The Annual Audit Letter for Leeds Teaching Hospitals NHS Trust

Year ended 31 March 2015

1 July 2015

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Section 1: Executive summary

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Executive summary

**Purpose of this Letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the following work that we have carried out at Leeds Teaching Hospitals NHS Trust (the Trust) for the year ended 31 March 2015:

- auditing the accounts (Section two)
- assessing the Trust’s arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- other audit related services carried out for the Trust during the year reviewing the Trust’s Quality Account (Sections four).

This Letter is intended to communicate key messages to the Trust and external stakeholders, including members of the public.

We reported the detailed findings from our audit work on the accounts and arrangements for securing economy, efficiency and effectiveness in its use of resources to those charged with governance in the Audit Findings Report, and the Financial Resilience Report on 27 May 2015. We also reported the detailed findings from our work on the Trust’s Quality Account in our separate Quality Account Report dated 29 May 2015.

**Responsibilities of the external auditors and the Trust**

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (wwwaudit-commission.gov.uk).

The Trust is responsible for preparing and publishing its financial statements, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

**Audit conclusions**

The audit conclusions which we have provided in relation to 2014/15 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Trust’s financial position as at 31 March 2015 and the Trust income and expenditure for the year
- a qualified 'except for' conclusion in respect of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources as a result of the Trust’s deficit outturn position for 2014-15 and projected deficit in 2015-16
- a group assurance certificate, issued to the National Audit Office, in respect of Whole of Government Accounts which did not identify any issues for the group auditor to consider.

We also issued an unqualified limited assurance report in respect of the Trust’s Quality Account in relation to this separate engagement.
Key areas for Trust attention

Following a period of significant management change during 2013 and early 2014 with the appointment of a number of new non-executive and executive director appointments, the Trust has now consolidated its position over the last 12 months by effectively utilising the added capacity, enabling the senior leadership team to become embedded, and instigating developments across the Trust. Looking ahead, the outcome of the management changes will be assessed by whether the Trust is able to continue to deliver effective services whilst also addressing the significant and underlying financial imbalance it faces.

The Trust delivered an outturn deficit for the year ended 31 March 2015 of £24.4m. This position is a significant improvement compared to the planned £50.2m deficit budget for 2014-15. The main reasons for the improved year end position were the receipt of £14m of non-recurrent deficit funding from the Trust Development Authority (TDA), and the positive impact of reduced depreciation charges (£9m) resulting from the revaluation of the Trust's estate.

The Trust has budgeted for a further deficit in 2015/16 of £40.2m, and a deficit of £29.9m in 2016/17, with break even expected in 2017/18. To deliver these budgets, the Trust will need to deliver significant Cost Improvement Programme (CIP) savings of £67m in 2015-16 and £45m in 2016/17. If the Trust achieves these budgets for the next two years, it will accumulate a total deficit of over £90 million by 31 March 2017.

There is a need for the Trust to robustly manage its budgets and in particular, the challenging cost improvement programme savings to be delivered for 2015/16 and beyond, identifying and implementing remedial action where slippage arises. The Trust should also produce a detailed recovery plan to demonstrate how it will recover its expected cumulative deficit of over £90 million by 31 March 2017. The Trust Board should continue to maintain close oversight over the Trust's challenging financial position and in particular, these areas.

We are aware that the Trust remains in ongoing dialogue with the Trust Development Authority (TDA) regarding these issues.

Acknowledgements
This Letter has been agreed with the Director of Finance.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Trust's staff.

Grant Thornton UK LLP
1 July 2015
Section 2: Audit of the accounts

01. Executive summary
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Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Trust presented us with draft accounts slightly ahead of the national deadline. Appropriate working papers were made available from the start of the audit fieldwork.

Issues arising from the audit of the accounts

Following discussions with management, we agreed with the Trust for additional disclosures to be made to Note 5 - Revenue from patient care activities, reflecting the Trust's requirement for financial support in 2014-15.

Our work around the Trust's cost improvement programme identified the need to strengthen the processes for the identification, recording and delivery of individual cost improvements as well as further developing how the achievement of CIPs are reported to the Board on an on-going basis.

Annual Governance Statement and Annual Report

We examined the Trust's arrangements and processes for compiling the Annual Governance Statement (AGS) and read the AGS to consider whether it was in accordance with our knowledge of the Trust. A number of minor narrative adjustments were agreed with Trust managers.

Other

On 26 May 2015, we referred two matters to the Secretary of State under Section 19 of the Audit Commission Act 1998 in relation to:

- the Trust's outturn deficit for 2014/15, and approving a financial plan which budgets for a deficit in 2015/16 and 2016/17, with a forecast breakeven position in 2017/18. Over this three year period, a planned cumulative deficit of over £90m is expected, as a result of which, the Trust will fail to achieve its three year statutory breakeven target

- payments to two non-executive directors, which were made by the Trust in good faith, which breached the maximum remuneration set by the Secretary of State for Health. These payments have since been repaid.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Trust). We presented our report to the Audit Committee on 27 May 2015 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Trust's 2014/15 accounts on 28 May 2015, meeting the deadline set by the Department of Health (DH). Our opinion confirms that the accounts give a true and fair view of the Trust's financial affairs and of the income and expenditure recorded by the Trust. In our audit opinion, we included reference to our Section 19 report relating to the two matters set out above.
Financial performance 2014/15

The Trust's Performance against its financial targets is set out in the table below:

<table>
<thead>
<tr>
<th></th>
<th>Target</th>
<th>Actual</th>
<th>Met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus/ deficit</td>
<td>Breakeven</td>
<td>Deficit £24.4m</td>
<td>No</td>
</tr>
<tr>
<td>Capital cost absorption rate</td>
<td>3.5%</td>
<td>3.5%</td>
<td>Yes</td>
</tr>
<tr>
<td>Capital resource limit</td>
<td>Not to exceed £40.819m</td>
<td>£39.360m</td>
<td>Yes</td>
</tr>
<tr>
<td>External finance limit</td>
<td>Not to exceed £62.199m</td>
<td>£62.002m</td>
<td>Yes</td>
</tr>
</tbody>
</table>

The draft financial statements for the year ended 31 March 2015 recorded a deficit of £24.4m, this was a significant improvement compared to the planned £50.2m deficit budget for 2014-15. The main reasons for the improved year end outturn position were the receipt of £14m of non-recurrent deficit funding from the Trust Development Authority and the positive impact of reduced depreciation charges of £9m resulting from the revaluation of the Trust's estate.

We did not identify any adjustments affecting the Trust's outturn deficit position for the year.

Our work highlighted a small number of amendments to improve the presentation of the financial statements which Trust Managers implemented.

As in previous years, we received a good level of cooperation from the Trust's finance team to help us deal with our queries in order to deliver the audit significantly ahead of the national audit deadline of 5 June 2015.

Looking forward

The Trust has budgeted for a further deficit in 2015/16 of £40.2m, and a deficit of £29.9m in 2016/17, with break even expected in 2017/18. To deliver these budgets, the Trust will need to deliver significant Cost Improvement Programme (CIP) savings of £67m in 2015-16 and £45m in 2016/17. If the Trust achieves these budgets for the next two years, it will accumulate a total deficit of over £90 million by 31 March 2017.

There is a need for the Trust to robustly manage its budgets and in particular, the challenging cost improvement programme savings to be delivered for 2015/16 and beyond, identifying and implementing remedial action where slippage arises. The Trust should also produce a detailed recovery plan to demonstrate how it will recover its expected cumulative deficit of over £90 million by 31 March 2017. The Trust Board should continue to maintain close oversight over the Trust's challenging financial position and in particular, these areas.

We are aware that the Trust remains in ongoing dialogue with the Trust Development Authority (TDA) regarding the issues identified above and has been assured of financial support as it moves towards achieving financial balance in 2017/18.
Section 3: Value for Money

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Value for Money

Value for Money conclusion
The Code describes the Trust's responsibilities to put in place proper arrangements to:
• secure economy, efficiency and effectiveness in its use of resources
• ensure proper stewardship and governance
• review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

The Trust has proper arrangements in place for securing financial resilience. The Trust has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Trust has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Trust is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings
Securing financial resilience
We have undertaken a review which considered the Trust's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:
• Financial governance
• Financial planning
• Financial control.

Our work highlighted that:
• the Trust achieved a year end outturn deficit of £24.4m for 2014/15. This position is a much better outturn than the deficit budget of £50.2m set for the year. The Trust Board has also approved a financial plan which budgets for a deficit of £40.2m in 2015/16 and £29.9m in 2016/17, with a forecast breakeven position in 2017/18. This financial position has been discussed with the TDA which has agreed to provide financial support until the Trust becomes financially sustainable.

• During the year, the Trust has under-delivered against its original planned cost improvement programme of £53m with an under delivery of £17m at the year end. The Trust managed to make substitutions to the undelivered CIP schemes resulting from extra income and efficiencies made throughout the year resulting in the full achievement of the planned cost improvement plan at the year end. Included within income CIPs for instance was £3.1m relating to corporate modernisation, this was an earmarked reserve which was not spent and it is debateable whether this amount should be classified as an income CIP. For 2015/16, the Trust has budgeted to deliver cost improvement programme savings of £67m and £45m for 2016/17.

There is a need for the Trust to:
• robustly manage its budgets and maintain close oversight over the Trust's challenging financial position
• strengthen its approach to the planning, delivery and monitoring of cost improvement plans, given the scale of the challenge going forward, coupled with a commitment to transformational change
• further develop the Trust's finance reporting to the Board on the achievement of its cost improvements to fully reflect the Trust's position, particularly in respect of income CIPs.
Value for Money continued

**Challenging economy, efficiency and effectiveness**

We have reviewed whether the Trust has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Our work confirmed that despite the financial pressures faced, the Trust has managed its resources appropriately in 2014-15, delivering an improved outturn position against the deficit budget and maintaining clinical performance across a range of key indicators.

**Overall VfM conclusion**

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, with the exception of the Trust’s underlying deficit position, we are satisfied that in all significant respects the Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.
Section 4: Audit related services

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Quality Accounts
For 2014/15 the Trust is required to obtain external audit assurance on its Quality Account. In order to provide this assurance we have undertaken limited assurance procedures in accordance with guidance issued by the Audit Commission to assess whether:

- the Quality Account is prepared in all material respects in line with the criteria set out in the Regulations
- the Quality Account is consistent in all material respects with the sources specified in the NHS Quality Accounts Auditor Guidance 2014/15 issued by the Audit Commission ('the Guidance')
- the indicators in the Quality Account identified as having been the subject of limited assurance, are reasonably stated in all material respects in accordance with the Regulations and the six dimensions of data quality set out in the Guidance.

Key findings
We provided the Trust with a report setting out the detailed findings of our work on 29 May 2015. There were no significant matters arising from our work.

Conclusions
We provided an unqualified limited assurance opinion on the Trust’s Quality Account, in accordance with requirements, on 3 June 2015.
Appendix
Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and non-audit services.

### Fees for audit services

<table>
<thead>
<tr>
<th></th>
<th>Per Audit plan £</th>
<th>Actual fees £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust audit</td>
<td>133,038</td>
<td>133,038</td>
</tr>
<tr>
<td>Total audit fees</td>
<td>133,038</td>
<td>133,038</td>
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</table>

### Fees for other services

<table>
<thead>
<tr>
<th>Service</th>
<th>Fees £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit related services</td>
<td></td>
</tr>
<tr>
<td>• Quality Accounts audit</td>
<td>10,000</td>
</tr>
<tr>
<td>Non-audit related services</td>
<td>Nil</td>
</tr>
</tbody>
</table>

### Reports issued

<table>
<thead>
<tr>
<th>Report</th>
<th>Date issued</th>
</tr>
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<tbody>
<tr>
<td>Audit Plan</td>
<td>March 2015</td>
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<tr>
<td>Audit Findings Report</td>
<td>May 2015</td>
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<tr>
<td>Quality Account Report</td>
<td>May 2015</td>
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<tr>
<td>Annual Audit Letter</td>
<td>July 2015</td>
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