted income. We have substantively tested income from commissioners under Aligned Payment and Incentive (API) contracts and confirmed the appropriate classification of this income between variable and fixed elements. **Audit conclusion** We have considered our planned procedures and given the income subject to activity-based adjustments at year end were not material, no specific procedures were required. From our testing of income, we have no matters to report in respect of the risk of fraud in revenue recognition.

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

Significant risks and audit findings (continued)

<table>
<tr><th>Risk</th><th>Our audit response and findings</th></tr>
<tr><td>Valuation of property, plant and equipment
Land and buildings are the Trust’s highest value assets accounting for £461m of the Trust’s £796m Property, Plant and Equipment balance at 31 March 2024. 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.</td><td>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.

We have reviewed:
• the scope and terms of engagement with the Valuer; and
• how management used the Valuer’s report to value land and buildings in the financial statements.
• We have engaged with the Valuer to obtain information on their methodology and procedures to assess their objectivity and quality, including compliance with professional standards.
• We reviewed the valuation approach and assessment in respect of capital additions within the year to understand how valuations have been updated and amended as the assets have been brought into use. We also tested a sample of valuation movements to gain assurance that the accounting treatment is appropriate, and we considered evidence of regional valuation trends.

Audit conclusion
We have no material matters to report in respect of the risk of valuation of property, plant and equipment. We have identified one non-material disclosure amendment which has been included in section 6 of this report and detailed above.</td></tr>
<tr><td>Implementation of IFRS16 to Private Finance Initiative (PFI)
The Trust have two PFI arrangements, Institute of Oncology at St James’s Hospital, Bexley Wing and Wharfedale Hospital.

As at 31 March 2023 the Trust had a gross PFI obligation of £190.8m and future payments committed in respect of PFI schemes of £496.9m.

IFRS 16 has been applicable from 1 April 2023 for PFI contracts 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 is required to re-classify these PFI arrangements in line with this new standard for the first time in the 2023/24 financial statements. Application of a new accounting standard to these significant balances will require judgement and presents a significant risk to the material accuracy of the financial statements.</td><td>We substantively tested PFI lease balances and obtained evidence to support that they have been correctly classified and accurately measured under the new standard. This involved using a PFI specialist to carry out a targeted review of the models the Trust have applied to derive balances for presentation in the financial statements.

Audit conclusion
We have completed our planned procedures and have no matters to report in respect of the risk of implementation of IFRS16 to PFI.</td></tr>
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Appendix A: Further information on our audit of the financial statements

Summary of uncorrected misstatements

We identified no misstatements, adjusted or unadjusted, above our reporting threshold.

Internal control observations

We made one internal control recommendation during the course of the audit.

Other recommendations on internal control – Level 3

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.

Management response

Noted. With input from external audit, we will update our working papers on patient income to support the format in the financial statements. The review and update of working papers around patient income will be complete and actions implemented in time for the year ending 31 March 2025.

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

Follow up on previous years recommendations

Description of deficiency	Recommendation	2022/23 Management response	2023/24 update
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.	The Trust should review their use of the CARS system to ensure they are obtaining the maximum benefit from it.	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.	From our audit work, we have noted that CARS has been utilised more in year. Work remains ongoing to ensure maximum benefits are being utilised.
During our work on leases we identified 4 leases with other NHS trusts where there was no signed agreement in place.	Signed agreements should be maintained for all leases.	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.	Signed leases are now in place for two of the leases, with negotiations ongoing for the remaining two.
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.	The Trust should review its processes and controls to ensure journals cannot be prepared and approved by the same person.	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.	Our journals testing in year did not identify any instances of journals being prepared and approved by the same person.
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.	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.	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.	The working papers provided to support the Property, Plant and Equipment entries in the accounts have been much improved since the prior year. It has been clear to follow and the figures could clearly reconciled to the accounts.

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