Auditor’s Annual Report

East Lancashire Hospitals NHS Trust – year ended 31 March 2024

July 2024

forvis mazars

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Introduction

Introduction

Purpose of the Auditor’s Annual Report

Our Auditor’s Annual Report (AAR) summarises the work we have undertaken as the auditor for East Lancashire Hospitals NHS Trust “the Trust’ for the year ended 31 March 2024. Although this report is addressed to the Trust, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice (‘the Code’) issued by the National Audit Office (‘the NAO’). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Opinion on the financial statements
We issued our audit report on 10 July 2024. Our opinion on the financial statements was unqualified.

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

Wider reporting responsibilities
In line with group audit instructions issued by the NAO, on 10 July 2024 we reported that the Trust’s consolidation schedules were consistent with the audited financial statements.

We have a responsibility to consider whether there is a need to issue a public interest report or whether there are any issues which require referral to the Secretary of State.

At the time of reporting, the Trust had set a financial plan for 2024/25 showing a deficit of £21.9m which will breach the trusts cumulative breakeven duty in 2024/25. In line with our statutory duties under Section 30 of the Local Audit and Accountability Act 2014 (the 2014 Act) we made a referral to the Secretary of State.

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Audit of the financial statements

Audit of the financial statements

Our audit of the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Trust and whether they give a true and fair view of the Trust's financial position as at 31 March 2024 and of its financial performance for the year then ended. Our audit report, issued on 10 July 2024 gave an unqualified opinion on the financial statements for the year ended 31 March 2024.

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

Qualitative aspects of the Trust's accounting practices

We have reviewed the Trust's accounting policies and disclosures and concluded they comply with the Department of Health and Social Care Group Accounting Manual 2023/24. They have been appropriately tailored to the Trust's circumstances

Draft accounts were received from the Trust on 23 April 2024 in line with the DHSC timetable. The quality of the initial draft accounts was good, and our initial review comments did not identify any significant omission or corrections that were required.

However, the Trust was not able to provide a complete set of working papers at the start of the audit and the provision of working papers continued to be slow throughout the course of the audit. The quality of the audit working papers received was variable. As a result, there were delays in completing some aspects of the detailed audit work.

Significant difficulties during the audit

During the course of the audit we encountered some significant difficulties.

Chart of Accounts: The Trust has introduced a new chart of accounts. This is intended to provide a greater level of detail in financial reporting and to standardize the information that can be reported across other providers in the local system. Unusually, the change was made part way through the financial year. As a result, the transactions from the first 7 ½ months needed to be transferred into the new chart of accounts and this exercise was done using journals to transfer the data across. The Trust did undertake a full reconciliation process and identified some trivial differences between the balances in the old chart and the equivalent new reporting codes. Furthermore, all of the transactions were brought into the new chart via journal but all of the journals were same type and reference (General Holding journals), regardless of the origin of the initial transaction (payroll, payables etc). This created significant difficulties during the audit because the Trust could not produce transaction level reports to allow for the selection of items for detailed sample testing. A significant amount of time was required by both the finance team and the audit team to interrogate both the old and new charts of account in order to extract a full population of transactions for testing. The Trust also brought the prior year data across to the new chart of accounts so that comparative information was available. A significant amount of management time was required to address errors arising from the transfer of the prior year information where the new chart and the old were not consistent. This presented a significant workload challenge for the finance team as some £500m of transactions were reflected as errors, for example because the new chart did not contain codes for the CCGs following the move to the ICB.

Fixed Asset Register: The Trust was initially unable to provide a reconciliation between the fixed asset register and the general ledger. The reconciliation had not been maintained through the year and as a result, took some time to provide for audit. This is a key control in ensuring that all of the Trust's fixed assets are completely and accurately reflected in the financial statements. .
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Audit of the financial statements

Other reporting responsibilities

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

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Our work on Value for Money arrangements

VFM arrangements

Overall Summary

VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

Financial sustainability - How the Trust plans and manages its resources to ensure it can continue to deliver its services.

Governance - How the Trust ensures that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness - How the Trust uses information about its costs and performance to improve the way it manages and delivers its services.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Trust has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

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

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

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

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

We outline the risks that we have identified and the work we have done to address those risks on page 15.

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

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

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

- **Recommendations arising from significant weaknesses in arrangements -** We make these recommendations for improvement where we have identified a significant weakness in the Trust arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations -** We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken.

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

VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
Financial sustainability	12-15	Yes – see page 15	Yes continuing significant weakness – see page 22	No
Governance	16-18	No	No	No
Improving economy, efficiency and effectiveness	19-20	No	No	No

VFM arrangements

Financial Sustainability

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

VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements in relation to Financial Sustainability

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

	Risk of significant weakness in arrangements	Work undertaken and the results of our work
1	**Financial Plans for 2024/25** The significant weakness reported in 2021/22 continues for 2023/24. The Trust has set a deficit plan for 2024/25 after reliance on identifying high levels of savings from a waste reductions programme. This is evidence of risk of weaknesses in arrangements to deliver financial sustainability.	**Work undertaken** We have reviewed • The financial planning submissions and underlying assumptions. • The Trust's arrangements to deliver its waste reduction programme savings. • The formal reporting of the Trust's planning work to the Board and other committees. **Results of our work** In our view the Trust's deficit plan and its reliance on identifying and delivering further savings in the context of the large recovery programme is evidence of weaknesses in the arrangements to deliver financial sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to the NHS finance regime

In 2020/21, NHSE established Integrated Care Systems (ICS) as the key unit for determining financial allocations to geographical areas (systems). In 2023/24, this continued to be the key unit for financial planning purposes, with the aim of encouraging greater collaboration and collective responsibility for financial performance.

The Covid-19 pandemic necessitated the implementation of interim 'block' allocations to ensure that systems had sufficient resource to respond to the pandemic. 2022/23 was the first full year programme funding allocations were reset with a move back towards a 'fair share' distribution of resource. The results of this exercise were used to adjust 2023/24 allocation baselines.

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

Funding for elective recovery has operated on a new basis during 2023/24. Each commissioner was set an individual elective activity target that recognised the level of elective activity delivered in 2022/23 by its contracted trusts. Commissioners were then required to agree contracts with their providers. For trusts, almost all contracts were based on aligned payment and incentive contracts with a fixed and variable element. The fixed element covered funding for the expected level of activity for all services apart from those identified in the variable element. The variable element funded elective activity paid at 100% of the NHS Payment Scheme unit price.

The ICS comprises of two key components one of which is the Integrated Care Board (ICB) who are responsible for planning and funding most NHS services in the area.. The ICB allocations for primary medical care services and running cost allocations remained broadly consistent with previous years, reflecting demographics of the serviced populations and broader economic factors.

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

The Trust's financial planning and monitoring arrangements

The Trust approved and submitted a final 2023/24 financial plan in line with the NHS requirements. This took several iterations to get to this final agreed plan which resulted in significant increases to the Trust's waste reduction programme. The Trust, following a number of planning discussions, submitted a revised deficit plan of £24.5m which was reliant on the delivery of savings of £54.6m through a financial recovery plan referred to in the Trust as the "Waste Reduction Programme".

For 2024/25 a revised plan was submitted in June 2024 which showed a deficit plan of £21.9m with a WRP of £59.7m.

We reviewed the assumptions underpinning the plan, the reports prepared for the Board and the minutes of relevant meetings where the revised financial plan was considered. We confirmed the assumptions made by management appeared reasonable, the reports were clear and concise and adequate scrutiny by the Board was evident from their meetings. The risks in the plan, including in respect of the WRP to be delivered, have been articulated.

The Trust reported an adjusted financial plan deficit of £15.4m after receiving £18m additional income late in the year. The Trust delivered its planned WRP however this included more non recurrent savings than planned.. During the year, the Trust reported its financial position to the Finance & Performance Committee and then subsequently to the Board. We reviewed a sample of reports, which contained a clear summary of the Trust's performance, detailed variance analysis and provided adequate explanation of the causes. The reports provided an updated forecast to the end of the financial year.

As in previous years, the Trust undertakes its financial planning alongside the operational planning and the detailed workforce and capital planning each year. The planning cycles are aligned and linkages between the plans are identified and monitored. The Trust's monitoring processes throughout the year seek to identify any emerging areas that are impacting on delivery of plans allowing teams to further investigative and take any necessary corrective action. Mid-Year reviews are undertaken with all divisions to identify budget pressures with quarterly performance meetings taking place with the full Executive Team..

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

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

As in 2023/24 Trust is required to submit a financial plan to the Lancashire &South Cumbria (L&SC) ICB that contributes to the ICS position for the year. The Trust co-ordinates the annual planning process drawing on input from clinical, operational and support functions across the organisation. The Trust has actively engaged with ICS partners on the key aspects of local & ICS system financial and operational planning.

The annual planning and budget setting exercise includes the identification and quantification of financial and operational risks. Financial plans are considered by the Finance & Performance Committee and receive Board approval. In addition to LSC system planning meetings , internal planning meetings are held on a regular basis to formulate and triangulate finance activity and workforce plans.

The Trust's latest submitted Financial Plan for 2024/25 shows an agreed £21.9m deficit with £59.7m WRP. The Trust has identified significant risks to achieving this plan, not least that it has yet to identify all of the schemes to make up its agreed WRP. The Trust continues to devote significant resources to deliver financial sustainability alongside its ICS partners but the challenge and risks to non-delivery in 2024/25 remain significant.

The Trust's arrangements for the identification, management and monitoring of funding gaps and savings

The Trust has developed a savings programme (WRP) which aims to deliver efficiencies and savings whilst driving service improvements across the Trust. This is an on-going process reflecting experience from previous years. WRP targets are built into the Trust's annual financial planning across divisions. The Trust monitors its performance against its WRP using a tracker which is updated as schemes are identified. These are subsequently approved by the Financial Assurance Board (FAB).The Trust produces regular monitoring reports which report on WRP delivered and progress is monitored through Divisional Improvement Boards.

The Trust reported achieving £42.3m of WRP savings in 2023/24 compared to a plan of £54.6m. .For 2024/25 the Trust's latest financial plan includes a WRP target of £59.7m, representing 7.8% of its expenditure. The Trust is clear that achieving a WRP of this size represents a significant challenge. It is considerably higher than the levels achieved in recent years. While the Trust has identified a number of schemes to contribute to the savings, as at the end of May 2024 there was £21.3m of saving opportunities yet to be identified'. Based on our work, and the increasing level of savings required we are concerned the level of WRP required in 2024/25 reflects a continuing significant weakness in the Trust's arrangements in relation to financial sustainability.

Based on the work completed, we consider that there is a continuing significant weakness in the Trust's arrangements in relation to financial sustainability.

VFM arrangements

Governance

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

VFM arrangements – Governance

Overall commentary on Governance

The Trust's risk management and monitoring arrangements

The Trust has a comprehensive and well established risk management system in place which is embedded into the governance structure of the organisation. The processes are supported by a Risk Management Strategy and the Trust's leadership continues to play a key role in managing and monitoring the risk management process.

The Trust uses risk management software to support the management and monitoring of all risks identified from both external and internal sources. Risk owners are identified and are responsible for monitoring and maintaining the system to demonstrate the progress of their risks routinely. Risks are added and deleted from the system on a regular basis.

The Trust Board is responsible for the overall management of the Trust's risks, and the Board sub committees monitor the risks in their relevant areas. Any risks with a risk rating above an agreed threshold are scrutinised and any recommendations following scrutiny are also incorporated into Trust's Corporate Risk Register. The roles and responsibilities of the Board, sub committees, key directors and senior managers are set out in the Trust's Risk Management Framework.

We have reviewed the Corporate Risk Register. The risks are linked to the Trust's strategic aims and are cross-referred to the Board Assurance Framework, providing a thread from operational to strategic risk management. The minutes of discussions detail the challenge and discussion around the risks.

The Trust engages Mersey Internal Audit Agency to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud. Work plans are agreed with management at the start of the financial year and reviewed by Audit Committee prior to final approval.

We have reviewed the Internal Audit Plans for 2023/24 and 2024/25. Progress reports are presented to each Audit Committee meeting including follow up reporting of recommendations not fully implemented by agreed due dates. This allows the Committee to effectively hold management to account on behalf of the Board. Our attendance at Audit Committees throughout the period confirms the significance placed on internal audit findings. Members of the committee actively request management attendance at committees to discuss findings from internal audit reports.

The Trust's arrangements for budget setting and budgetary control

As reported previously, the Trust's budget process is informed by the annual planning process. The annual planning process is led by the Trust finance team and is designed to be delivered in compliance with the NHS national requirements and timetables.

The Trust develops its detailed budget using agreed budget setting principles. Known cost pressures and inflationary increases and known changes in tariffs and activity are incorporated alongside the impact of any business cases and adjustments for non-recurrent items.

Regular review meetings take place prior to final approval in order to agree the final financial plan. These meetings include operational, finance and workforce staff to triangulate finance, activity and workforce plans. Budget holders are responsible for monitoring and reporting the delivery of their budgets as part of a monthly cycle. The Trust's finance team operates a prompt monthly closedown timetable which ensure budget reports are received by budget holders on a timely basis to allow for review and scrutiny. Part of this monthly cycle includes finance reports presented to the Finance & Performance Committee Board who receive regular integrated performance reports incorporating financial performance measures.

At the Finance & Performance Committee, the monthly financial position is discussed, alongside any risks, material movements, the forecast outturn and the wider system position. This is considered alongside activity performance, improvement work, waste reduction programme updates and workforce information to ensure a rounded position is provided.

Overall commentary on Governance - continued

The Trust's decision making arrangements and control framework

The Trust has an established governance structure. This is clearly set out in the Annual Governance Statement. The Trust's structure consists of a Board supported by a series of Committees incorporating both Executive and Non-Executive Directors.

The Trust Board has overall responsibility for setting the strategic direction of the Trust and managing the risks to delivering that strategy. It receives regular reports on the performance of the Trust in meetings those objectives. Executive Directors have clear responsibilities linked to their roles.

The Board Sub-Committee structure in place at the Trust allows for effective oversight of the Trust's operations and activity. All meetings are supported by detailed agendas and written reports from management. Agendas follow a set structure which enables the meetings to focus time appropriate to allow key matters that require decisions to receive appropriate discussion and consideration. Formal minutes are prepared for all meetings and are available for review.

The Audit Committee is a key part of the Trust's governance framework. Membership of the Committee reflects an appropriate mix of knowledge, skills and experience to allow it to undertake its role effectively. The meetings are attended and supported by the Director of Finance and other senior finance officers. The Committee understands its role and has demonstrated effective challenge of the Trust's decision making process. The Committee regularly requests other Directors or managers to attend meetings to discuss matters relevent to its remit. The Audit Committee has been active throughout the year in providing assurance on governance, risk management.

The Trust has a full suite of governance policies in place. These are set out in the Trust's Annual Report and Annual Governance Statement. We reviewed these documents as part of our audit and confirmed they were consistent with our understanding of the Trust's arrangements in place. This includes arrangements such as registers of interests being maintained and published.

Based on the above considerations we are satisfied there is not a significant weakness in the Trust's arrangements in relation to governance.

VFM arrangements

Improving Economy, Efficiency and Effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services

VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness

The Trust's arrangements for assessing performance and evaluating service delivery

The Trust produces an Integrated Performance Report (IPR) for reporting to each Board meeting. This report provides a clear and transparent summary of the key operational and financial performance measures. The IPR enables the Board and the Directors to easily identify performance that is below target or that has deteriorated, enabling prompt recovery action. In addition, the Trust reports operational and financial performance at divisional level enabling identification of emerging issues across the trust on a timely basis. The IPR provides a summary of activity for each identified performance indicator outlining the actual performance in the month, whether this is improving or deteriorating, and whether the performance will meet the target in each case. The report also incorporates substantial detailed information on each indicator including performance trends over time and a short narrative providing contextual and explanatory comments. Where performance improvements are required, these are highlighted in the report. This helps to focus the Trust in ensuring appropriate actions are put in place on a timely basis and that effectiveness is monitored. The report identifies positive news as well as areas that require review and improvement.

The Trust uses a variety of sources of information and tools for benchmarking in order to identify areas of opportunity and improvement. The Trust works collaboratively with L&SC stakeholders to share information and data including the use of bank and agency staff, elective care recovery and cost benchmarking so that there is a holistic view of service performance across both individual organisations and collectively.

The Trust's formal Performance Management Framework covers all Clinical Directorates and informs the formal reporting to the Board each month. Performance information is presented to the Board of Directors on a regular basis. We have reviewed the performance information provided to the Board and subsequent board minutes which demonstrate how the Board holds managers to account where performance improvements are required.

The latest CQC inspection of the Trust was undertaken in 2018 and reported in early 2019, and the Trust was rated as good overall. Although the CQC has undertaken various inspection activities since then, none of these have resulted in a change to the Trust's assessment.

During the year the Trust implemented an electronic patient records system. This was a significant IT project and implementation was carefully planned and monitored. Management had put in place arrangements to ensure all technical and data issues arising from initial adoption were collected. This remains in place and there is a formal structure in place to review and resolve issues as they arise. There is monitoring by Executive Leads and working groups are established where required to address matters.

Progress in resolving issues are reported to an incident management team and to the EPR programme board. Progress is also a standing item on the Executive Team meeting and Senior Leadership Group. Updates have been provided to relevant Trust Board sub-committees and to the Trust Board to ensure there is appropriate oversight. The Trust is continuing to work through the adoption and optimisation issues identified.

The Trust's arrangements for effective partnership working

The Trust is a key member of the Lancashire and South Cumbria ICS. The ICS incorporates NHS provider and commissioner organisations and works closely with the local councils and third-sector organisations. The Trust plays an active role in LSC ICS and the Trust's management are active members of a number of meetings and groups. Strong relationships with the partners have provided the opportunity for the Trust and the partners to tackle the wider implications of the pandemic's impact on the region, and to work collaboratively on a number of programmes across service areas.

The Trust's arrangements for commissioning services

The Trusts hosts Lancashire Procurement Cluster (LPC) on behalf of themselves, Lancashire Teaching Hospitals NHS Foundation Trust and Blackpool Teaching Hospital NHS Foundation Trust. LPC has a professionally qualified procurement and commercial resources team with appropriate and up to date procurement policies and processes.in place.

The Trust has a procurement policy which has been agreed at ICS level to ensure that all organisations across the ICS adopt robust, legally compliant, and efficient procurement practices to ensure that procurement contributes to the Trust's waste reduction programme.

There is a robust specification process in place for procurements to ensure the selected option and supplier give best value for money. Legally compliant Framework Agreements with agreed discounts to purchase goods and services are in place and used. The Scheme of Delegation sets out the various levels of approval required for expenditure. There is a lead manager who is responsible for ensuring that the procured service is received and is to the required standard. Post project evaluations are undertaken across a range of projects / services to identify learning and improvement opportunities.

Based on the above considerations we are satisfied there is not a significant weakness in the Trust's arrangements in relation to improving economy, efficiency and effectiveness.

VFM arrangements

Identified significant weaknesses in arrangements and our recommendations

VFM arrangements – Prior year significant weaknesses and recommendations

Progress against significant weaknesses and recommendations made in the prior year

As part of our 2022/23 audit work, we identified the following significant weaknesses, and made recommendations for improvement in the Trust's arrangements to secure economy, efficiency and effectiveness it its use of resources. These identified weaknesses have been outlined in the table below, along with our view on the Trust's progress against the recommendations made, including whether the significant weakness is still relevant in the 2023/24 year.

	Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
1	The significant weakness reported in 2021/22 continues for 2024/25. The Trust's 2024/25 financial plan as updated in June 2024 reflects a £21.9m deficit position. Achieving this deficit position assumes the delivery of savings of £59.7m in the year. This represents 7.8% of the Trust's operating expenditure and the Trust has yet to fully identify how this will be delivered. The planned deficit, if achieved, will increase the Trust's cumulative deficit on the Income and Expenditure reserve to £304.5m at March 2025.	Financial Sustainability	The Trust should continue to work collaboratively with its Lancashire & South Cumbria ICS partners and NHS England to explore and agree sustainable, long-term plans to bridge its funding gaps and identify achievable savings.	We are aware the Trust has been actively working to address its underlying financial pressures for a number of years. This weakness and recommendation continues and there are no further actions taken to assess. .	In our view the Trust's deficit plan and its reliance on identifying and delivering further savings in the context of the large recovery programme is evidence of weaknesses in the arrangements to deliver financial sustainability, including how the body plans to bridge its funding gaps and identifies achievable savings

04

Other reporting responsibilities and our fees

Other reporting responsibilities and our fees

Other reporting responsibilities

Statutory recommendations and public interest reports

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

We did not issue any statutory recommendations or exercised our power to make a report in the public interest during 2023/24.

Section 30 referrals

Under Section 30 of the Local Audit and Accountability Act 2014, auditors of an NHS body have a duty to consider whether there are any issues arising during their work that indicate possible or actual unlawful expenditure or action leading to a possible or actual loss or deficiency that should be referred to the Secretary of State, and/or relevant NHS regulatory body as appropriate.

We have issued a Section 30 referral to the Secretary of State because the Trust has planned to breach its breakeven duty.

Reporting to the National Audit Office (NAO)

The NAO, as group auditor, requires us to report to them whether consolidation data that the Trust has submitted is consistent with the audited financial statements.We reported to the NAO that consolidation data was consistent with the audited financial statements. We also reported to the NAO in line with its group audit instructions.

Fees for our work as the Trust's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in April 2024. Having completed our work for the 2023/24 financial year, we can confirm that our fees are as follows:

Area of work	2023/24 fees	2022/23 fees
Planned fee in respect of our work under the Code of Audit Practice	£117,500	£74,500
Additional fees in respect of - Journal selection, additional work due to listings not providing sufficient detail to select sample for testing following the changes to the trust chart of accounts. - Stock, additional work due to attendance at a stocktake both pre and post year end. - PFI IFRS 16, additional work required due to the trust choosing to not complete the DoH central model. - FAR reconciliation, additional time taken to reviewing initial working papers and subsequent working papers to provide sufficient audit evidence.	TBC	-
Total fees	**TBC**	**£74,500**

Appendices

A: Further information on our audit of the financial statements

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

Significant risks and audit findings

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

Risk	Our audit response and findings
Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	**How we addressed this risk** We addressed this risk by performing audit work over: • accounting estimates; • areas of management judgement; • journal entries and • significant transactions outside the normal course of business or otherwise unusual. **Audit conclusion** Our work is complete . We have no issues to bring to the committees attention.
Risk of fraud in revenue recognition The risk of fraud in revenue recognition is presumed to be a significant risk on all audits due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues. For the Trust we deem the risk to relate to the recognition of income around the year end. This risk is compounded by the 2023/24 funding arrangements within the NHS and in the local ICS, placing an emphasis on funding adjustments based on activity reporting. The potential for adjustments increases the scope for manipulation. This may represent a significant risk if these funding adjustments based on activity, are material.	**How we addressed this risk** We have evaluated the design and implementation of controls the Trust has in place which mitigate the risk of income being recognised in the wrong year. We have reviewed the Trust’s accounting policy in respect of revenue recognition to ensure it is in line with the requirements of the DHSC Group Accounting Manual. In addition, we have undertaken a range of substantive procedures including: • testing material income and material year-end receivables; • testing a sample of transactions recognised around the year-end to obtain assurance each item was recorded in the correct financial year at the correct value; • if material, sample testing the specific non-block funding year-end adjustments; and • considering information provided by the Department of Health and Social Care in respect of year-end intra-NHS transactions **Audit conclusion** Our work is complete. A classification error of £25.2m was identified which required amendment. There was no change to the total income received but the split between variable, fixed and other required amendment. We also identified through our work on the agreement of balances a difference of £1.55m which management have chosen not to amend.

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

Significant risks and audit findings - continued

Risk	Our audit response and findings
Risk of fraud in expenditure recognition In the public sector, auditors must consider the risk that material misstatements may arise from incorrect expenditure recognition, which may materialise due to the audited body manipulating expenditure to meet externally set targets. NHS Trusts have a statutory duty to breakeven taking one year with another. We consider there to be a risk that management could record expenditure and/or liabilities within the accounts that do not properly meet the relevant expenditure recognition criteria for the year to which they are charged. We considered the risk to be in relation to a number of areas including recognition of capital expenditure in the final quarter of the year, the accuracy, completeness and existence of the expected credit loss impairment, non-pay accruals and capital payables	**How we addressed this risk** We have evaluated the design and implementation of the controls the Trust has in place to: • mitigate the risk of expenditure being recognised in the wrong year; • ensure expenditure is recorded completely and accurately during the year and at the year end. In addition, we have undertaken a range of substantive procedures including: • testing a sample of individual accruals to supporting documentation to confirm the method of calculation and to confirm inclusion in the correct period. • testing a sample of capital additions focusing on the transactions recorded in quarter 4 to confirm they met the recognition criteria of capital expenditure. • testing a sample of revenue transactions recognised around the year-end to obtain assurance each item was recorded in the correct financial year at the correct value. • reviewing and testing the Trust's expected credit loss impairment **Audit conclusion** We have completed our work on the pay and non-pay expenditure. We have raised an internal control recommendation regarding credit card expenditure. There are no other issues to bring to the committees attention.

Significant risks and audit findings - continued

Risk	Our audit response and findings
Valuation of property, plant and equipment Land and buildings are the Trust's highest value assets accounting for £201m of the Trust's £260m Property, Plant and Equipment balance at 31 March 2023. The level of estimation uncertainty arising from the extensive use of judgement in the valuation process along with the size of the asset base means that we consider valuation of land and buildings to be a significant risk. Management engages Cushman & Wakefield as an expert to assist in determining the fair value of land and buildings to be included in the financial statements. Changes in the value of land and buildings may impact on the Statement of Comprehensive Income depending on the circumstances and the specific accounting requirements of the Group Accounting Manual.	**How we addressed this risk** We evaluated the design and implementation of the controls in place to mitigate the risk and undertaken substantive procedures. We have: • reviewed the scope of work and terms of the engagement with Cushman & Wakefield • obtained an understanding of the competence, skills, objectivity, experience and qualifications of the valuer • obtained an understanding of the valuation methodology used by the valuer in the year. This included understanding and evaluating the methodology applied to estimate the gross replacement cost of the Trust's operational land and buildings on a modern equivalent asset basis, testing the underlying data and assessing the reasonableness of the assumptions used • considered and challenged the Trust's review of the continuing appropriateness of its application of the modern equivalent asset approach in 2023/24. • reviewed and sample tested the completeness and accuracy of underlying data provided by the Trust and used by the valuer as part of their valuations. • reviewed how management used the valuation report to value land and buildings, and tested the accuracy of valuation movements presented and disclosed in the financial statements. • used relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2024. **Audit conclusion** We have completed our planned audit procedures. There are no issues to bring to the Committee's attention.

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

Significant risks and audit findings - continued

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Risk	Our audit response and findings
Implementation of IFRS 16 for PFI Liabilities IFRS 16 was effective for periods commencing 1 April 2022 per Financial Reporting Manual (FReM). IFRS 16 replaced the previous standards and interpretations on leases. The scope of IFRS 16 excluded service concession arrangements within the scope of IFRIC 12. under the FReM, IFRS 16.42b has now been applied to service concession arrangement liabilities for the periods commencing 1 April 2023. 2023/24 is therefore the first year that the Trust will have to apply these principles to their PFI liabilities. Under the requirements of IFRS 16 indexation is included, which is likely to result in an increase in overall liability values. As at 31 March 2023 the Trust had £605m PFI liabilities held in the Statement of Financial Position and therefore the application of the new accounting standard to this significant balance requires judgement and presents a significant risk to the material accuracy of the financial statements	**How we addressed this risk** We obtained assurance in respect of the implementation of IFRS16 on the PFI liabilities by: • gaining an understanding of the transition approach adopted by the Trust; • testing the design and implementation of controls the Trust put in place to ensure the data used to calculate the IFRS 16 transition and in year values was appropriate, complete and accurate; • testing the model used by the Trust to calculate the transition and in-year values for compliance with IFRS 16 including agreeing the inputs to source data, testing the integrity of the model and agreeing the outputs of the model to the financial statements; and • testing the in-year remeasurement of the liability had been calculated in line with IFRS 16. **.Audit conclusion** We have completed our work on IFRS16 for PFI liabilities. There are no issues to report.
Accounting for provisions The Trust accounts for provisions which by their nature are based on judgements and assumptions; creating an increased level of estimation uncertainty. As well as reflecting the valuation of provisions included in the accounts, this enhanced risk reflects the risk that the Trust's accounting for provisions may not be complete or accounted for incorrectly under the GAM.	**How our audit addressed this area of management judgement** We have obtained assurance over the Trust's accounting for provisions by**:** • testing a sample of provisions to supporting documentation to confirm they meet the recognition criteria such as representing a probable outflow of resources. including corroboration of the underlying assumptions and methodologies used by management to calculate the year-end values • considered the completeness of the provisions and unrecorded liabilities as part of our testing **Audit conclusion** We have completed our planned audit procedures. There are no issues to bring to the Committee's attention .

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

Significant risks and audit findings - continued

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Risk	Our audit response and findings
Accounting for PFI The Trust's main hospital sites were financed using PFI, and the Trust applies a management judgement to recognise those assets in its financial statements. The accounting for PFI assets involves the use of complex models and assumptions.	**How we addressed this risk** **We have reviewed the:** • Trust's judgement relating to its recognition of the PFI assets in the context of the agreements and the requirements of the financial reporting framework • the detailed accounting estimates and disclosures ion the financial statements for compliance with the requirements of the Group Accounting Manual **.Audit conclusion** We have completed our work on the PFI. There are no issues to report..

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

We set out below and on the following pages a summary of the misstatements we identified during our audit, above the trivial threshold for adjustment of £300k .

The first table in this section sets out the misstatements we identified which management has assessed as not being material, individually or in aggregate, to the financial statements and does not plan to adjust. The second table outlines the misstatements we identified that have been adjusted by management.

Summary of uncorrected misstatements

Management has assessed the misstatements in the table below as not being material, individually or in aggregate, to the financial statements and does not plan to adjust. We only report to you unadjusted misstatements that are either material by nature or which exceed our reporting threshold.

Details of adjustment	SOCNE/SOCI		SOFP	
	Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
Annual Leave Accrual Dr: Expenditure Cr: Accruals The Trust is required to accrue for any annual leave carried forward to the next financial year. The Trust had not included an accrual for this.	£2,085			£2,085
Agreement of Balances – Debtors Dr: Income Cr: Debtors Our work on the agreement of balances exercise identified a number of debtor balances that were in dispute with the LSCICB. We have insufficient assurance that the £1,550k income will be received by the Trust and therefore income has been overstated.	£1,550			£1,550
Aggregate effect of unadjusted misstatements	**£3,635**			**£3,635**

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

Internal control observations

Description of deficiency – Fixed Asset Register

The Trust was initially unable to provide a reconciliation between the fixed asset register and the general ledger. The reconciliation had not been maintained through the year and as a result, took some time to provide for audit.

Potential effects

This is a key control in ensuring that all of the Trust's fixed assets are completely and accurately reflected in the financial statements. There is a risk that the general ledger is not complete and accurate as any differences are not identified, investigated and corrected.

Recommendation

The Trust should ensure that a periodic and year end reconciliation is undertaken to ensure data within the general ledger is complete and accurate.

Management response

Agreed

Description of deficiency – Changes to the accounting system

Planned changes to the accounting system was not planned appropriately and the risks around the timing and how the data would be moved were not fully considered.

Potential effects

Without sufficient planning and project management any changes to the main accounting system could impact of the quality of data provided and could have implications on the accuracy of the Trusts accounts.

Recommendation

The Trust should ensure that any future changes are project managed including consideration of the timing, risks associated with the change and any implications for financial reporting.

Management response

Agreed

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

Internal control observations Continued

Description of deficiency – Agreement of API contracts

The trust did not agree and receive signed contracts in a timely manner. Signed contracts were not received until 14 months after the start of the year (May 2024).

Potential effects

Trusts financial statements include material errors. Although the total income for the year had not changed the analysis within the accounts had been prepared upon figures which had not been agreed and had on receipt of the agreed contract materially changed.

Recommendation

The Trust should ensure that contracts are agreed and signed in sufficient time prior to year end.

Management response

The Trust agrees that contracts should be reviewed, agreed and signed in a timely manner, and prior to year end, going forward.

There have been numerous iterations of the contract offer received from the ICB throughout the year, up to and including the contract in late April 2024, including many different interpretations of guidance which moved values between Fixed and Variable elements of the contract. There have also been ongoing disagreements with the ICB in relation to the 2023/24 contract offer, particularly in relation to ERF targets/performance and some in relation to the impact of Cerner on data availability and quality. Had the contract been signed prior to resolution of these issues there could have been a material risk to the Trust's income and financial position.

It was therefore considered prudent not to sign until there was a conclusion to these issues, and appropriate assurances received from the ICB that the Trust would not be financially penalised, which was the cause of the delay.

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

Internal control observations Continued

Description of deficiency – Credit card expenditure

The Trust was unable to provide receipts to support expenditure charged to the Trust's credit card. Evidence of the review and authorisation of this expenditure was also not provided.

Potential effects

Transactions paid for using the Trust's credit card may not be legitimate Trust expenditure or may be incorrectly classified within the accounts

Recommendation

All credit card spend must be evidenced by valid receipts which are checked and approved prior to payment to confirm expenditure relates to the Trust.

Management response

Agreed

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

Follow up on previous years recommendations

Description of deficiency

The procedure for scanning stock movements between locations and on consumption isn't always followed due to the busy and highly reactive operational environment in which the inventory stores are located. Where stock isn't scanned in and out of locations, this results in differences between stock recorded on the system, and stock available for procedures.

Potential effects

This can affect the re-ordering of stock for use in procedures. Whilst management have mitigating procedures in place, including daily cycle counts, there is a risk that not recording movement of stock around year end could result in a misstatement in the valuation of inventory at year end.

Recommendation

Ensure the organisational procedures are followed for scanning stock in and out of locations.

2023/24 update

Procedures are followed to ensure all stock is scanned out of location, we have implemented a dedicated transfer scanner located at the store exit and follow policy that in all occasions stock leaving is transferred to new location. To account for periods where no supply chain staff are present clinical scanners have been given ability to transfer stock so clinical staff members can transfer any stock taken by themselves.

Contact

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