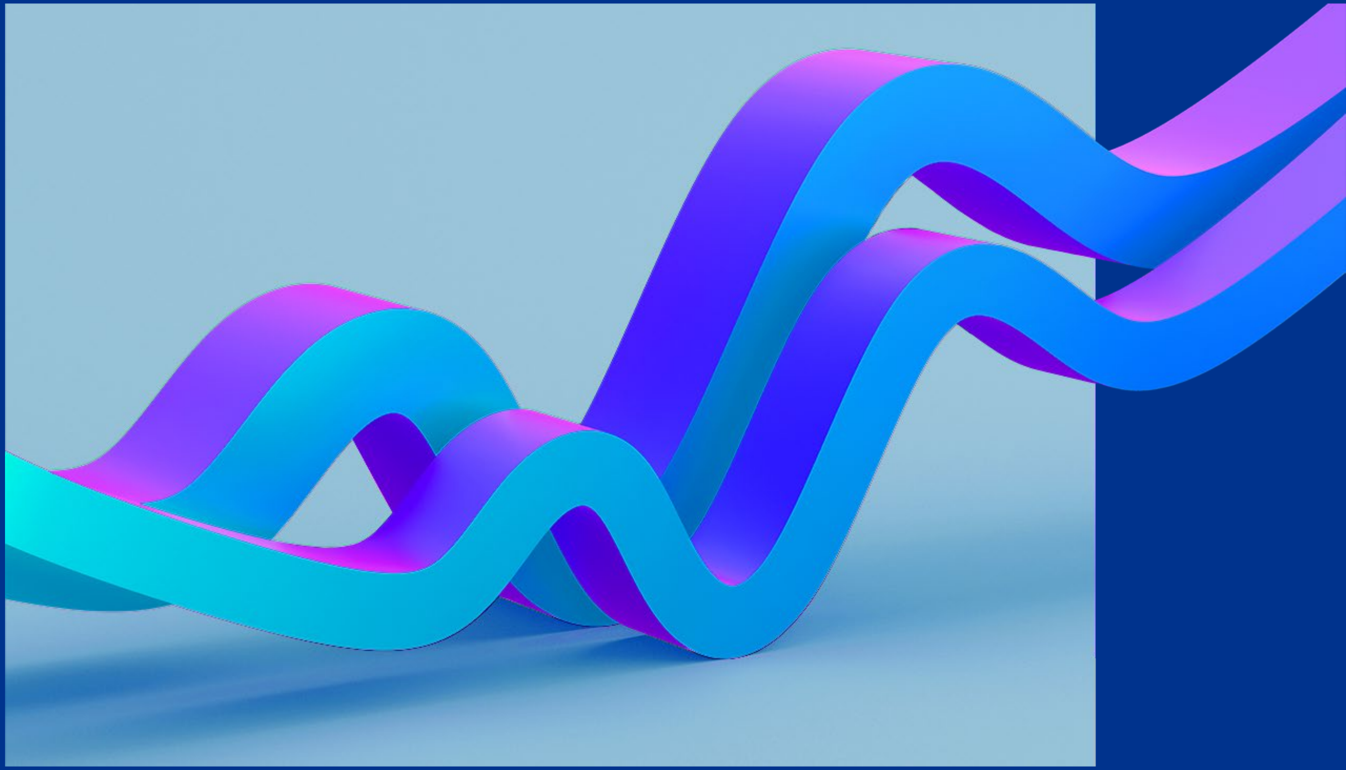
Paper A3

University Hospitals of Leicester NHS Trust



Report to the Audit Committee

Year ended 31 March 2024

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June 2024

Introduction

To the Audit Committee of University Hospitals of Leicester NHS Trust

We are pleased to have the opportunity to meet with you on 24 June 2024 to discuss the results of our audit of the consolidated financial statements of University Hospitals of Leicester NHS Trust (the 'trust') (and its subsidiaries (the 'Group')), as at and for the year ended 31 March 2024.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 18 March 2024. We will be pleased to elaborate on the matters covered in this report when we meet.

Summary

We expect to be in a position to sign our audit opinion following the Board's approval of the financial statements and auditor's representation letter during w/c 24th June 2024, provided that the outstanding matters noted on page 4 of this report are satisfactorily resolved.

There have been no significant changes to our audit plan and strategy.

We are awaiting internal confirmation regarding the status of modification for the 2023/24 audit opinion to be issued.

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Restrictions on distribution of this report

Yours sincerely,

Jonathan Brown

Jonathan Brown

24 June 2024

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality management and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

Important notice

This report is presented under the terms of our audit engagement contract.

Circulation of this report is restricted.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This report has been prepared in connection with our audit of the consolidated financial statements of University Hospitals of Leicester NHS Trust (the ‘Trust’) (and its subsidiaries), prepared in accordance with [International Financial Reporting Standards (‘IFRSs’) as adapted by the Group Accounting Manual issued by the Department of Health and Social Care, as at and for the year ended 31 March 2024.

This Report has been prepared for the Trust's Audit Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Group’s financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 4 ‘Our Audit Findings’ outlines the outstanding matters in relation to the audit. Our conclusions will be discussed with you before our audit report is signed.

Restrictions on distribution

The report is provided on the basis that it is only for the information of the Audit Committee of the Group; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it. We note that the Trust will provide a copy of our final report to NHS England.

Our audit findings

Significant audit risks	Risk change	Our findings (Pages 6-12)
Existence of plant and equipment (inc. AUC)	No change	We propose to remove the qualification rom our audit opinion in respect of the existence of assets. We have not identified any evidence of material error as a result of our audit work.
Valuation of land and buildings	No change	We have not identified any evidence of material error as a result of our audit work.
Expenditure recognition - completeness	No change	We have not identified any evidence of material error as a result of our audit work.
Management override of controls	No change	We have not identified any evidence of material error as a result of our audit work.
Key accounting estimates	**Our view**	**Our findings (Page 13)**
Valuation of land and buildings	Neutral	We have assessed the assumptions underpinning the valuation. The assumptions were found to be within our acceptable range.

Uncorrected Audit Misstatements		Page 33
Understatement/ (overstatement)	**£m**	**%**
Revenues	-	-
(Deficit) for the year	(0.9)	(1.8)
Total assets	(0.9)	(0.1)
Total taxpayers' equity	-	-
Disclosure Note 25.1 – Trade and other payables		

Number of Control deficiencies	Page 36
Significant control deficiencies	0
Other control deficiencies	3
Prior year control deficiencies remediated	8

Other Matters

In auditing the accounts of an NHS body auditors must consider whether, in the public interest, they should make a report on any matters coming to their notice in the course of the audit, in order for it to be considered by Trust members or bought to the attention of the public. There are no such matters we wish to bring to your attention.

Value for Money

We have identified a significant weaknesses regarding the future delivery of CIP and have re-iterated previously raised weaknesses. Further details are provided on page 17.

Outstanding Matters

Our audit is substantially complete, except for the following outstanding:

- Final review and clearance of review comments
- Receipt of signed management representation letter
- Final annual report to KPMG
- Finalise audit report and sign

Audit report journey

2020

31 March 2020

Disclaimer of opinion issued by previous auditor as the auditor concluded that they were unable to obtain sufficient audit evidence to enable them to form an opinion.

Auditor noted errors arising from management override of controls which they considered to be intentional misstatement of the financial statements.

Adverse VFM conclusion issued highlighting numerous significant weaknesses in financial controls and governance.

2021

31 March 2021

Qualified Audit Opinion (Adverse) issued by previous auditor due to concerns relating to:

- Non-payroll expenditure and payables
- Assets Under Construction
- Poor control over the existence of equipment assets

Three significant weaknesses in VFM arrangements reported which have a broad scope

2022

31 March 2022

Qualified Audit Opinion due to:

- Impact of prior issues on comparator I&E and Balance Sheet
- Poor control over the existence of equipment assets

Four significant weaknesses in VFM arrangements reported which are narrower in focus than those reported in 2021

2023

31 March 2023

Qualified Audit Opinion due to:

- Impact of prior issues on comparator I&E
- Poor control over the existence of equipment assets

No new significant weaknesses in VFM arrangements

Trust Annual Governance Statement reports that progress still needed to fully clear issues previously reported

2024 ★

31 March 2024

We expect to issue a clean opinion, but await internal confirmation as at the time of writing.

Substantial progress made with controls over the existence of equipment assets

One new significant weakness in VFM arrangements regarding CIP

Each of the above sections relates to the headline findings reported by the auditor for the period ending 31 March of the year highlighted.

The reports relating to periods before 2022 and 2023 were not reported by KPMG and are included here for context only. For 2020 the VFM work was completed under different guidelines as required at the time.

Predecessor auditor

KPMG

Audit risks and our approach

1 Existence of plant and equipment (inc. AUC)

Significant audit risk

Risk: Plant and equipment does not exist or the entity no longer has the rights to the asset.

- The Trust did not operate a fully functioning system to track and locate the plant and equipment held on the fixed asset register.
- We note that the Trust has continued to make improvements in this area during 2023-24 to date. The audit team have performed walkthroughs to confirm our understanding of the improved processes as part of our risk assessment procedures.
- The Trust have used using a mixture of verification methods including physical verification and asset verification forms, maintenance reports, ping network reports (which highlight assets connected to the network) and third party confirmations for medical and leased equipment.
- As at 31 March 2024, the Trust had verified c£87m of assets, including c£5m of software and c£31m of right of use assets. Of the asset types covered by the qualification, c£51m have been verified by the Trust.
- The exercise highlighted a number of assets that had been identified as no longer held by the Trust, resulting in a proposed derecognition of c£6.7 million

Our response

We have performed the following procedures designed to specifically address the significant risk:

- We evaluated the design and implementation and, where appropriate, tested the operating effectiveness, of controls in place for all methods of asset verification used by the Trust;
- We inspected a sample of assets from the fixed asset register system to independently verify their existence. We did this through:
  - Physical verification;
  - Lease confirmations; and
  - Third party evidence;
- We assessed the appropriateness of the disposals and reclassifications identified as part of the asset verification exercise and determined if the appropriate accounting treatment has been applied; and
- We reviewed the disclosures within the accounts to explain the response to the previous weaknesses in control and the treatment of any derecognition.

Audit risks and our approach (cont.)

1 Existence of plant and equipment (inc. AUC)

Significant audit risk

Risk: Plant and equipment does not exist or the entity no longer has the rights to the asset.

- The Trust does not currently operate a fully functioning system to track and locate the plant and equipment held on the fixed asset register.
- We note that the Trust has continued to make improvements in this area during 2023-24 to date. The audit team have performed walkthroughs to confirm our understanding of the improved processes as part of our risk assessment procedures.
- The Trust have used using a mixture of verification methods including physical verification and asset verification forms, maintenance reports, ping network reports (which highlight assets connected to the network) and third party confirmations for medical and leased equipment.
- As at 31 March 2024, the Trust had verified c£87m of assets, including c£5m of software and c£31m of right of use assets. Of the asset types covered by the qualification, c£51m have been verified by the Trust.
- The exercise highlighted a number of assets that had been identified as no longer held by the Trust, resulting in a proposed derecognition of c£6.7 million

Our findings

As a result of our identified procedures, we noted the following:

- The Trust have implemented an asset verification control within the period whereby asset verification forms are sent to divisions to confirm the assets existed as at 31 March 2024. We found the asset verification controls to be operating effectively;
- We have worked alongside management during the past 18 months to ensure the asset verification exercise has been a robust process. Management reported their draft findings to the Audit Committee in December 2023. The exercise has resulted in £6.7m derecognised from assets, charged to operating expenses and £11.9m transferred from tangible to intangible assets.
- We have reviewed management's updated paper (as reported to the June audit committee) that discusses the size of the above adjustments and whether this represents a material error to the prior period. We concur with their conclusion that the ultimate impact of all the above adjustments is immaterial to the users of the accounts.
- We confirmed that maintenance and ping network reports were ran at year end to confirm that assets verified during the period remained held by the Trust at 31 March 2024;
- We inspected a sample of 45 assets to confirm their existence back to supporting evidence. This included physically verifying a portion of assets via an onsite visit to LRI as well as reviewing photographs, verification forms, delivery certificates, lease confirmations and confirming assets verified via a third party in July 2023;
- For the samples selected for additions of c£8.8m and c£45.9m of assets under construction, we also received existence evidence to confirm the assets were verified as at 31 March 2024;
- For the £11.9m of reclassifications identified by the Trust via the asset verification exercise, we confirmed the appropriateness of the accounting treatment by selecting a sample of assets to ensure the reclassification to the correct asset type;
- For the £6.3m of impairments and £0.4m of disposals identified by the Trust via the asset verification exercise, we confirmed the appropriateness of the accounting treatment had been applied to the in year derecognitions; and
- We reviewed the disclosures within the accounts to explain the response to the previous weaknesses in control and the treatment of any derecognition.

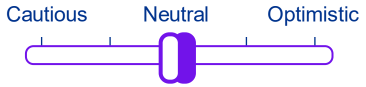
We can confirm from the above procedures, that significant improvements have been made by the Trust in regards to carrying out a substantial verification exercise and introducing control procedures to ensure verification is embedded into future periods.

We are awaiting internal confirmation regarding the type of audit opinion to be issued.

Audit risks and our approach (cont.)

2

Valuation of Land and Buildings



Significant audit risk

Risk: The carrying amount of revalued Land & Buildings differs materially from the fair value

- Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'. This is known as the depreciated replacement cost methodology (DRC).
- The net book value of the Trust's land and buildings at 31 March 2024 was £576.2m of which £519.4m is valued under DRC.
- The Trust is due to undertake a desktop revaluation of its land and buildings in year. The last full revaluation took place on 31 March 2021.

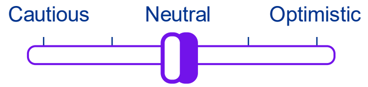
Our response

We have performed the following procedures designed to specifically address the significant risk associated with the valuation:

- We critically assessed the independence, objectivity and expertise of the engaged valuers, used in developing the valuation of the Trust's properties at 31 March 2024;
- We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the Group Accounting Manual. In addition, we compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information, such as floor plans, and to previous valuations, challenging management where variances are identified;
- We performed inquiries of the valuers in order to verify the methodology that was used in preparing the valuation and whether it was consistent with the requirements of the RICS Red Book and the GAM;
- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations;
- We challenged key assumptions within the valuation, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed, as part of our judgement particularly on obsolescence and BCIS;
- We agreed the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the GAM; and
- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Audit risks and our approach (cont.)

2 Valuation of Land and Buildings



Significant audit risk

Risk: The carrying amount of revalued Land & Buildings differs materially from the fair value

- Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'. This is known as the depreciated replacement cost methodology (DRC).
- The net book value of the Trust's land and buildings at 31 March 2024 was £576.2m of which £519.4m is valued under DRC.
- The Trust is due to undertake a desktop revaluation of its land and buildings in year. The last full revaluation took place on 31 March 2021.

Our findings

As a result of our identified procedures, we noted the following:

- The valuer is deemed suitably qualified and experienced to carry out the review with no independence issues identified;
- The instructions issued to the valuers are appropriate and consistent with the requirements of the Group Accounting Manual (GAM);
- Samples were selected to confirm the accuracy of the data provided for floor areas, capital expenditure and useful economic lives. No deviations were found in the data;
- The methodology used in preparing the valuation is consistent with the requirements of the RICS Red Book and the GAM;
- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We confirmed the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations;
- The key assumptions used within the valuation are reasonable and the modern equivalent asset assumptions applied are in line with the capital plan under the New Hospitals Programme;
- The movements in impairments and revaluation reserve are accurate, have been displayed correctly and are in line with the GAM; and
- We reviewed the disclosures concerning the key judgements and degree of estimation uncertainty involved in arriving at the valuation and confirmed their adequacy.

Audit risks and our approach (cont.)

3 Fraud risk from expenditure recognition - completeness

Significant audit risk

Risk: *Liabilities and related expenses for purchases of goods or services are not recorded in the correct accounting period.*

- As the Trust and system is set a financial performance target by NHSE there is a risk that non-pay expenditure, excluding depreciation, may be manipulated in order to report that both the Trust and System budgeted position has been met.
- The setting of a financial target can create an incentive for management to understate the level of non-pay expenditure compared to that which has been incurred. For the 2023/24 financial period, the Trust reported a deficit of £52.8m against a revised outturn of £49m.
- We consider this would be most likely to occur through the understatement of accruals, for example to push back expenditure to 2024/25 to mitigate financial pressures.

Our response

We have performed the following procedures designed to specifically address the significant risk associated with the valuation:

- We evaluated the design and implementation of any relevant controls including management's controls over a review of the year end accruals balance to support our significant risk;
- We inspected a sample of invoices of expenditure and cash payments, in the period around 31 March 2024, to determine whether expenditure has been recognised in the correct accounting period and whether accruals are complete;
- We inspected journals posted as part of the year end close procedures that decrease the level of expenditure (e.g. through accruals) recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence; and
- We performed a retrospective review of prior year accruals in order to assess the completeness with which accruals had been recorded at 31 March 2023 and consider the impact on our assessment of the accruals at 31 March 2024. We also compared the items that were accrued at 31 March 2023 to those accrued at 31 March 2024 in order to assess whether any items of expenditure not accrued for as at 31 March 2024 have been done so appropriately.

Audit risks and our approach (cont.)

3

Fraud risk from expenditure recognition - completeness

Significant audit risk

Risk: *Liabilities and related expenses for purchases of goods or services are not recorded in the correct accounting period.*

- As the Trust and system is set a financial performance target by NHSE there is a risk that non-pay expenditure, excluding depreciation, may be manipulated in order to report that both the Trust and System budgeted position has been met.
- The setting of a financial target can create an incentive for management to understate the level of non-pay expenditure compared to that which has been incurred. For the 2023/24 financial period, the Trust reported a deficit of £52.8m against a revised outturn of £49m.
- We consider this would be most likely to occur through the understatement of accruals, for example to push back expenditure to 2024/25 to mitigate financial pressures.

Our findings

As a result of our identified procedures, we noted the following:

- While we acknowledge that there is a review of manual accruals before they are posted to the ledger which is sufficient for management purposes, we typically would not look to rely on such controls due to nature of the assumption, and such controls would not meet the requirements set in the Auditing Standards for a Management Review Control and setting relevant expectations with documented thresholds for investigation. We have discussed with management how this review could be improved to be in line with best practice;
- We inspected a sample of 8 invoices of expenditure and 17 cash payments, in the period around 31 March 2024, and determined that the expenditure had been recognised in the correct accounting period;
- We inspected 19 journals posted as part of the year end close procedures that decrease the level of expenditure (e.g. through accruals) recorded and found there was an appropriate basis for posting the journal and that the values agreed to supporting evidence; and
- We performed a retrospective review of 32 prior year accruals and found that the basis for accruals recorded at 31 March 2023 was reasonable. We also compared the items that were accrued at 31 March 2023 to those accrued at 31 March 2024 in order to assess whether any items of expenditure not accrued for as at 31 March 2024 have been done so appropriately. No such instances were found.

Audit risks and our approach (cont.)

4 Management override of controls

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is 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.
- We have not identified any specific additional risks of management override relating to this audit.
- We note that whilst the journals review process has improved over the year, a risk remains that a journal can be posted without final review. We will take a substantive approach to auditing journals.

Note: Significant risk that professional standards require us to assess in all cases.

Our response

- Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we evaluated the design and implementation of the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate;
- We analysed all journals through the year and focus our testing on those with a higher risk, such as journals impacting expenditure recognition;
- We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates;
- We reviewed the appropriateness of the accounting for significant transactions that are outside the Trust's normal course of business, or are otherwise unusual; and
- We assessed the controls in place for the identification of related party relationships and test the completeness of the related parties identified. We will verify that these have been appropriately disclosed within the financial statements.

Our findings

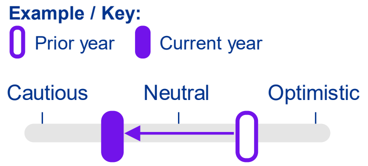
- We performed screening and risk assessment routines over the journals population to establish high risk criteria for unexpected cash & borrowing pairings, unexpected revenue pairings and transactions reducing year end accruals. We analysed the population to identified 46 journals matching our criteria to test. We inspected supporting evidence to assess that these journals were recorded in the normal course of business and have no issues to report.
- We evaluated accounting estimates, including the consideration of BCIS & location factors as part of the valuation of Land and Buildings and did not identify any indicators of management bias. See page 13 for further detail.
- Our procedures did not identify any significant unusual transactions.

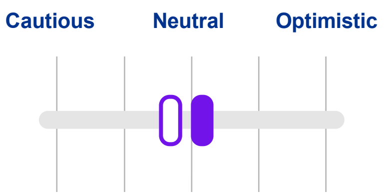
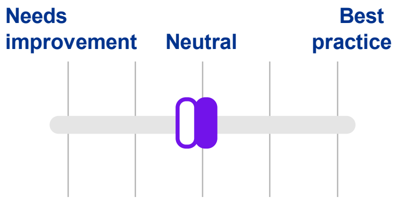
From the above procedures, we did not identify any instances of management override of control.

Key accounting estimates and management judgements– Overview

Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.



Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
PPE Land and buildings		576.2	18.9		The valuation of land, buildings and dwellings was £576.2m for 2023/24, an increase of £18.9m from the previous years. As a desktop valuation was carried out, the main drivers for this movement relate to capital expenditure in year and application of BCIS indices. We have considered the appropriateness of the valuation of land and buildings and have summarised our findings on page 9. We consider the assumptions used by the valuer, in particular in regard to the use of the modern equivalent asset methodology for specialised buildings to be appropriate.

Group involvement and subsidiary audits

Involvement in Group components

The Group financial statements are made up of the following components:

- University Hospitals of Leicester NHS Trust (**parent entity and audited by KPMG**);
- Trust Group Holdings Limited (**consolidated and audited by KPMG**); and
- Leicester Hospitals Charity (**consolidated and not audited by KPMG**).

We have performed risk assessment procedures where we determine that the parent Trust was the only significant components to our group audit. Considerations in relation to Trust Group Holdings Limited (the only other entity audited by KPMG) are included below;

Entity	Reporting framework	Materiality	Significant risks
Trust Group Holdings Limited	We will carry out an audit of the company pursuant to International Auditing Standards and issue an opinion in accordance with the Companies Act 2006.	We have determined an appropriate level of materiality for our audit of the subsidiary, using audited revenue from the 31 March 2023 financial statements. Materiality has been set at £1.0m (2022/23: £1.0m) which is approximately 2.75% of audited revenue (2022/23: 3%). We will design our procedures to detect individual errors above £750k (2022/23: £750k). We will report individual errors identified above £50k (2022/23: £50k).	Our audit methodology incorporates the risk of management override as a default significant risk. Our methodology considers journals, unusual transactions and any estimates/judgements made by management. Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk and as the vast majority of the income is intercompany from within the Group.

Other matters

Annual report

We have read the contents of the Annual Report (including the Accountability Report, Directors Report, Performance Report and Annual Governance Statement (AGS)) and audited the relevant parts of the Remuneration Report. We have checked compliance with the NHS Group Accounting Manual (GAM) issued by the Department of Health and Social Care. Based on the work performed:

- We have not identified any inconsistencies between the contents of the Accountability, Performance and Director's Reports and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the director's statements. As Directors you confirm that you consider that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for patients, regulators and other stakeholders to assess the Trust's performance, business model and strategy.
- The parts of the Remuneration Report that are required to be audited were all found to be materially accurate, following the adjustments raised on page 34;
- The AGS is consistent with the financial statements and complies with relevant guidance subject to updates as outlined on page 4; and
- The report of the Audit Committee included in the Annual Report includes the content expected to be disclosed as set out in the GAM and was consistent with our knowledge of the work of the Committee during the year.

Whole of Government Accounts

As required by the National Audit Office (NAO) we are required to provide a statement to the NAO on your consolidation schedule. We comply with this by checking that your summarisation schedule is consistent with your annual accounts. We have completed that work and found no matters to report. The Trust was selected for additional procedures this year. We have completed this testing and have no matters to report. We have charged an additional £5k for this work.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

Our fee for the audit was £320k plus VAT (£320k in 2022/23). We have not completed any non-audit work at the Trust during the year. As above, we have charged an additional £5k for the Whole of Government Accounts – full procedures work.

Value for money

Value for money

We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources.

In discharging these responsibilities we include a statement within the opinion on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor's Annual Report, which is required to be published on your website alongside your annual report and accounts.

Commentary on arrangements

We have prepared our Auditor's Annual Report and a copy of the report is included within the papers for the Committee alongside this report. The report is required to be published on the Trust's website alongside the publication of the Trust's annual report and financial statements.

Response to risks of significant weaknesses in arrangements to secure value for money

As reported in our risk assessment we noted one risk of significant weakness in the Trust's arrangements to secure value for money in relation to financial sustainability. Our response to this risk is set out on the following pages. We have concluded there is a significant weakness in relation to unidentified savings plans that could substantially threaten the delivery of the plan for 2024/25.

Follow up of prior period significant weaknesses in arrangements to secure value for money

We have undertaken a follow up of the recommendations made in regard to the significant weaknesses reported in our prior years audit report to assess whether they had been implemented and whether the arrangements in place to implement those recommendations contain a weakness. The detail for each issue is contained on the following pages.

We have found that the Trust has made progress against each of the significant weaknesses reported in the prior year audit report – with three of the four previous significant weakness now fully implemented. However, the significant weakness over the Medium Term Finance Plan remains in progress.

As these outstanding matters were reported in the previous period and the current arrangements have secured an improved position, in line with NAO guidance, we have noted this in our audit report.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	One significant risk identified	One significant weakness identified
Governance	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

We confirm that **we have identified an additional significant weakness in relation to financial sustainability** to be included within our value for money report and audit opinion, relating to the delivery of CIP and savings for 2024/25.

We have reviewed the arrangements in place since our risk assessment was performed in March 2024, regarding Governance and Improving economy, efficiency and effectiveness. We have nothing new to report over these areas.

Value for money arrangements

Financial sustainability

Description of risk

- The underlying deficit at both Trust and Integrated Care System (ICS) level, together with continued pressures within the wider healthcare system, means that there is a significant risk in relation to the Trust being able to achieve medium term financial sustainability, through its existing arrangements.

Our response

#1 – Review the financial performance of both the Trust and the ICS in the period to year end;

#2 – Review reporting throughout the year in relation to the Trust and ICS performance, specifically considering the root causes of the increasing deficit;

#3 – Review cashflow forecasting arrangements, considering whether the requirement for cash support can be directly linked to the existing I&E pressures or other factors; and

#4 – Review the process followed to finalise the 2024/25 financial plan (for both the Trust and the ICS) together with arrangements in place to establish the required efficiency programme.

Our findings

#1 – Financial Performance

The Trust Board approved the 2023/24 financial plan in May 2023.

The Trust achieved a deficit of £52.8m (adjusted financial performance) against an initial plan of £10m deficit. The main drivers for this adverse movement include unfunded inflation (c£13m) and UEC/ESM pressures (c£11m).

The Trust identified CIPs (Cost Improvement Programmes) with the approved financial plan of c£63m for 2023/24, with c£38m relating to recurrent savings. The Trust achieved total CIPs of c£64m in the year, being c£24m recurrent and c£40m non-recurrent.

The Trust achieved capital spend of c£119m, against a capital plan of £104m, meaning the Trust have therefore met their initial capital plan.

The Trust had a cash balance of c£39m as at M12 2023/24, an adverse movement from M12 2022/23 of c£50m. While the Trust did not require cash support during 2023/24, they have identified the need for support for Q1 2024/25 and beyond. This has been discussed at **#3** below.

Overall, the LLR ICS (Leicester, Leicestershire and Rutland Integrated Care System) reported draft 2023/24 performance of a £68.4m deficit against an initial forecast of breakeven, with UHL contributing £52.8m as above.

Value for money arrangements

Financial sustainability

Description of risk

- The underlying deficit at both Trust and Integrated Care System (ICS) level, together with continued pressures within the wider healthcare system, means that there is a significant risk in relation to the Trust being able to achieve medium term financial sustainability, through its existing arrangements.

#2 – Financial Reporting

As per **#1**, the Trust has experienced a deterioration in its financial performance during 2023/24 compared to plan. Such performance has been summarised below:

— The Board were notified of LLR ICS' requirement from NHSE to submit a plan resulting in a £10m deficit when approving the 2023/24 financial plan in May 2023 (following the Trusts initial planning submissions). The Board were fully briefed of the risks included within this £10m deficit position, and were notified of a 'likely' deficit of c£70m should risks crystalise as were expected at the time of submission. Such risks included the key drivers causing the deterioration in performance explained below. The Board appropriately challenged the level of risk within the proposed plan;

— As part of a national H2 re-forecast in October/November 2023, the Trust and system were asked to re-base their financial plans. This exercise resulted in an extended position of £45m deficit agreed with NHSE. The Board were briefed on this movement in position and forecast on 21st November 2023, with clear and concise commentary included in relevant reporting (including information on relevant drivers etc).

Value for money arrangements

Financial sustainability

Description of risk	
▪ The underlying deficit at both Trust and Integrated Care System (ICS) level, together with continued pressures within the wider healthcare system, means that there is a significant risk in relation to the Trust being able to achieve medium term financial sustainability, through its existing arrangements.	— In February 2024, the Trust agreed a further extended position with NHSE of £49m deficit (£59m underlying, with £10m additional funding provided from NHSE). Again, the Board were briefed on this movement in position and forecast on 14th March 2024, with comprehensive analysis of key drivers (UEC pressures) included in relevant reporting. Outside of the specific reporting referred to above, management have taken detailed recurring reports to Board, FIC (Finance and Investment Committee) and AC (Audit Committee) detailing the deterioration in position throughout the period. We note that NHSE wrote to the Trust in July 2023 setting out a series of undertakings which the Trust had agreed to, in regard to financial performance. Through inquiry and review of relevant reporting throughout the period, we note the Trust has not specifically reported on the commitments made within the undertakings, as the Trust believe all relevant items are covered through standard reporting to Finance and Investment Committee as part of the recognised Recovery Support Programme. While we acknowledge the letter from NHSE doesn't include a requirement to take the letter itself to Trust Board, given the nature of the undertakings and the Trusts deteriorating position, specific reporting and monitoring would be best practice. A **performance improvement observation** will be raised in regard of the above. **#3 – Cashflow Monitoring and Reporting** As per our value for money risk assessment, the Trust have identified the requirement of cashflow support (PDC) from NHSE during Q1 2024/25 and beyond. The drivers for such cash shortages are due to the same pressures discussed at **#1** above, being unfunded inflation and UEC/ESM pressures. Such requirement of support was identified as part of the Trusts ongoing cashflow monitoring arrangements, primarily as part of a specific 'Working Capital Group' who meet weekly. The Group discuss the Trusts approach and position in relation to working capital, resulting in specific action points (which are then tracked and followed up) to support the Trusts operations. In terms of cashflow reporting, the Trust have a specific section within the monthly FPR (Financial Performance Report) which considers cashflow (including any requirement for support) in detail. For Q1 of 2024/25, the Trust sought c£24m of cash support, which has been approved (and received). Approval of submission for support was sought from Board prior to being actioned, with relevant reporting taking place.

Value for money arrangements

Financial sustainability

Description of risk

- The underlying deficit at both Trust and Integrated Care System (ICS) level, together with continued pressures within the wider healthcare system, means that there is a significant risk in relation to the Trust being able to achieve medium term financial sustainability, through its existing arrangements.

#4 – 2024/25 Plan

Both the Trust and ICS have submitted their financial plans for 2024/25, in line with national guidance.

The Trust has engaged in both Trust and ICS planning initiatives, including but not limited to: planning workshops, recurring DOF meetings, challenge and confirm sessions, system development meetings etc. As part of the Trusts approach, they have engaged Clinical Management Groups (CMGs) throughout the process, adopting a worked up process. In regard to reporting, the Trust has engaged the Board, FIC (Finance and Investment Committee) and HLT (Hospital Leadership Team) updated and informed throughout the process, with necessary background and detail included within such updates.

Prior to submission, management obtained approval from the Trust Board, with minutes evidencing sufficient challenge and scrutiny on all relevant aspects of the draft plan. Specifically the Board challenged management on UEC assumptions (given the issues faced in 2023/24), benchmarked the plan to other similar Trusts (in which NEDs are involved), and on CIP efficiencies (given the target and high level of risk – see below). As a result of this challenge, the Board requested further reporting to follow throughout the year (quarterly to Board) with regular update reports on key risks. The importance of the Trust Board maintaining an appropriately robust level of ownership of these key risks was stressed.

The Trust are forecasting to achieve a deficit of c£64.8m in 2024/25, an adverse movement of c£12m compared to 2023/24 actuals. This represents 100% of the ICS forecast provider deficit of c£65m, which when considered in conjunction with the forecast ICB deficit of c£24m, leads to a total ICS deficit of c£90m.

The Trust has an efficiency target/plan of c£92m, being c£70m recurrent and c£22m non-recurrent. As discussed in detail below, the Trust initially recognised £84m of such efficiencies to be high risk, due to acknowledgment the infrastructure was not currently there to support them. Since this initial plan and risk identification, the Trust has improved this infrastructure through the development of seven key work streams, each with a designated Chief / Deputy Chief Officer as an ‘owner’. Further details are as follows:

- These workstreams are currently in the process of developing efficiency programmes and report on progress fortnightly to the Financial Sustainability Group (FSG), chaired by the Deputy CEO. This meeting and overall monthly efficiency progress is monitored by the Trust Leadership Team (TLT) which has a fortnightly meeting focussed on finance and is chaired by the CEO and the Finance Investment Committee (FIC), which meets monthly and includes NEDs in its membership.
- In addition to this individual Transformation Progress Meetings (TPM) are held on a monthly basis with CMGs to monitor efficiency progress and discuss engagement with the workstreams.
- Such progress means the current ‘high risk’ CIP has been reduced to £39m, with over half of the original £84m risk downgraded.

Value for money arrangements

Financial sustainability

Description of risk

- The underlying deficit at both Trust and Integrated Care System (ICS) level, together with continued pressures within the wider healthcare system, means that there is a significant risk in relation to the Trust being able to achieve medium term financial sustainability, through its existing arrangements.

The Trust is forecasting a cash balance of c£26m as at M12 2024/25, an adverse movement from M12 2023/24 of c£17m. The Trust is expecting to require PDC cash support, as discussed at **#3** above.

Given the Trusts actual 2023/24 performance (as detailed at **#1** above), the above plan represents a significant challenge for the Trust. It is noted that the original planning model indicated a likely forecast outturn of £116m deficit, with the initial plan submitted to NHSE improving this position to a £85m deficit. Therefore the targets to achieve the proposed deficit (£65m) including the CIP and headcount targets is particularly challenging.

The Trust have identified specific risks to the above plan of c£142m, primarily representing high risk CIP delivery (c£84m – see above for update) and potential increase in UEC pressures (c£35m). As part of the updates and presentations to Board, FIC and HLT noted above, management have communicated the challenge and risk associated with the plan clearly and concisely. As noted above, further reporting with follow to Board with updates on all key risks identified.

Further discussions, challenge & support resulted in a final plan being agreed in June 2024 with a total planned deficit of £64.8 million for the year to 31 March 2025, including a CIP target of £91.6, or 5.4 % of operating expenses. Within the plan, none of these CIP schemes were highlighted as ‘fully developed’, instead all were shown as ‘plans in progress’, with £40.7 million (45%) shown as high risk , £37.8 (41%) shown as medium risk and the remaining 13.1 million (13%) highlighted as low risk.

Conclusion

The final financial plan for the Trust for 2024/25 includes a £64.8 million deficit for the year to 31 March 2025. This plan is reliant on the delivery of an ambitious Cost Improvement Programme (CIP) of £91.6 million, which is greater than the CIP delivered in the current year. Given the historic delivery performance on CIP, and the need for further work in order to fully develop the CIP schemes for 2024/25 we have concluded that there is a significant weakness in the arrangements in place at the Trust to develop sufficiently detailed CIP plans.

We recommend that the Trust build on the current arrangements in place to identify recurrent CIP schemes and to monitor progress of the delivery of such schemes at the corporate directorate level in order to support

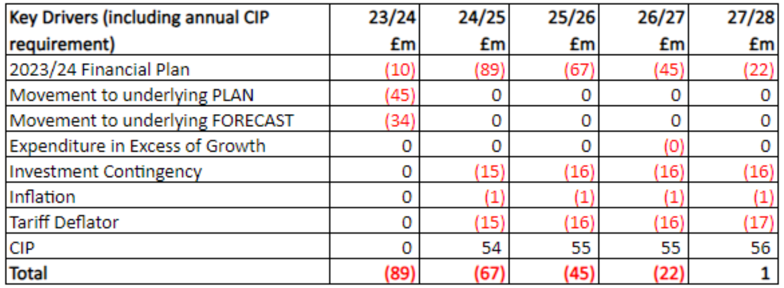
Performance improvement observations

The recommendations raised as a result of our risk assessment procedures are included below:

Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
➊	**Financial undertakings – reporting and monitoring** We note that NHSE wrote to the Trust in July 2023 setting out a series of undertakings which the Trust had agreed to, in regard to financial performance. Through inquiry and review of relevant reporting throughout the period, we note the Trust has not specifically reported on the commitments made within the undertakings. While we acknowledge the letter from NHSE doesn't include a requirement to take the letter itself to Trust Board, given the nature of the undertakings and the Trusts deteriorating position, specific reporting and monitoring would be best practice.	Trust to take response to 9 Financial Performance undertakings through FIC and Board paper. **Officer:** Interim Chief Financial Officer **Due Date:** 30 September 2024
➋	**Financial Sustainability – CIP & savings delivery** We recommend that the trust establish arrangements to identify robust CIP schemes, spanning more than one year, which will lead to recurrent reductions in costs, as well as arrangements to track delivery of such plans, resulting in a greater proportion of plans 'fully developed' before signing off the 2025/26 operational plan.	The Trust will continue to report regular updates and risks to FIC and Trust Board, and continue to be transparent about the risk inherent within the plan. **Officer:** Interim Chief Financial Officer **Due Date:** 30 September 2024

Follow up of prior year issues (inc. recommendations)

In this section we consider the significant weaknesses reported in our 31 March 2023 opinion. For each matter we have reviewed the progress made for each against each recommendation (for each identified weakness) as well as the arrangements in place to respond to the recommendations made. Under National Audit Office (NAO) guidance we are not required to repeat weaknesses already reported.

<table>
<tr><th>Risk</th><th>31 March 2022 significant weakness</th><th>31 March 2023 position</th><th>31 March 2024 position</th></tr>
<tr>
<td>❶</td>
<td>Medium Term Financial Planning (Financial Resilience)
During the 2021/22 financial year the Trust prepared a draft Medium Term Financial Plan (MTFP) in order to inform its financial planning and wider Trust strategy. As at the end of March 2022 the version of the plan prepared by the Trust had a lack of detail in relation to key areas of the plan. These included the nature of the underlying deficit, the type and quantum of future cost savings achievable during each annual period within the plan and an agreed set of actions to be taken with or by system partners. Until these areas are clarified the Trust does not have a robust platform on which to make informed decisions and will not be able to exit the financial special measures currently in place.
Recommendation
We recommend that the Trust should continue to expand the detail contained within the Medium Term Financial Plan and agree a common understanding of its medium term financial strategy with system partners.</td>
<td>While progress had been made, as at the end of March 2023 the Trust did not have a detailed MTFP to form a basis for longer term financial planning and informed decision making. Therefore the recommendation is considered as being partially complete and will require follow up in the subsequent financial period.</td>
<td>Progress has been made by the Trust in relation to the MTFP within the 2023/24 financial period.
The Trust are working closely with the Leicester, Leicestershire and Rutland Integrated Care System (LLR ICS) to ensure that the MTFP is in line with the system. This has included ensuring that the assumptions used for developing the plan align with the system.
A model MTFP has been developed and was submitted to NHSE via the LLR ICB in September 2023. Before submitting, the plan was reviewed by the Trust Leadership Team and taken to Finance & Investment Committee for discussion in August 2023.
The MTFP outlines the Trust’s plan to reach a breakeven position by 2027/28:

<table>
<tr><th>Key Drivers (including annual CIP requirement)</th><th>23/24 £m</th><th>24/25 £m</th><th>25/26 £m</th><th>26/27 £m</th><th>27/28 £m</th></tr>
<tr><td>2023/24 Financial Plan</td><td>(10)</td><td>(89)</td><td>(67)</td><td>(45)</td><td>(22)</td></tr>
<tr><td>Movement to underlying PLAN</td><td>(45)</td><td>0</td><td>0</td><td>0</td><td>0</td></tr>
<tr><td>Movement to underlying FORECAST</td><td>(34)</td><td>0</td><td>0</td><td>0</td><td>0</td></tr>
<tr><td>Expenditure in Excess of Growth</td><td>0</td><td>0</td><td>0</td><td>(0)</td><td>0</td></tr>
<tr><td>Investment Contingency</td><td>0</td><td>(15)</td><td>(16)</td><td>(16)</td><td>(16)</td></tr>
<tr><td>Inflation</td><td>0</td><td>(1)</td><td>(1)</td><td>(1)</td><td>(1)</td></tr>
<tr><td>Tariff Deflator</td><td>0</td><td>(15)</td><td>(16)</td><td>(16)</td><td>(17)</td></tr>
<tr><td>CIP</td><td>0</td><td>54</td><td>55</td><td>55</td><td>56</td></tr>
<tr><td>Total</td><td>(89)</td><td>(67)</td><td>(45)</td><td>(22)</td><td>1</td></tr>
</table>
The Trust’s plan is heavily reliant on the CIP position, with roughly £55m of efficiencies identified for each future financial period. It was noted during the August 2023 FIC meeting that the Trust would need to deliver a minimum CIP target of 3% which represents a significant challenge.
<i>Continued...</i></td>
</tr>
</table>

Follow up of prior year issues (inc. recommendations)

Risk	31 March 2022 significant weakness	31 March 2023 position	31 March 2024 position
❶	**Medium Term Financial Planning (Financial Resilience)** During the 2021/22 financial year the Trust prepared a draft Medium Term Financial Plan (MTFP) in order to inform its financial planning and wider Trust strategy. As at the end of March 2022 the version of the plan prepared by the Trust had a lack of detail in relation to key areas of the plan. These included the nature of the underlying deficit, the type and quantum of future cost savings achievable during each annual period within the plan and an agreed set of actions to be taken with or by system partners. Until these areas are clarified the Trust does not have a robust platform on which to make informed decisions and will not be able to exit the financial special measures currently in place. **Recommendation** We recommend that the Trust should continue to expand the detail contained within the Medium Term Financial Plan and agree a common understanding of its medium term financial strategy with system partners.	While progress had been made, as at the end of March 2023 the Trust did not have a detailed MTFP to form a basis for longer term financial planning and informed decision making. Therefore the recommendation is considered as being **partially complete** and will require follow up in the subsequent financial period.	***… Continued*** Discussions have also been held with NHSE, to revise the model from 5 years to 4 years in order to develop further traction and fully implement and embed the MTFP. It has been noted from our initial conversations, that there is more confidence in the MTFP across the Trust as information for decision making. However despite the above progress, it is noted as at time of writing, the Medium Term Financial Plan is yet to be approved, and therefore is not fully implemented at the Trust. Due to internal delays, a Financial Sustainability / Recovery Plan is due to be taken to FIC on 28 June 2024. This will describe how the Trust intends to deliver the current year plan as well as future plans to return to a breakeven position. Therefore, the recommendation remains **partially completed, and significant weakness remains** As the matter is still ongoing and is commented on within the Annual Governance Statement of the Trust, we will not report this as a new issue.

Follow up of prior year issues (inc. recommendations)

Risk	31 March 2022 significant weakness	31 March 2023 position	31 March 2024 position
❷	**Risk Management (Governance)** At the end of the 2021/22 financial year the Trust had prepared a draft version of a Board Assurance Framework and was in the process of implementing a new risk management process, which included the introduction of a Board level risk management committee to focus on risk matters. Until this process is fully embedded the Trust is at risk of not fully capturing or responding to areas of risk which may impact on the quality of services provided. **Recommendation** We recommend that the Trust should work to embed the new risk management process both at Board level and within Clinical Management Groups and improve the content of information held within risk management documentation.	It is clear that the Risk Committee is now established and changes in the design of both the BAF and risk reporting in general have improved how risk is considered within the Trust. However, further time is needed to fully embed the new process. In particular updating the content of risk registers at the CMG level and alignment of the consideration of risks at the Trust and wider system level. Therefore the recommendation is considered as being **partially complete** and will require follow up in the subsequent financial period.	Progress has been made by the Trust in relation to risk management within the 23/24 financial period. Risks are now assessed at CMG level and are escalated and challenged through the Risk Committee, Finance and Investment Committee and then Trust Board. Risk registers are kept at both the CMG and Board level, with appropriate channels for reporting between committees. This has been corroborated by review of the risk register and applicable committee minutes. Non Executive Directors sit on the Risk Committee to ensure there is sufficient challenge and ownership over the risks identified. Per discussions with the Head of Risk Assurance, it is understood that at Board level, NEDs take ownership of these risks and work closely with the responsible executives to ensure a sufficient level of escalation, challenge and discussion. On a system level, representatives of the Trust sit on the LLR ICS board, including the chief executive. Review of system board papers confirm attendance and input from the Trust. These individuals are responsible for informing the system of UHL specific risks in order to flag these to the wider system. They also take part in discussions around system level risk, and ensure these are sufficiently captured in the Trust's risk register. An internal audit was carried out over the risk assessment process performed at a CMG level. The report was published in February 2024 and significant assurance was given over the clinical management group risk management. It has been confirmed that due to CMG risk registers being embedded within the Trust and full alignment of Trust and system wide risks, that the **significant weakness no longer exists** regarding risk management.

Follow up of prior year issues (inc. recommendations)

Risk	31 March 2022 significant weakness	31 March 2023 position	31 March 2024 position
❸	**Contract Management (Economy, Efficiency and Effectiveness)** At the end of the 2021/22 financial year the Trust was in the process of implementing the recommendations made as part of an internal audit report into contact management which was issued during the year. Whilst the action plan developed by the Trust and the oversight of its delivery is considered to be robust the actions were not sufficient embedded at the end of the period. As such the Trust is at risk of not achieving economy, efficiency and effectiveness in the management of individual contracts. **Recommendation** We recommend that the Trust continues to implement the agreed action plan and where significant contracts are subject to renewal prior to the action plan being complete a separate assessment is undertaken as to whether specific action can reduce the risks noted.	Following elements of the action plan were considered in progress at the end of March 2023: • Delivery of training (as designed by the Government Commercial Function) • A review of regulatory clauses within contracts, including the right to audit, was ongoing as at the year end. • A review of supplier reliance on sub-contractors, to inform consideration of the risk within each contract, is ongoing.	Progress has been made by the Trust in relation to contract management within the 23/24 financial period. In August 2023, a paper was taken to Audit Committee outlining the progress made in relation to contract management and the actions implemented by the Trust. This outlined the delivery of training that had been implemented across the organisation. 3 recommendations remained outstanding: 2 in relation to monitoring of regulatory clauses and 1 for supplier management activities. In September 2023, the Head of Procurement & Supplies received an in-depth update paper, detailing the work performed for all 3 recommendations. This has been reviewed by the audit team and confirmed that all 3 recommendations are now addressed. A paper was taken to the Audit Committee in December 2023 to confirm that all recommendations made from the internal audit report had been followed up and resolved. It has been confirmed that due to completion of all action plan points during the financial period, that **the significant weakness no longer exists** regarding contract management.

Follow up of prior year issues (inc. recommendations)

Risk	31 March 2022 significant weakness	31 March 2023 position	31 March 2024 position
④	**Asset Verification Control (Governance)** As at the end of the 2021/22 financial year management of the Trust were unable to verify the existence of plant and equipment assets due to limited system of control over tracking the location of physical asset being in place. Due to the issue being of sufficient significance to drive a modification of the audit opinion we consider that the lack of control being implemented represents a significant weakness in governance processes. **Recommendation** We recommend the Trust formally undertakes an exercise to verify the existence of assets within departments and assess the materiality of non-responses to determine if further work is required.	From our audit work in relation to the financial statements it is noted that a control was not in place for the 31 March 2023 year end to respond to the underlying issue and as such the financial statements audit opinion will be qualified for this matter.	Significant progress has been made by the Trust in relation to asset verification within the 23/24 financial period. The Trust have undertaken a number of verification methods to gain initial assurance over the existence of the non-land, buildings and dwellings assets. These include: physical verification, maintenance and service records, IT network reports, and third party lease confirmations. The Trust has demonstrated strong collaboration between the divisions and finance to complete the initial asset verification confirmation throughout the period. A third party specialist asset tracking company (assetTRAC) were employed to perform a tagging exercise for medical equipment in July 2023. The Trust has performed a mapping exercise to match any medical equipment identified by the third party to the asset register. An asset verification control has been introduced in March 2024. This includes CMG leads completing asset verification forms to confirm that assets remain held by the Trust as at 31 March 2024. This ensures that previously verified assets remain held by the Trust. It has been confirmed by the Trust that the asset verification control will be carried out monthly going forward. As at 31 March 2024, the Trust have verified 80.5% of their plant and equipment assets, with £27.7m of assets remaining unverified. As part of the verification exercise, the Trust have also identified £0.4m of assets to be disposed of, £6.3m of impairments and £11.9m of assets which required reclassification to another asset type. It has been confirmed that due to the asset verification control in place at the Trust as at 31 March 2024, the **significant weakness no longer exists** regarding the asset verification control.

Appendices

Contents

Required communications

Type		Response
Our draft management representation letter	OK	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024.
Adjusted audit differences	OK	There were nil adjusted audit differences. See page 34.
Unadjusted audit differences	OK	The aggregated surplus impact of unadjusted audit differences would be £0.9m. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See page 33.
Related parties	OK	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	OK	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	OK	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Significant difficulties	OK	No significant difficulties were encountered during the audit.
Make a referral to the regulator	OK	If we identify that potential unlawful expenditure might be incurred then we are required to make a referral to your regulator. Due to the breach of the five year break even duty reported in the financial statements we have made a referral to the Secretary of State under s30 of the Local Audit and Accountability Act 2014.

Type		Response
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK	No actual or suspected fraud involving Group management, employees with significant roles in group-wide internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Modifications to auditor's report	X	We are awaiting internal confirmation regarding the status of modification for the 2023/24 audit opinion to be issued.
Disagreements with management or scope limitations	OK	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	OK	No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. The Strategic report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	OK	No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence.
Accounting practices	OK	Over the course of our audit, we have evaluated the appropriateness of the Group's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	OK	The significant matters arising from the audit were discussed, or subject to correspondence, with management.
Certify the audit as complete	OK	We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above.
Provide a statement to the NAO on your consolidation schedule	OK	We will issue our report to the National Audit Office following the signing of the annual report and accounts. We have summarised the differences to be reported on page 35.

Confirmation of independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit Committee members

Assessment of our objectivity and independence as auditor of University Hospitals of Leicester NHS Trust

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard.

As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

We have not provided non-audit services to the Trust, during the year to date.

Other items of note

KPMG is appointed as Interim Commercial Partner to support the New Hospital Programme (NHP) in delivering commercial activities and outcomes to enable the delivery of the Programme. The Contracting Authority is the Secretary of State for Health & Social Care, acting as part of the Crown. The Customer is New Hospital Programme (NHP) – Department of Health and Social Care (DHSC). NHP is a virtual partnership between the DHSC and National Health Service England (NHSE).
In preparation for the latest phase of the contract KPMG has reviewed the complete list of NHS Trusts whose projects form part of the NHP and to which the scope of work to be performed for NHSE relates, of which University Hospitals of Leicester is one of these Trusts. Flags are in place to review any prospective engagements relating to NHSE/DHSC/NHP Trusts, and appropriate safeguards are in place to ensure that ICP colleagues do not undertake any assurance work relating to schemes on which University Hospitals of Leicester is a Lead Contractor. We will continue to run these checks on a regular basis.

Confirmation of independence (cont.)

We have considered the fees charged by us to the Trust and its affiliates for professional services provided by us during the reporting period. Total fees charged by us can be analysed as follows:

Entity	**2023/24**	**2022/23**
Audit of Trust	£300,000	£300,000
Audit of subsidiaries	£20,000	£20,000
Whole of Government Accounts – full procedures	£5,000	-
TOTAL AUDIT FEES	**£325,000**	**£320,000**
Non-audit fees	-	-
TOTAL NON-AUDIT FEES	**-**	**-**
TOTAL KPMG FEES	**£325,000**	**£320,000**

Application of the Auditor Guidance Note 1 (AGN01)

The anticipated ratio of non-audit fees to audit fees for the year at the time of planning is 0: 1., or 0% which is complaint with Auditor Guidance Note 1 (AGN01).

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year

Application of the FRC Ethical Standard 2019

We communicated to you previously the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Uncorrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit Committee with a summary of uncorrected audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are ‘clearly trivial’, which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor’s report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £300k are shown below:

Uncorrected audit differences (£’000s)

No.	Detail	SOCI Dr/(cr) (£’000)	SOFP Dr/(cr) (£’000)	Comments
1	Dr AUC Dr Revaluation reserve Cr Buildings Cr Depreciation expense	- - - (11)	5,131 119 (5,239) -	This item relates to a ward that was reclassified in March 2024, and included in the valuation exercise. However, the ward was not in use until 3 April 2024, therefore should have remained as AUC within the 2023/24 financial statements. The total impact on the Property, plant and equipment line is a decrease of £108k, which is below our reporting threshold.
2	Dr Accruals Cr Asset under construction	- -	755 (755)	This item relates to an overstatement of AUC additions and accruals due to recognition of capitalised expenditure for 2024/25 within the 2023/24 financial period.
3	Dr Accruals Cr Premises expenditure	- (944)	944 -	This item relates to an overstatement of premises expenditure and accruals. The actual expense for the gas received for March 2024 was £944k less than the accrual raised during the 2023/24 financial period.
Total		(955)	955	

Corrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Disclosure adjustments:

- Remuneration report: updates to the fair pay multiple calculation, Expenses column per the salary table and Correction of inflation rate used in the pension calculations
- Audit Fee: updated to reflect the fee applicable for 2023/24

Intra-group error reporting

Intra-group error reporting

Further to the misstatements identified on page 33 we are required to report any identified errors in the reporting of intra-group balances with other Department of Health and Social Care entities exceeding £300,000 as part of our reporting on the Whole of Government Accounts to the National Audit Office. We have set out below intra-group errors identified as part of our procedures:

Unadjusted audit differences (£m)					
No.	Counterparty ID and name	Detail	SOCI Dr/(cr) (£'000)	SOFP Dr/(cr) (£'000)	Comments
1	RX1 - Nottingham University Hospitals NHS Trust	Dr Operating Expenditure Cr Accruals	315 -	- (315)	The value relates to expenditure for 2022/23, recognised by the Trust in 2023/24. This will be corrected in the next submission.
2	RT5 – Leicestershire Partnership NHS Trust	Dr Income from patient care activities Cr Other operating income	466 (466)	- -	The Trust recognised income relating to 22/23 within the AOB submission This is a confirmed classification error within the financial statements and will be corrected in the next submission.
3	QK1 - Leicester, Leicestershire and Rutland ICB	Dr Income from patient care activities Cr Other operating income	2,285 (2,285)	- -	The Trust recognised income relating to 22/23 within the AOB submission This is a confirmed classification error within the financial statements and will be corrected in the next submission.
Total			315	(315)	

Recommendations raised

The recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations					
❶	**Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	➋	**Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	➌	**Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
1	➌	**Agency Staff Booking Processes** The booking of agency staff members, excluding doctors, nurses and administration staff, is not done through a formal procurement and booking process. Agency staff requested to return for next day or second shifts are also commonly not booked under the set procedure outlined by the Trust. We recommend that formal booking processes are implemented for all agency staff types.	The Trust is currently working on core pieces of work to strengthen our rostering provision to other staff groups (Estates and Facilities and AHPs). Once in place this will support end to end solutions including the provision of bank and agency activity. This will be carried out in phases, the first being the transition of bank and agency activity for AHPs, Healthcare Scientists and Pharmacists from local arrangements to a temporary staffing office (TSO) model. An assessment of digital infrastructure will need to take place due to current devolved arrangements. The rostering of E&F is in the initiation stage and, once in place, bank and agency activity will be supported via the TSO. **Officer:** Deputy Chief People Officer **Due date:** 30 September 2024

Trust - Recommendations raised and followed up

We have also followed up the recommendations from the previous year's audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding:
10	8	2

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date (May 2023)	Current Status (June 2024)
1	❶	**Fixed Asset Verification** Management are unable to verify the existence of plant and equipment assets due to limited track and trace controls. We recommend the Trust formally undertake an exercise to verify existence of assets within departments and assess the materiality of non-responses to determine if further work is required.	**Agreed** Significant progress made during 2022/23 which has seen in excess of 50% of assets verified either through physical existence confirmation or use of maintenance/service/managed service record. The Trust is working on a sustainable rolling annual plan to verify assets for 2023/24. **Simon Linthwaite Deputy Director of Finance Date:** **31 December 2023**	**Action Complete** c66% of non-land and building assets verified in 2023/24, either physically, through network evidence or via maintenance record, removing the Accounts qualification in relation to this issue. Systematic annual verification process implemented.

Trust - Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date (May 2023)	Current Status (June 2024)
2	❶	**Journal Review deficiency** When performing our walkthrough of the journals process, the following deficiencies were noted: • A number of individuals in the systems and technical team who authorise system journals have full authorisation access. These individuals also prepare and upload journal templates. These journal templates can be edited to send these individuals the notification to post the journal. As they have authorisation access they would then be able to post the journal and bypass the journal authorisation control. • Journal authorisers have the ability to edit an uploaded journal before posting. • Individuals who have authorisation access in eFinancials can prepare and post a journal in eFinancials without the need for a journal template. This bypasses the access control to Xcel uploader for some journal authorisers (who are not also journal users). • The dates within journals templates often did not reflect the actual date of preparation and posting, either due to roll forward of templates or the '=TODAY' formula • The level of evidence attached to the journals template was not always sufficient to support the amounts recognised. We recommend that the Trust reviews the above and ensures that the risk of an incorrect journal being posted is reduced.	**Agreed** The Trust implemented a revised standard operating journal protocol during 2022/23, including electronic posting of journals by appropriate authorising officer which provides a strengthened financial control environment and addresses these recommendations. **Zahid Safdar, Deputy Director of Finance** **Date: Complete**	**Action Complete** Electronic posting was implemented and proving further audit trail on journal postings. Financial systems have explored the possibility of restricting journals to be edited by approvers but currently, no such restriction can be put in place therefore working with the suppliers to develop an exception report which can be monitored. In the meantime, the risk is mitigated by month end reviews which include balance sheet reconciliations reviews. No functionality for authorisers to be blocked from entering journals. However, report set up and run monthly to monitor who entering/posting journals by Systems Team

Trust - Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date (May 2023)	Current Status (June 2024)
3	❸	**Capex project monitoring** The process for investigating projects YTD vs forecast position is not sufficiently thorough, formalised or documented. We have identified this control deficiency through our risk assessment procedures such as inquiry and walkthrough of the accrued additions process. We also noted that an asset could have been completed and in use but not reclassified out of assets under construction as the overall project is still ongoing. We recommend management improve the scrutiny of the review and formally document this process.	**Agreed** The Capital finance team have now set up monthly capital forecasting of projects. This has been in place since Month 7 and each month a live forecast was reported on against spend to CMIC and FIC. In Quarter 4, an exercise was completed with all stakeholders to finalise the year end status of each capital project to ensure expenditure was appropriately capitalised or continued to be carried forward as AUC. From 23/24, project status will be monitored each month with AUC status being updated quarterly on the Trust's Fixed Asset register, which provides a robust platform for financial reporting and accounting of fixed assets. **Neetu Nath, Capital Development Accountant Date:** **Complete for 22/23 Year end**	**Action Complete** Capital monitoring is far more frequent and is consistently monitored. There are regular meetings with the various sub group leads to ensure there is regular communication about the status of all projects.
4	❸	**Evidencing review of key control account reconciliations** As part of our reconciliation testing, we noted that there was no evidence of review within the monthly control account reconciliations. Through discussions with management, we noted that an internal dashboard is updated to record the completion of reconciliations, but that no formal physical sign off is recorded. The failure to review control accounts could lead to a material impact on the general ledger balance should there be significant reconciling items which are not addressed. We recommend that the review of key control account reconciliations are performed in a timely manner and are recorded within the reconciliations themselves.	**Agreed** A monthly dashboard of balance sheet reconciliations, including Rag ratings, has been established and will be reported to SMT going forward to ensure: • they are completed in a timely manner by an appropriate officer; and • they are reviewed by an appropriate officer The Trust is also reviewing the use of automated workflow which to support this process **Simmi Sethi, Lead Accountant Financial Reporting Date: 30** **June 2023**	A review of all accounts has been carried out. Frequency of reconciliations and ownership of reconciliations has been agreed and communicated and is supported by a SOP Control Accounts reconciliation and review progress is shared in the Working Capital meeting Payroll reconciliations undertaken, but not formally signed off following review. This will now take place with immediate effect, as integral to the agreed control accounting process. **Revised completion date:** 31 July 2024

Trust - Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date (May 2023)	Current Status (June 2024)
5	❸	**Review of accruals** When performing our walkthrough of the accruals process, it was confirmed that a number of the controls implemented to respond to the material misstatement identified in the prior year had not been implemented. These include: no review of accruals to determine that accruals posted are relevant and accurate; no review of the matching process for GRNI accruals; accruals can be edited after approval and before posting (linked to journals control deficiency). We recommend that accruals are appropriately reviewed in a timely manner and that controls are implemented to ensure that journals cannot be edited between review and posting.	**Agreed** As part of the control account reconciliation review, the responsibility for review and approval of accruals and prepayments will sit within CMG. The sign off of the control will include a review of the validity and age of accruals held in CMG balance sheets. **Simmi Sethi, Lead Accountant, Financial Reporting** **Date: 30 June 2023**	**Action Complete** New process includes revised control account format (new cover sheet and standard supporting schedule template). Process also includes the use of standard journal narratives for the balance sheet to allow meaningful control account recs and period movements to be collated efficiently using a pivot report. The preparation of accruals and prepayment control accounts will therefore continue to be undertaken by the technical Accounts Team, but review and sign off by Group Heads of Finance and the control accounts will form an integral part of the quarterly balance sheet reviewed that will take place between Financial Accounts and Financial Management.
6	❸	**HMRC VAT provisions** When completing our work over provisions, we noted a number of provisions relating to VAT arrangements. Out of the 3 provisions held, the Trust had not yet reported 2 instances of potential incorrect VAT treatment to HMRC for assessment / discussion. While the Trust is taking a prudent approach with such recognition, additional liabilities (such as penalties) are based on behaviour, meaning the Trust should look to disclose to HMRC rather than it being identified as part of a compliance inspection. We recommend that the Trust consider its processes in place for notifying HMRC and other regulatory bodies of potential breaches.	**Agreed** Contact established with HMRC, commencing with an initial HMRC visit 25 April and following by compliance inspection. The Trust is having an open and transparent dialogue with HMRC in relation to direct and indirect taxation issues and will progress resolution of the VAT provisions during 2022/23. For example, following the disclosure of the P11D point, HMRC accepted without any penalties so it is very unlikely they would take the stance of additional penalties. **Simon Linthwaite, Deputy Director of Finance** **Date: 31 December 2023**	**Action Complete** Compliance visit in September 2023 All outstanding disclosures have been accepted by HMRC with no penalties applied.

Trust - Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date (May 2023)	Current Status (June 2024)
7	❸	**Declarations of interest** During our work over related parties for 2021/22, we noted that key management personnel were not disclosing all interests held in a timely manner and that the system used did not accurately reflect the declarations of interest made. We recommend that declarations are made within appropriate timeframes and that the system is kept up to date with any declarations made.	**Agreed** Reminders will be issued regarding the need to make declarations in a timely manner. The declarations made will be reviewed as they arise, to ensure that they are also appropriately reflected on the electronic declarations system used by UHL. **Becky Cassidy, Director of Corporate and Legal Affairs** **Date: 30 June 2023**	**Action Complete** A quarterly reminder email (including reference to the need to update the electronic system) has been issued throughout 2023/24
8	❸	**Adjustment of stock** It was noted when performing our year end stock takes, that the JAC system was not always accurately updated to reflect the stock numbers per the physical count. We recommend that the JAC system is updated after each inventory count to ensure that the system accurately reflects the actual physical stock held.	**Agreed** **Simmi Sethi, Lead Accountant Financial Reporting** **Date: 30 June 2023**	**Action Complete** This is now closed – The Jac system is updated for any identified and verified discrepancies during stock counts

We note that privileged user access in the pharmacy system (JAC) was discussed with the Lead for Digital Medicine Systems in the previous year and at the time of discussion, seven staff listed in the pharmacy team had privileged user access, two of who had either left the Trust or no longer required the role. It was also possible for members of the pharmacy team to perform ad-hoc access modifications to ensure continuity of medicine dispensing operations (e.g. out of hours). In the current year a user access review was carried out to validate the appropriateness of access on the system. This review was performed in June 2023. There was a period of the current year where the user access was inappropriate however this has been rectified for year end and no control deficiency is raised in this report as the action has been taken.

Trust - Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date (August 2023)	Current Status (June 2024)
9	❸	**Real Asset Management (RAM)** The Trust has implemented a new asset management system in year. Our testing noted that one asset was included that was not owned by the Trust and we had initial difficulty reconciling the values in RAM to the general ledger. We were therefore unable to use RAM to select samples and had to select from the ledger. We also noted that the asset lives in RAM were inconsistent with those used by the valuer. We recommend that the Trust resolve the inconsistencies in RAM. An additional factor to consider is that as the plans for significant changes to the hospital sites across the Trust linked to the new hospital programme are finalised, additional information will be required to allow the Trust to fully account for the impact on these changes on individual elements of each site.	Action agreed. Full cleansing and alignment of RAM to General Ledger is underway and will be finalised by 31 December 2023, led by the Capital Development Accountant. Reconfiguration also now falls with the portfolio of the Deputy Director of Finance, which will facilitate integration of Reconfiguration plans within Capital financial reporting and the primary account record (RAM/General ledger/Valuation) as appropriate **Capital Development Accountant** **Date: 31 December 2023**	Significant progress made with data cleansing and alignment of RAM with GL and Accounts, such that NBVs disclosed in RAM at year end largely map to Accounts note in total and for each category of asset. However, further work required to systematically reconcile both databases each month to demonstrate 100% compliance. **Capital Development Accountant** **Revised completion date: 30 September 2024**
10	❸	**Valuer rotation** The current valuers at Gerald Eve have been involved in the valuation of the Trust estate for a number of years. RICS guidance recommends that individual valuers should be rotated at least every seven years. We recommend that the Trust gain assurance from their valuers in future years that the underlying valuer remains independent and that Gerald Eve have appropriate procedures in place to ensure the accuracy and objectivity of the valuation.	Action agreed and will be progressed ahead of commissioning the 2023/24 valuation exercise. **Simon Linthwaite, Deputy Director of Finance** **Date: 31 December 2023**	**Action Complete** RICS considers it good practice, albeit not mandatory, to rotate valuers at intervals not exceeding seven years. 5.4.4 If a firm is of insufficient size to rotate the signatory, or to have in place 'valuation panels', other arrangements could be made to comply with the principles of this standard. For example, where the same valuation instruction is undertaken on a regular basis, an arrangement for the valuation to be periodically reviewed at intervals not greater than seven years by another member would assist in demonstrating that the member is taking steps to ensure that objectivity is maintained and thus may retain the confidence of those relying on the valuation. This has been complied with by Gerald Eve.

TGH - Recommendations raised and followed up

We have also follow up the recommendations from the previous years audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
2	2	0

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date (August 2023)	Current Status (June 2024)
11	❸	**Real Asset Management (RAM)** The Trust has implemented a new asset management system in year. Our testing noted that one asset was included that was not owned by the Trust and we had initial difficulty reconciling the values in RAM to the general ledger. We were therefore unable to use RAM to select samples and had to select from the ledger. We also noted that the asset lives in RAM were inconsistent with those used by the valuer. We recommend that the Trust resolve the inconsistencies in RAM. An additional factor to consider is that as the plans for significant changes to the hospital sites across the Trust linked to the new hospital programme are finalised, additional information will be required to allow the Trust to fully account for the impact on these changes on individual elements of each site.	Action agreed. Full cleansing and alignment of RAM to General Ledger is underway and will be finalised by 31 December 2023, led by the Capital Development Accountant. Reconfiguration also now falls with the portfolio of the Deputy Director of Finance, which will facilitate integration of Reconfiguration plans within Capital financial reporting and the primary account record (RAM/General ledger/Valuation) as appropriate **Capital Development Accountant** **Date: 31 December 2023**	**Action Complete** This has now been resolved, there is only £77 over 180 days as of 31/05/24.
12	❸	**Evidencing review of key control account reconciliations** As part of our reconciliation testing, we noted that there was no evidence of review within the monthly control account reconciliations. Through discussions with management, we noted that an internal dashboard is updated to record the completion of reconciliations, but that no formal physical sign off is recorded. The failure to review control accounts could lead to a material impact on the general ledger balance should there be significant reconciling items which are not addressed. We recommend that the review of key control account reconciliations are performed in a timely manner and are recorded within the reconciliations themselves.	**Management Response:** A monthly dashboard of balance sheet reconciliations will be reported to SMT going forward to ensure: 1) they are completed in a timely manner; and 2) they are being reviewed. The Trust is also reviewing the use of Blackline which would further support automating this process and is expected to go live expected at March 2023. **Officer:** Zahid Safdar **Due Date:** March 2023	**Action Complete** Consistent with the Trust rec 4 a review of all accounts has been carried out. Frequency of reconciliations and ownership of reconciliations has agreed and communicated and is supported by a SOP Control Accounts reconciliation and review progress is shared in the Working Capital meeting.

FRC's areas of focus

The FRC released their Annual Review of Corporate Reporting 2022/23 in October 2023. In addition, they have released three thematic reviews during the year should be considered when preparing reporting for the current financial period.

The reports identify where the FRC believes companies should be improving their reporting. Below is a high level summary of the key topics. We encourage management and those charged with governance to read further on those areas which are significant to the group.

Reporting on the effects of inflation and other uncertainties

This year's Annual Review of Corporate Reporting identifies that companies continue to face significant economic and geopolitical uncertainty and annual report and accounts should therefore tell a coherent story about the impacts on the business and the assumptions the trust has made in preparing the financial statements.

The FRC notes that interest rate rises in response to persistent inflation, the related impact on consumer behaviour, and limited growth present a particularly challenging environment for companies. Financial reporting needs to set out the impact of these issues on their business, and the assumptions which underpin the values of assets and liabilities in financial statements. Significant changes in discount rates and future cash flows are expected as a result and they should be highlighted.

The impacts of uncertainty on companies' narrative reporting and financial statements are numerous, but the FRC sets out its clear disclosure expectations for 2023/2024:

- Disclosures about uncertainty should be sufficient to meet relevant requirements *and* for users to understand the positions taken in the financial statements.
- The strategic report should give a clear description of the risks facing the business, the impact of these risks on strategy, business model, going concern and viability, and disclosures should be cross-referenced to relevant detail in the report and accounts.
- Transparent disclosure should be provided of the nature and extent of material risks arising from financial instruments.

Preparers should take a step back to consider whether the annual report, as a whole, is clear, concise and understandable and whether additional information, beyond the requirements of the standards, is necessary to understand particular transactions, events or circumstances.

Climate-related reporting

Climate-related reporting continues to progress with the new Companies Act requirements, effective for periods commencing 6 April 2022, requiring more entities to include climate-related financial disclosures within the annual report. These are largely aligned with the Taskforce on Climate-Related Disclosures (TCFD) recommendations, but do not include the 'comply or explain' provision for items that would have a material impact on the entity.

Climate-related risks remains an area of ongoing focus for the FRC as they embed the review of these disclosures into their routine annual reviews. The FRC has highlighted that it expects companies to provide improved disclosure explaining the linkage between narrative reporting on uncertainties such as climate change, and the assumptions made in the financial statements.

In respect of TCFD disclosures, the FRC notes that sustainability reporting requirements continue to evolve and companies are still at very different stages in their reporting in this area. The FRC expect in scope entities to provide a clear statement of consistency with TCFD which explains, unambiguously, whether management considers they have given sufficient information to comply with the framework in the current year. Companies must, in any case, comply with the new mandatory requirements for disclosure of certain TCFD-aligned information.

In relation to the specific thematic on metrics and targets they highlighted five areas of improvement:

- the definition and reporting of trust-specific metrics and targets, beyond headline 'net zero' statements;
- better linkage between companies' climate-related metrics and targets and the risks and opportunities to which they relate;
- the explanation of year-on-year movements in metrics and performance against targets;
- transparency about internal carbon prices, where used by companies to incentivise emission reduction; and
- better linkage between climate-related targets reported in TCFD disclosures and ESG targets disclosed in the Directors' Remuneration Report.

FRC's areas of focus (cont.)

Impairment of assets

Heightened economic uncertainty, high inflation and higher interest rates have resulted in more instances of impairment or reductions in headroom, prompting the need for more detailed disclosures under IAS 36. The FRC notes that many of the queries it has raised with companies in the past year would have been avoided by clearer, more complete disclosures.

Disclosures should provide key inputs and assumptions applied, along with relevant values and sensitivity information where impairments could arise from reasonably possible changes in assumptions.

Assumptions should be consistent with information provided elsewhere in the annual report and with the wider economic environment; where there are inconsistencies, these should be explained.

Discount rates should be consistent with the assumptions in the cash flow projections, particularly in respect of risk and the effects of inflation.

Judgements and estimates

Most of the FRC's queries related to estimation uncertainty, and often involved disclosures which either did not contain sufficient information to be useful, or which appeared inconsistent with disclosures given elsewhere.

Disclosures should explain the significant judgement and provide quantified sensitivities where there is a significant source of estimation uncertainty. This includes judgements relating to the going concern assessment and accounting for inflationary features, including the use of discount rates. Sensitivity disclosures should be meaningful for readers, remain appropriate in current circumstances, explaining significant changes in assumptions and the range of possible outcomes since the previous year.

The FRC highlights the need for disclosures to clearly distinguish between estimates with a significant risk of a material adjustment to carrying amounts within the next year, and other sources of estimation uncertainty.

Cash flow statements

Cash flow statements have again been an area where the FRC have raised many queries and it remains one of the most common causes of prior year adjustments. Most queries raised by the FRC relate to unusual or complex transactions which have not been appropriately reflected in the cash flow statement.

Companies should ensure that descriptions of cash flows are consistent with those reported elsewhere in the report and accounts, with non-cash investing and financing transactions being excluded, but disclosed elsewhere if material.

In addition, companies should ensure that cash flows are appropriately classified between operating, financing and investing, and cash flows should not be inappropriately netted. Cash and cash equivalents should comply with the relevant definitions and criteria in the standard.

Strategic report and other Companies Act 2006 matters

Strategic reports should focus not only on financial performance but should also explain significant movements in the balance sheet and cash flow statement. They should articulate the effect of principal risks and uncertainties facing the business, including economic and other risks such as inflation, rising interest rates, supply chain issues, climate-related risks and labour relations.

In addition, the FRC reminds companies that they should comply with the legal requirements for making distributions and repurchasing shares including, where relevant, the requirement to file interim accounts to support the transaction.

Financial instruments

Companies should ensure that the nature and extent of material risks arising from financial instruments (including inflation and rising interest rates), and related risk management, are adequately disclosed.

This includes disclosures being sufficient to explain the approach and significant assumptions applied in the measurement of expected credit losses, including concentrations of risk, and assessments should be reviewed and adjusted for forecast future economic conditions.

The effect of refinancing and changes to covenant arrangements should be explained, with information about covenants being provided unless the likelihood of a breach is remote.

Lastly, the FRC reminds companies that cash and overdraft balances should be offset only when the qualifying criteria have been met.

FRC's areas of focus (cont.)

Income taxes

Following their thematic review last year, the FRC reminds companies that the nature of evidence supporting the recognition of deferred tax assets should be disclosed, and should factor in any difficult economic environment.

Additionally, companies should ensure tax-related disclosures are consistent throughout the annual report, uncertain tax positions are adequately disclosed, and material reconciling items in the tax rate reconciliation are presented separately and appropriately described.

Provisions and contingencies

Clear descriptions of the nature and uncertainties for material provisions or contingent liabilities, the expected timeframe and the basis for estimating the probable or possible outflow should be provided.

Inputs used in measuring provisions should be consistent in the approach to incorporating inflation, and details of related assumptions should be provided.

Revenue

Where variable consideration exists, companies should provide sufficient disclosure to explain how it is estimate and constrained.

Accounting policies and relevant judgement disclosures should be provided for all significant performance obligations. Those disclosures should address in sufficient detail the timing of revenue recognition, the basis for recognising revenue over time and the methodology applied.

Lastly, the FRC reminds companies that inflationary features in contracts with customers, and the accounting for such clauses, should be adequately disclosed and clearly explained.

Presentation of financial statements and related disclosures

The FRC expects companies to disclose trust-specific information to meet the overall disclosure objectives of relevant accounting standards, and not just the narrow specific disclosure requirements of individual standards. They set out a clear expectation that additional information (beyond the minimum requirements of the standards) should be included where needed.

Fair value measurement

Fair value measurement has returned this year as one of the FRC's top ten issues raised in their correspondence with companies, and this has been the topic of a thematic review. Common queries raised include the omission of sensitivity disclosures and the quantification of unobservable inputs into fair value measurements.

The FRC reminds companies that they should use market participants' assumptions, rather than their own, in measuring fair value.

Thematic reviews

During the year FRC has issued Thematic reviews on the following topics:

- Climate-related metrics and targets
- IFRS 13 Fair value measurement
- IFRS 17 Insurance contracts – Interim disclosures in the first year of application

2023/24 review priorities

The FRC has indicated that its 2023/24 reviews will focus on the following sectors which are considered by the FRC to be higher risk by virtue of economic or other pressures:

- Travel, hospitality and leisure
- Retail and personal goods
- Construction materials
- Gas, water and multi-utilities

ISA (UK) 315 Revised: changes embedded in our practices

Summary

In the prior period, ISA (UK) 315 Revised "Identifying and assessing the risks of material misstatement" was introduced and incorporated significant changes from the previous version of the ISA.

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after **15 December 2021**.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

What impact did the revision have on audited entities?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard's scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

Implementing year 1 findings into the subsequent audit plan

Entering the second year of the standard, the auditors will have demonstrated, and communicated their enhanced insight into their understanding of your wider control environment, notably within the area of IT.

In year 2 the audit team will apply their enhanced learning and insight into providing a targeted audit approach reflective of the specific scenarios of each entity's audit.

A key area of focus for the auditor will be understanding how the entity responded to the observations communicated to those charged with governance in the prior period.

Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

What will this mean for our on-going audits?

To meet the on-going requirements of the standard, auditors will each year continue to focus on risk assessment process, including the detailed consideration of the IT environment.

Subsequent year auditor observations on whether entity actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the entity control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

- ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements* included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.
- We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance

Our assessment of the risks of material misstatement due to fraud may be found on page [X]. We also considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements* , to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.
- [Any other matters of relevance].

[Based on our assessment, we have no matters to report to Those Charged with Governance] / [Based on our assessment, we have identified matters to report to Those Charged with Governance, please refer to page [x] for details].

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

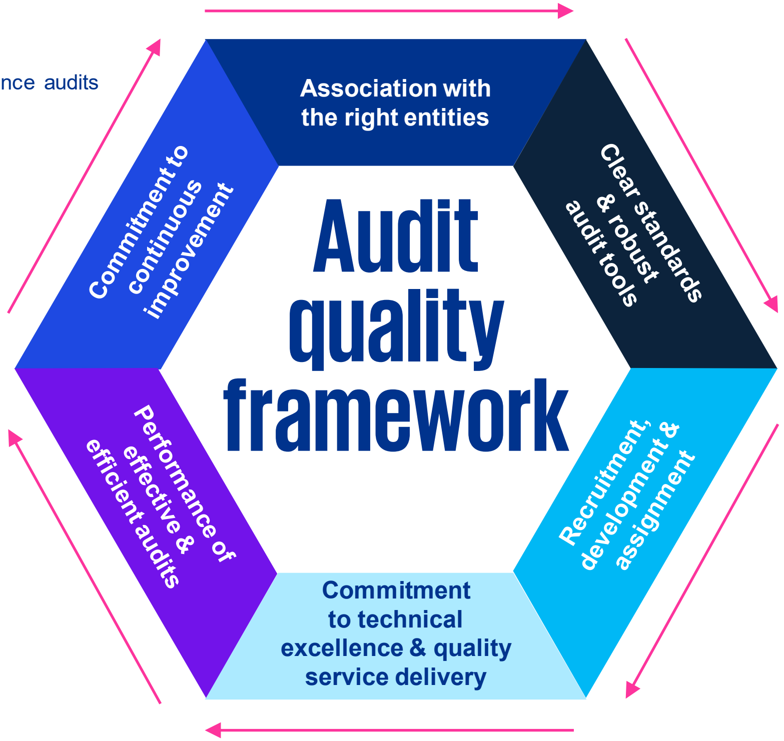
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



Association with the right entities

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members

Audit quality, evidence & the timeline of completion activities

Audit quality is at the core of everything we do – the quality and timeliness of information received from management and those charged with governance also affects audit quality.

The timeline on this page is for illustration only and shows the timing of our completion activities around the signing of the audit opinion. We depend on well planned timing of our audit work to avoid compromising the quality of the audit. We aim to complete all audit work no later than 2 days before audit signing.

Weeks before signing Audit Opinion	-3 weeks	-2 weeks			-1 week		Completion week			Teams involved in the process
Individual day's activities		Day 1	Day 3	Day 5	Day 1	Day 5	Day 1	Day 3	Day 5	
Audit report Reviews, Consultation	🟦								░	Audit Team
Final audit fieldwork	🟦	🟦	🟦	🟦	🟦	🟦			░	Audit Team
Review audit field work & provide points to the audit team		🟦	🟦	🟦	🟦	🟦			░	2nd Line of Defence
Review significant risk audit areas and challenge work performed		🟦	🟦	🟦	🟦	🟦			░	RI and EQCR
Review of the Audit Report		🟦◆	🟦	🟦					░	DPP Accounting & Reporting
Ensure points raised by Audit Report review are dealt with		🟦	🟦	🟦					░	RI and EQCR
Review Audit Committee report and draft accounts		🟦	🟦	🟦					░	RI and EQCR
Completion panel to discuss the draft Audit Committee report and draft accounts			◆				◆		░	Audit Risk Review Panels
KPMG Audit Committee report issued				◆					░	Audit Team
Final Audit Committee						◆			░	Audit Team
Ensure Audit Report review and Consultation points have been satisfactorily dealt with							◆		░	Audit Team & DPP Accounting & Reporting
Final audit field work completed and signed off							🟦	🟦◆	░	Audit Team
Stand-Back review								◆	░	Audit Team
Ensure all points raised are cleared								◆	░	RI / EQCR / 2nd Line of Defence

Key:

- ◆ One day activity
- 🟦 Activity over a period of time
- ■ Year end
- ░ Signing date of the Audit Report

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