Auditor's Annual Report

East Lancashire Hospitals NHS Trust
Year Ended 31 March 2023

June 2023

Contents

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Section 01:

Introduction

1. 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 Trust 'the Trust' for the year ended 31 March 2023. 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 28 June 2023. Our opinion on the financial statements was unqualified.

Wider reporting responsibilities

In line with group audit instructions issued by the NAO, on 21st April 2023 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. We have not made any such referrals.

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Value for Money arrangements

In our audit report issued we reported that we had completed our work on the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources and had issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the Trust's arrangements and a summary of our recommendations.

02

Section 02:

Audit of the financial statements

2. 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 2023 and of its financial performance for the year then ended. Our audit report, issued on 28 June 2023 gave an unqualified opinion on the financial statements for the year ended 31 March 2023 .

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 Department of Health and Social Care Group Accounting Manual 2022/23, appropriately tailored to the Trust's circumstances.

Draft accounts were received from the Trust on 27 April 2023 in line with the DHSC timetable. The quality of the initial draft accounts was good, and our initial review comments did not identify any material omissions or corrections that were required. The Trust prepared and shared good quality, timely, supporting working papers and evidence through the audit.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation and support of management through the audit.
We are pleased to report that our audit progressed very smoothly. We have continued to develop good professional relationships with the Trust's finance team.

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 Improvement.
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..

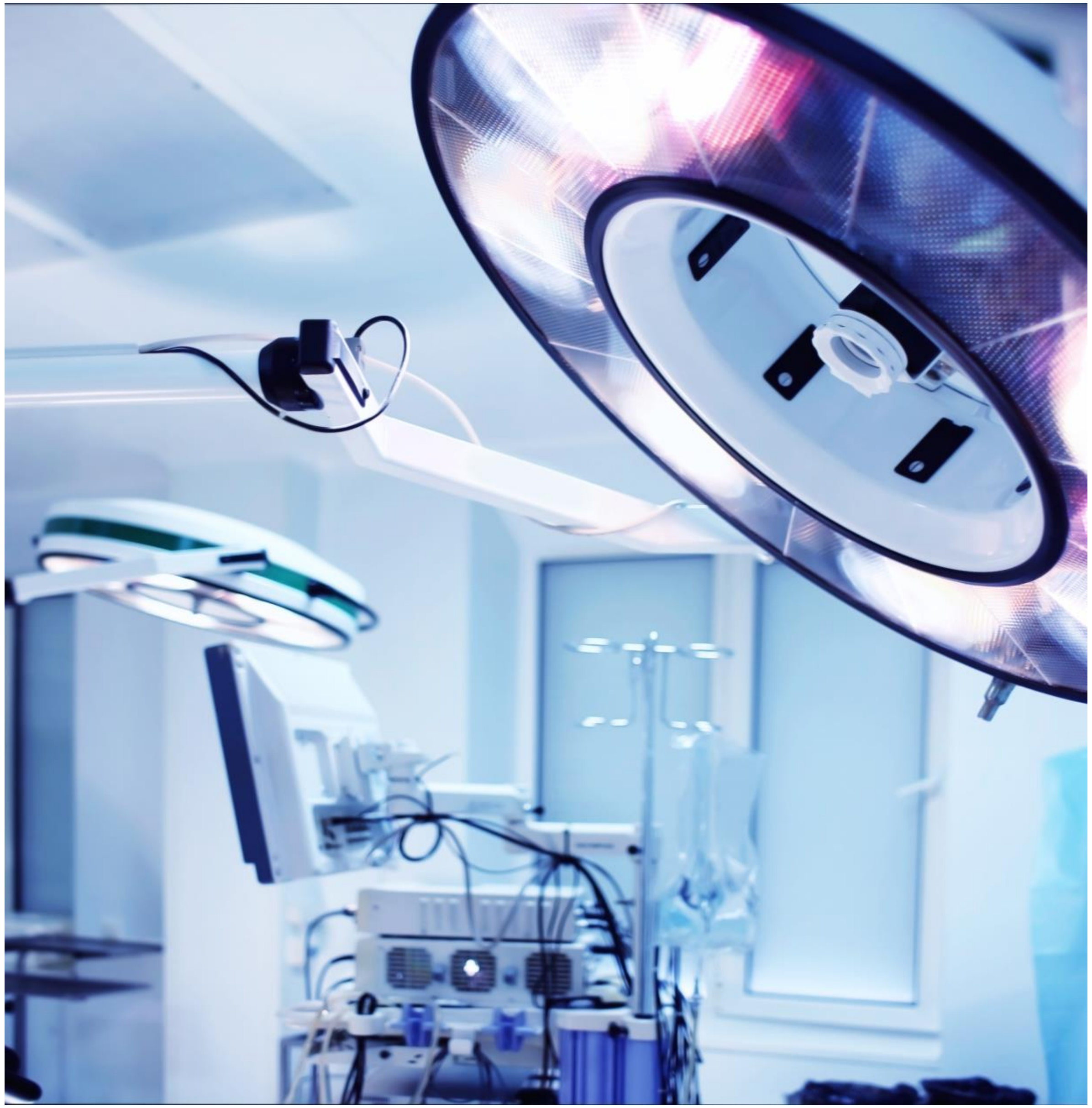
03

Section 03:

Our work on Value for Money arrangements

3. VFM arrangements

Overall Summary



3. 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 13.

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:

3. VFM arrangements – Overall summary

- 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

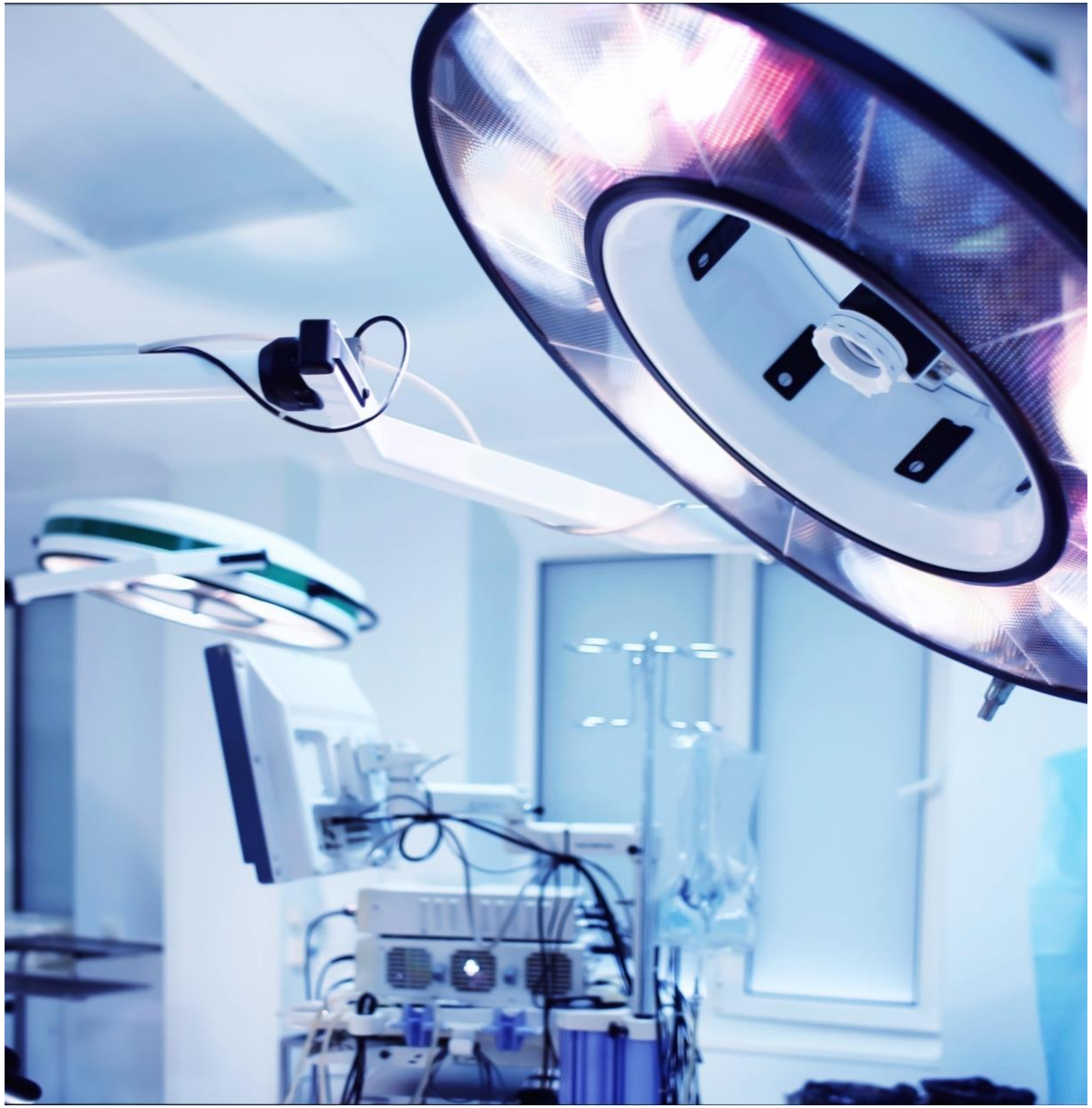
The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

3. 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 13	Yes continuing significant weakness – see page 22	No
Governance	16-18	No	No	No
Improving economy, efficiency and effectiveness	19-20	No	No	No

3. VFM arrangements



Financial Sustainability

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

3. 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 2023/24** The significant weakness reported in 2022/23 continues for 2023/24. The Trust has set a deficit plan financial plan for 2023/24 after reliance on identifying high levels of savings from waste reduction programme. This is evidence of risk of weaknesses in the arrangements to deliver financial sustainability. .	**Work undertaken** We 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** The detailed commentary on the financial sustainability arrangements are on pages 14-15. 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.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to the NHS financing regime in 2022/23

For 2022/23, the focus of the funding regime has shifted from responding to the immediate challenges caused by COVID-19 to supporting recovery in the healthcare system. This has facilitated the need for collaborative working between commissioners and providers, as local systems were expected to work together to deliver a balanced position, with additional funding available for those systems exceeding target activity levels through the Elective Recovery Fund. The planning guidance for 2022/23 supports the transition back to local agreement of contracts, and requires systems to achieve a break even position each year. This necessitates strong collaboration through the planning process, as individual organisations work together to achieve system-level outcomes.

In 2022/23 all Integrated Care Systems (ICSs) across the North West obtained NHSE approval to continue with block contract and local payment arrangements. Contract income was based on nationally calculated block payments, which has been uplifted for inflation and reduced for the national efficiency target.

The Trust's financial planning and monitoring arrangements

The Trust approved and submitted a 2022/23 financial plan in line with the NHS requirements. The Trust following the planning discussions submitted a deficit plan of £17.5m which was reliant on the delivery of savings of £28.8m through a financial recovery plan referred to in the Trust as the "Waste Reduction Programme". The Trust has met its financial plan and for 2023/24 agreed a deficit pan of £24.5m deficit with a WRP of £54.6m. This is an increase from the Trust's initial submitted plan due to the inclusion of ELHTs share of the system gap, being £12.3m. 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 met its 2022/23 financial plan and WRP target with an adjusted financial plan deficit of £4.2m. 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 evidence of a clear summary of the Trust's performance, detailed variances and provided adequate explanation of the causes. The reports provided an updated forecast to the end of the financial year.

The Trust's arrangements and approach to 2023/24 financial planning

As detailed in the opening paragraphs of this section, the financial planning arrangements have changed for 2023/24 with the Trust needing to submit a financial plan to the Lancashire &South Cumbria (L&SC) ICS that contributes to a breakeven position for the ICS for the year. The Trust co-ordinates the annual planning process drawing on in put from clinical, operational and support functions across the organization. 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.

The Trust's latest submitted Financial Plan showed an agreed £24.3m deficit with £42.2m WRP. Since then further changes have been made to adjust for ELHTs share of the system gap of £12.3m resulting in a new plan that shows a £24.5m deficit and a £54.6m WRP. This was agreed with the ICB.

The Trust has identified significant risks to achieving the plan and has yet to identify all of its agreed WRP. The Trust continues to devote significant resources to deliver financial sustainability along side its ICS partners but the challenge and risks to non-delivery in 2023/24 are significant.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

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. 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 £28.8m of WRP savings in 2022/23. For 2023/24 the Trust has recruited an additional post with the remit to improve the Trusts performance against WRP.

For 2023/24 the Trust's latest financial plan includes a WRP target of £54.6m, representing 7.4% 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, at the end of May 2023, £17.3m of WRP has yet to be identified'. Notwithstanding the Trust recent track record in delivering savings, and based on our work, we are concerned the level of WRP required in 2023/24 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.

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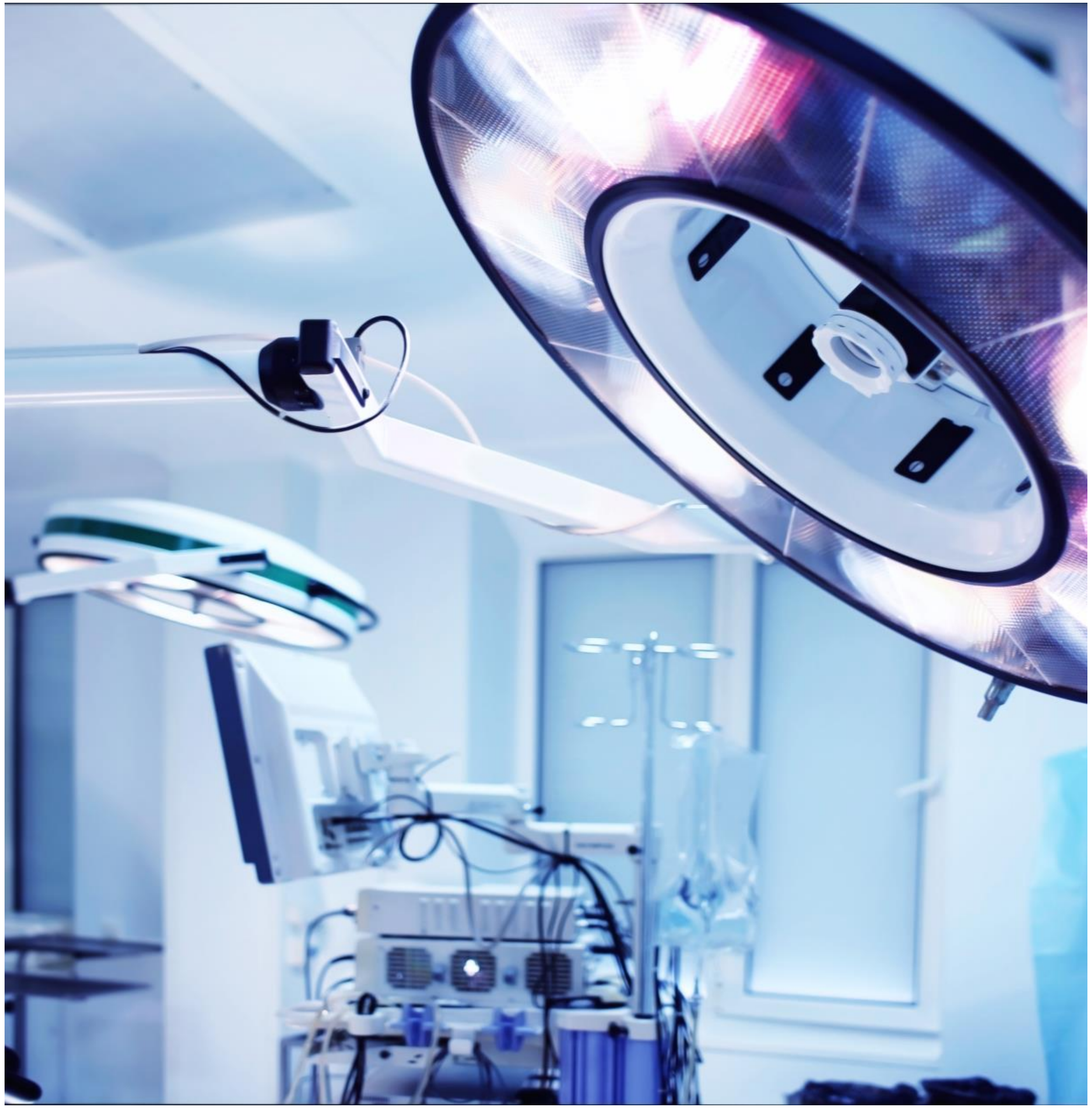
3. VFM arrangements

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 risk management system in place which is embedded into the governance structure of the organisation. The processes are supported a Risk Management Strategy and the Trust leadership continues to play a key role in implementing and monitoring the risk management process.

The Trust has risk management software in place to support the management and monitoring of all risks identified from both external and internal sources. Risk owners 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 2022/23 and 2023/24. 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

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 timetable.

The Trust develops its detailed budget using agreed its own developed and agreed budget setting principles. Known pressures and increases are incorporated alongside the impact of any business cases, inflation 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 information is held within the Trust's general ledger system and reconciled to the approved annual plan and control totals. Budget holders are responsible for monitoring and reporting the delivery of their budgets. The Trust's finance team operates on a prompt monthly closedown timetable which ensure budget reports are received by budget holders to allow for review and scrutiny. Part of this monthly cycle includes finance reports to Finance & Performance Committee Board receiving an integrated performance report 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 system position. This is discussed alongside activity performance, improvement work, waste reduction programme updates and workforce information to ensure a rounded position is provided.

We have reviewed an example budget report and confirmed it contains sufficient detail to allow the budget holder to undertake a detailed review.

VFM arrangements – Governance

Overall commentary on Governance

The Trust's decision making arrangements and control framework

The established governance structure is set out within its Annual Governance Statement. This is supported by the Trust's Constitution and scheme of delegation. Executive Directors have clear responsibilities linked to their roles and the Board Sub-Committee structure in place at the Trust allows for effective oversight of the Trust's operations and activity..

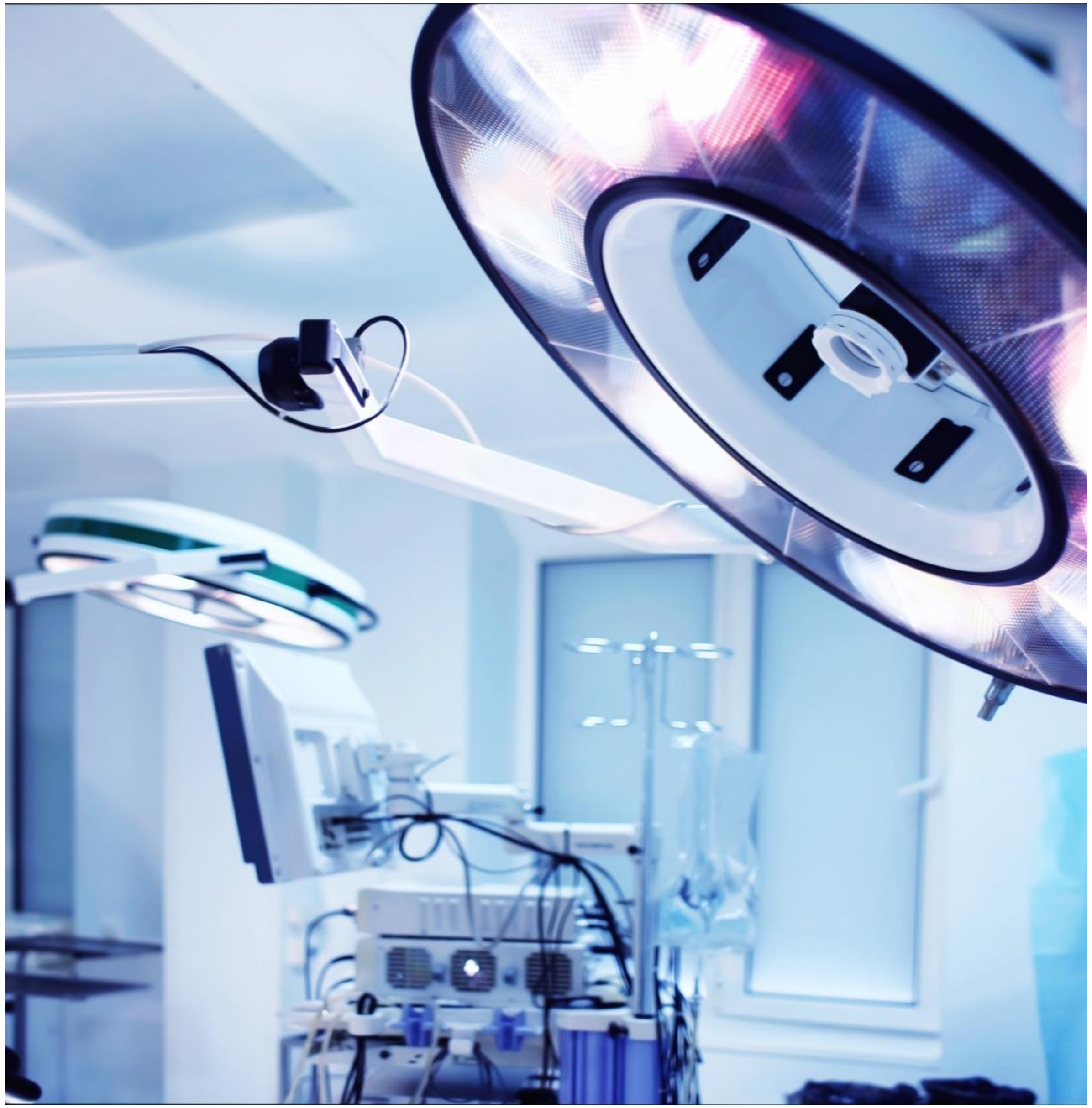
The Trust has a full suite of governance arrangements in place. These are set out in the Trust's Annual Report and Annual Governance Statement. We reviewed these documents as part of our audit and confirmed they were consistent with our understanding of the Trust's arrangements in place. This includes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

3. 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) which is reported to each Board meeting. This reports in a clear and transparent way 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 Integrated Performance Report provides a summary of performance for each performance indicator outlining the actual performance in the month, whether performance 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 for each indicator and narrative contextual and explanatory commentary. Where improvements are required these are highlighted in the report, enabling the Trust to take appropriate actions on a timely basis. The report identifies both positive news and areas that require review and improvement.

The Trust uses a variety of sources of information and tools for benchmarking and 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.

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.

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 on behalf of themselves, Lancashire Teaching Hospital and Blackpool Hospital. LPC has a professionally qualified procurement and commercial resources team with appropriate and up to date procurement policies and processes.in place.

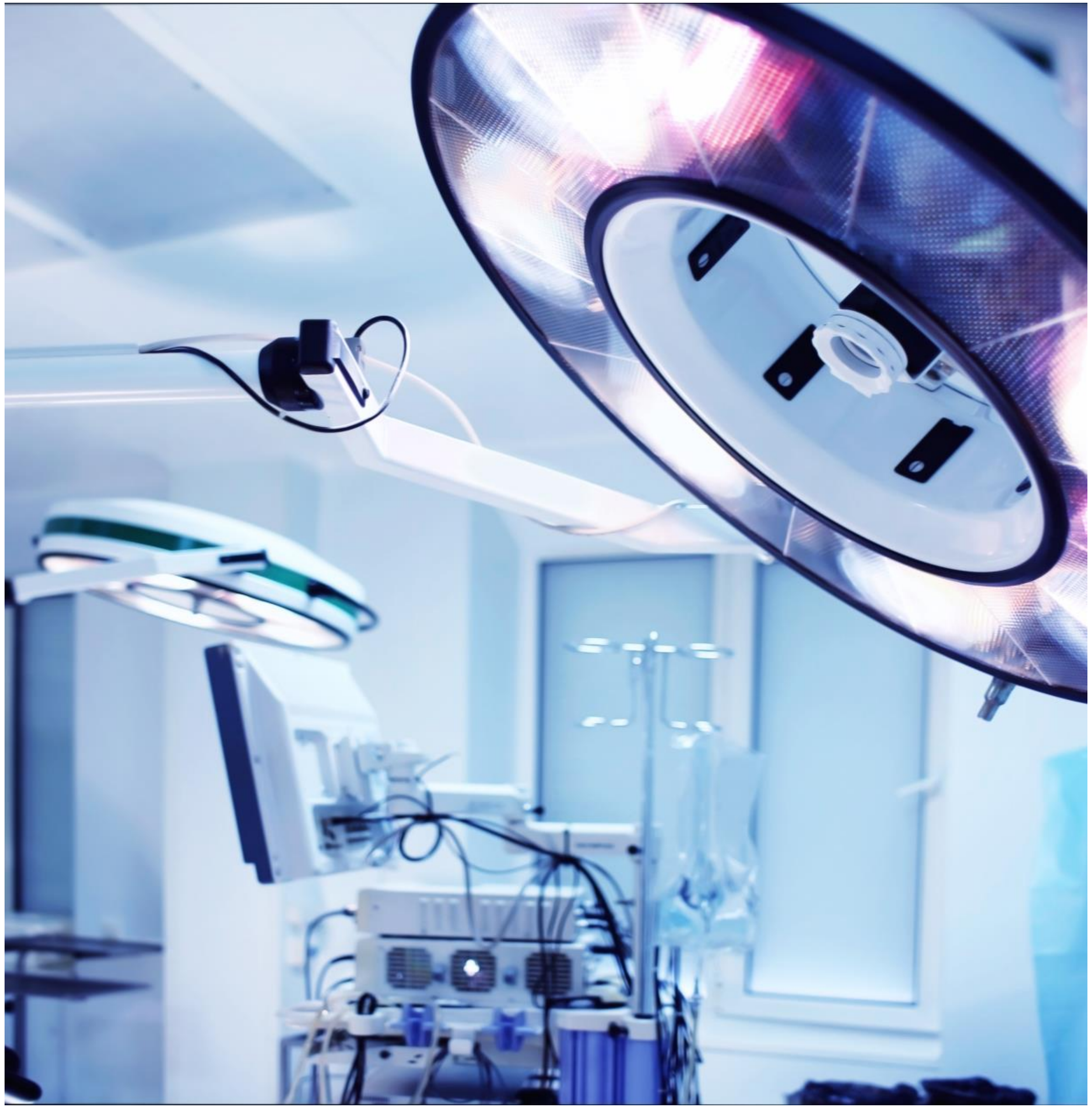
The Trust has a procurement policy which has been agreed at ICS level to ensure that all organisations across the ICS adopt robust, legally compliant, and efficient procurement practices to ensure that procurement contributes to the Trust's waste reduction programme.

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.

3. VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



3. VFM arrangements – Prior year significant weaknesses and recommendations

Progress against significant weaknesses and recommendations made in the prior year

As part of our 2021/22 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 2022/23 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 2022/23 continues for 2023/24. The Trust's 2023/24 financial plan reflects a £24.5m deficit position. Achieving this deficit position assumes the delivery of savings of £54.6m in the year. This represents 7.4% 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 £130.5m at the 31/3/2024.	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. .

04

Section 04:

Other reporting responsibilities and our fees

4. 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 2022/23.

Section 30 referrals

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

We have not issued a Section 30 referral to the Secretary of State.

Reporting to the National Audit Office (NAO)

The NAO, as group auditor, requires us to report to them whether consolidation data that the Trust has submitted is consistent with the audited financial statements. The NAO also included the Trust in its sample of component bodies for the purpose of its audit of the DHSC group.

We reported to the NAO that consolidation data was consistent with the audited financial statements. We also reported to the NAO in line with its group audit instructions.

Fees for our work as the Trust's/ICB's/CCG'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 2023. Having completed our work for the 2022/23 financial year , we can confirm that our fees are as follows:

Area of work	2022/23 fees	2021/22 fees
Planned fee in respect of our work under the Code of Audit Practice	£74,500	£74,500
Total fees	**£74,500**	**£74,500**

Fees for other work

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

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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.	We addressed this risk through performing audit work over: • accounting estimates, • journal entries and • significant transactions outside the normal course of business or otherwise unusual. Our work on the accounting estimates and journal transfers did not identify any matters to report. Our work did not identify any significant transactions outside the normal course of business. **We have no matters to bring to your 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 specifically to the recognition of income around the year end.	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. In addition we have undertaken a range of substantive procedures including: • testing of material income and material year-end receivables; • testing receipts in the pre and post year-end period to ensure they have been recognised in the right year; and • reviewing intra-NHS reconciliations and data matches provided by the Department of Health and Social Care and if necessary seek direct confirmation from third parties. **There were no significant matters to bring to your attention.**

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
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 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 of the expected credit loss impairment, and the accuracy and existence of non-pay accruals and capital payables. For the Trust we deem the risk to relate specifically to the recognition of income around the year end. .	We addressed this risk by undertaking a range of substantive procedures including: • testing capital additions in the final quarter of the year. • testing accrued expenditure. • considering the completeness and valuation of deferred income recorded in the statement of financial position. • testing a samples of provisions to supporting documentation to confirm they met the recognition criteria such as representing a probable outflow of resources. • reviewing and testing the Trust's expected credit loss impairment • testing expenditure in the pre and post year-end period to ensure they have been recognised in the right year; and • reviewing intra-NHS reconciliations and data matches provided by the Department of Health and Social Care and if necessary seek direct confirmation from third parties. A number of unadjusted errors were identified as shown on page 30. **There are no other matters to bring to your attention.**

A. Further information on our audit of the financial statements

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 £200.8m of the Trust's £239m Property, Plant and Equipment balance at 31 March 2022. 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. .	We evaluated the design and implementation of any controls which mitigate the risk. We have reviewed: • the scope and terms of the engagement with Cushman & Wakefield; and • how management use the valuation report to value land and buildings in the financial statements. We reviewed the valuation methodology used, including testing the underlying data and assessing the reasonableness of the assumptions. We have also assessed the competence, skills and objectivity of the valuer. We considered the reasonableness of the valuation by comparing the valuation output with market intelligence and obtaining corroborative evidence where necessary. Our work is complete. **There are no significant matters to bring to your attention.**
Implementation of IFRS16 IFRS 16 has been applicable from 1 April 2022 and is designed to report information that better shows lease transactions and provides a better basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The Trust is required to re-classify a number of lease arrangements in line with this new standard for the first time in the 2022/23 accounts.	We reviewed the work the Trust has carried out for the implementation of IFRS 16 on 1 April 2022. We substantively tested lease balances and seek evidence to support that they have been correctly classified and accurately measured under the new standard. A classification adjustment was required to note 12.3. **There were no material matters to report.**

A. Further information on our audit of the financial statements

Summary of uncorrected misstatements

		SOCI		SOFP	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Payables			4,269	
	Cr: Operating Expenditure		4,269		
	The Trust has over accrued expenditure relating to the Agenda for Change pay deal.				
2	Dr: Operating Expenditure	717			
	Cr: Payable				717
	The Trust was unable to provide sufficient information in respect of employers pension paid for individuals selected for testing. Without supporting documentation we are unable to confirm whether the balance shown as employers pension contributions is correctly stated. These errors total £176. The above represents the total potential error when the error rate is extrapolated across the untested population.				
3	Dr: Property Plant and Equipment			5,236	
	Cr: Income and Expenditure Reserve				4,491
	Cr Operating Expenditure		745		
	During the course of the audit actual lifecycle costs information was obtained. The above represents the difference between the trusts estimate of the split between revenue and capital at 50/50 and what the actual split provided (29/71). This above impact shows revenue expenditure is overstated and capital expenditure is understated by £745k for the year with a prior year error of £4,491k giving a total cumulative error of £5,236k.				

A. Further information on our audit of the financial statements

Summary of uncorrected misstatements - continued

		SOCI		SOFP	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
4	Dr: Property Plant and Equipment			3,941	
	Cr: Intangibles				3,941
	Our audit identified a misclassification of assets between Intangibles and PP&E relating to the EPR system.				
5	Dr: Payables			1,460	
	Cr: Property Plant and Equipment				1,460
	Our capital additions testing identified a number of assets not delivered by 31 March 2023. These assets were supported by vesting certificates. Our review of the vesting certificates noted that risks and rewards were not transferred to the Trust and therefore not appropriate to treat as capital expenditure.				
6	Dr: Payables			4,638	
	Cr: Property Plant and Equipment				4,422
	Cr Operating Expenditure		216		
	This error relates to error within two samples for accruals. The total amount relates to accrual overstatement of £193k within the sample which extrapolates to £4.4m. One relates to an capital accrual which was raised in error the amount for this accrual is £184k and the other in relation to P11D benefits which was overstated by £9k.				

A. Further information on our audit of the financial statements

Summary of uncorrected misstatements - continued

		SOCI		SOFP	
		Dr (£'000)	**Cr (£'000)**	**Dr (£'000)**	**Cr (£'000)**
7	Dr: Payables			630	
	Dr: Property Plant and Equipment			785	
	Cr. Operating Expenditure		1,415		
	This error relates to differences identified within three samples of non-pay expenditure. The total amount relates to expenditure overstatement of £37k within the sample which extrapolates to £1.4m. One relates to an item of expenditure that is capital in nature which should have been capitalised and the other two relate to differences in the amounts recognised as revenue expenditure.				
8	Dr: Current borrowings			532	
	Cr: Non current borrowings				532
	Our recalculation of current and non-current lease liabilities on a sample of leases identified a difference. Management recalculated all lease liabilities and made an adjustment to correct the split.				
	Total unadjusted misstatements	717	6,645	21,491	15,563
	Net impact of unadjusted misstatements		5,928		5,928

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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