



Auditor's Annual Report 2021/22

**Leicestershire Partnership
NHS Trust**

10 June 2022

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This report is addressed to Leicestershire Partnership NHS Trust (the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Summary

Introduction

This Auditor's Annual Report provides a summary of the findings and key issues arising from our 2021-22 audit of Leicestershire Partnership NHS Trust (the 'Trust'). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Trust alongside the annual report and accounts.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:

- **Accounts** - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Trust and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the Group Accounting Manual prepared by the Department of Health and Social Care (DHSC).
- **Annual report** - We assess whether the annual report is consistent with our knowledge of the Trust. We perform testing of certain figures labelled in the remuneration report.
- **Value for money** - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.
- **Regularity** - We assess whether expenditure incurred is in line with the purposes for which it was provided.
- **Other reporting** - We may issue other reports where we determine that this is necessary in the public interest under the Local Audit and Accountability Act.

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities:

Accounts	<p>We will issue an unqualified opinion on the Trust's accounts on 16 June 2022. This means that we believe the accounts give a true and fair view of the financial performance and position of the Trust.</p> <p>We have provided further details of the key risks we identified and our response on page 4.</p>
Annual report	<p>We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust.</p> <p>We confirmed that the Governance Statement had been prepared in line with the DHSC requirements.</p>
Value for money	<p>We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money.</p> <p>We have nothing to report in this regard.</p>
Regularity	<p>We did not identify any matters where irregular expenditure had been incurred.</p>
Other reporting	<p>We did not consider it necessary to issue any other reports in the public interest.</p>

The table below summarises the key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Risk	Findings
<p>Valuation of Property, Plant and Equipment</p> <p>Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'.</p> <p>The value of the Trust's land and buildings at 31 March 2022 is £167m, a £10m increase from 31 March 2021.</p>	<p>We identified misstatements relating to accumulated depreciation for buildings which have been corrected by management.</p> <p>We considered the estimate to be balanced based on the procedures performed.</p>
<p>Management override of controls</p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<p>We did not identify any material misstatements relating to this risk.</p>
<p>Expenditure recognition</p> <p>As the Trust is set a control total by NHS Improvement for its expected financial performance there is a risk that non-pay expenditure, excluding depreciation, may be manipulated in order to report that the control total has been met.</p> <p>The setting of a control total can create an incentive for management to overstate the level of non-pay expenditure compared to that which has been incurred.</p> <p>We consider this would be most likely to occur through overstating accruals and pre-payments, if performance against the control total allows, for example to bring forward expenditure from 2022-23 to mitigate financial pressures.</p>	<p>We did not identify any material misstatements relating to this risk.</p>

Value for money

Introduction

We consider whether there are sufficient arrangements in place for the Trust for each of the elements that make up value for money. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

Further details of our value for money responsibilities can be found in the Audit Code of Practice at [Code of Audit Practice \(nao.org.uk\)](https://nao.org.uk)

Matters that informed our risk assessment

The table below provides a summary of the external sources of evidence that were utilised in forming our risk assessment as to whether there were significant risks that value for money was not being achieved:

Care Quality Commission rating	The latest assessment is from October 2021, which rated the Trust 'Requires Improvement'. (A further inspection was carried out in February 2022 which showed an improved position for areas previously rated 'inadequate').
Single Oversight Framework rating	The latest assessment is from March 2022, which rated the Trust a 3.
Governance statement	There were no significant control deficiencies identified in the governance statement.
Head of Internal Audit opinion	An opinion of significant assurance was issued.

Commentary on arrangements

We have set out on the following pages commentary on how the arrangements in place at the Trust compared to the expected systems that would be in place in the sector.

Summary of findings

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

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

Financial sustainability

Description

Commentary on arrangements

This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- How the Trust sets its financial plan to ensure services can continue to be delivered;
- How financial performance is monitored and actions identified where it is behind plan; and
- How financial risks are identified and actions to manage risks implemented.

We found that the initial draft budgets were constructed based on appropriate local and national planning assumptions. The budget monitoring and control processes are able to identify, and incorporate, significant pressures into the financial plan to ensure it remains achievable and realistic. Clear responsibilities are outlined for budget holders and the Trust Board has oversight of the annual budgets, which are approved before submission. The Trust's H1 financial plan was approved in April 2021 and the H2 plan was approved in November 2021. The LPT H2 financial position shows a balanced plan, building from the break-even H1 outturn.

The initial 2022/23 ICS plan was submitted mid-March 2022 and showed a deficit of £27.4m, with underlying pressures. In April, UHL's planning assumptions worsened significantly, despite improvements at the Trust and the CCG's and a revised plan was submitted on 28 April 2022. The Trust and the ICS revised plan shows a System deficit position of £49.3m, of which the Trust's share is £1.4m deficit. The primary driver of the Trust's deficit is a shortfall on national tariff inflation funding. A £1.4m deficit is below the 0.5% materiality threshold and so the statutory NHS break-even duty will still have been met. The System plan includes stretching efficiency targets of £71.58m of which £5.6m is the Trust's share. The Trust has identified savings of £5.6m.

In addition, we considered the arrangements in place to align the Trust's 2022/23 financial plan with the ICS financial plan and found evidence of collaborative working between the Trust and ICS partners. The Trust followed the planning guidance by working within the ICS and applying the assumptions as recommended by NHS England.

The Trust has an appropriate reporting framework in place. The financial performance of the Trust is reported each month to the Finance and Performance Committee, prior to a summary report being taken to the Trust Board. During the year this has included regular updates on changes to the national NHS financial regime and the performance of the wider Leicester, Leicestershire and Rutland (LLR), Integrated Care System (ICS).

The Trusts' Risk management policy has been updated in November 2021. Adequate arrangements are in place over the monitoring of risks, which is documented in more detail on page 22. The Organisational Risk Register (ORR) is presented to each meeting of the public trust board. The ORR includes risk 70 – Inadequate control, reporting and management of the Trust's 2021/22 financial position could mean we are unable to deliver our financial plan and adequately contribute to the LLR system plan, resulting in a breach of LPT's statutory duties and financial strategy (including LLR strategy).

The Trust has a large capital programme totalling £16.3m for 2021/22. As at Month 9, the Trust spent £6.2m of their capital programme, which is £3.1m below the year to date planned target of £9.3m. £3.5m of slippage was also identified against the capital programme, and reported on to the LLR ICS NHS Board. We have reviewed the progress made and consider there to be no risk against delivery.

In response to the identified risk, we considered the Trust and ICS system outturn position for 2021/22. The adjusted financial performance (control total basis) of the Trust and System improved during the year achieving a £15.3m System surplus (pre-audit control total basis) of which the Trust achieved a surplus of £19k. The improvements were mainly in relation to UHL and income benefits and other reductions in expenditure. The System also over performed against a £23.9m efficiency target by £6.5m.

The ICS and the Trust have provided a clear summary of key challenges underpinning the plan, and a number of transformation programmes are being considered across the System to respond to these challenges, demonstrating that the System had begun to respond to the identified challenges. Reducing the deficit across the ICS continues to be a key priority within the system that in turn impacts the Trust.

NHSE/I recently announced a further £1.5 billion of inflation funding will be provided across the NHS, with the ICS due to receive £11.7m. The receipt of the inflation funding combined with additional mitigations will be required to deliver the ICS ambition to reduce the deficit from £49.3m to breakeven. The Trust is due to receive £1.4m of inflation funding. Over the coming weeks the Trust will be working to develop a breakeven plan and will also work collaboratively with the ICS to revise the System plan for final submission on 20th June 2022. The Trust has provided Board members with regular updates and has a clear understanding of the challenges and work needed to develop a breakeven financial plan for 2022/23.

Through considering these arrangements, we have not identified a significant weakness linked to the Financial Sustainability risk.

Value for money

Governance	
Description	Commentary on arrangements
<p>This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> Processes for the identification and management of strategic risks; Decision making framework for assessing strategic decisions; Processes for ensuring compliance with laws and regulations; How controls in key areas are monitored to ensure they are working effectively. 	<p>We consider the Trust to have adequate processes in place to monitor and assess risk. Strategic risks are recorded and identified using the Board Assurance Framework and Organisational Risk Register with any identified risks are reported to the relevant committees, including Finance and Performance Committee and the Trust Board. Risks are reviewed on a monthly basis. The Deputy Director of Governance and Risk meets individually with members of the Executive Team to review risk on the ORR and hold broader discussions around horizon scanning/ identifying future risk. Also on a monthly basis, the Risk Review Group supports the regular review and validation of operational risk including health and safety assessments and risk.</p> <p>The Trust have a dedicated counter fraud service provided by 360 Assurance. The LCFS has an agreed work plan and reports progress to each Audit and Assurance Committee, with an annual report taken at the end of the year. This resource is supplemented via consideration of fraud by the Audit and Assurance Committee and senior finance staff whilst preparing the financial statements. The Trust have an Internal Audit service provided by 360 Assurance, some elements of work have been deferred or re-scoped due to the pandemic, however a full assurance opinion is expected to be provided for the year.</p> <p>The Trust has a performance management framework in place to set the structure of performance management across the Trust. This details the format of reporting and outlines roles and responsibilities at each level. The main element of performance reporting is the integrated performance report which provides the Quality and Assurance Committee (QAC) with key operational performance indicators on a monthly basis. Whilst issues were raised in the prior year over the level of clarity provided by the reports, a revised report format has been introduced to support more focused presentation and clarity over the responsibilities of the committee.</p> <p>The financial planning regime has significantly changed from 2020/21 with block funding introduced for the majority of contracts the Trust holds. The Trust has maintained oversight of performance (both financial and operational) by continuing Finance and Performance Committee meetings.</p> <p>The Trust implemented a specific financial regime during the first wave of the pandemic including a change in the scheme of delegation to enable the Incident Coordination Centre (ICC) to approve major decisions. Members of the ICC include the Deputy Chief Executive Officer and the Director of Governance and Risk, and is overseen by the Executive and Director team. Supporting the ICC, a separate process has been established to collate and report COVID related expenditure with separate ledger codes set up to record spend.</p> <p>Key strategic decisions are made via the Trust's governance process. A scheme of delegation is in place which sets out where different decisions/approvals should take place. The Trust have agreed business case templates in place and each case is subject to approval in line with the scheme of delegation prior to formal approval and scrutiny at the Finance and Performance Committee and the Trust Board.</p> <p>The Trust has in place a staff code of conduct as per the standards of conduct and business behaviour policy. Specific guidance is in place for teams and managers via standards of behaviour for these roles. Overall compliance with legislation, laws & regulations is monitored by the Policy Committee. A register of interest is in place together with a policy for gifts and hospitality with regular reporting on new entries to the register taking place to the Audit and Assurance Committee.</p> <p>Through considering these arrangements, we have not identified a significant weakness in the arrangements to deliver value for money in the year in relation to Governance.</p>

Improving economy, efficiency and effectiveness

Description	Commentary on arrangements
<p>This relates to how the Trust seeks to improve its systems so that it can deliver more for the resources that are available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> ▪ The planning and delivery of efficiency plans to achieve savings in how services are delivered; ▪ The use of benchmarking information to identify areas where services could be delivered more effectively; ▪ Monitoring of non-financial performance to assess whether objectives are being achieved; and ▪ Management of partners and subcontractors. 	<p>The Trust has a performance management framework in place to set the structure of performance management across the Trust. This details the format of reporting and outlines roles and responsibilities at each level. The main element of performance reporting is the integrated performance report which provides the Quality and Assurance Committee (QAC) with key operational performance indicators on a monthly basis. Whilst issues were raised in the prior year over the level of clarity provided by the reports, a revised report format has been introduced to support more focused presentation and clarity over the responsibilities of the committee.</p> <p>The Trust engage well within partnerships and have continued to work well and developed strategies with other organisations. The Trust is an active member of the Leicester, Leicestershire and Rutland ICS and have signed up to the ICS governance structure which includes mechanisms for engagement in strategic discussions (NHS Executive) as well as in the design groups which are mandated to develop new pathways of care. Key posts have been appointed in the LLR ICS NHS Board and the ICS Finance Committee with the Trust holding 2 seats in both committees. The Trust has active participation with local health and wellbeing boards and oversight and scrutiny committees.</p> <p>We noted that the Trust are engaging with and monitoring their subcontractors in line with key performance indicators (KPIs) and regulatory guidance, if applicable. Reports are taken to the relevant committees to review the performance of subcontractors, with actions created and carried by both the Trust and the subcontractor.</p> <p>The Care Quality Commission (CQC) carried out a planned unannounced inspection of Leicestershire Partnership NHS Trust (LPT), between May and July 2021. The inspectors visited three of the Trust's 15 core services: two mental health services previously rated as inadequate and one mental health service rated requires improvement (2019). They also inspected the Trust against the well-led domain, previously rated as inadequate. Findings showed an improvement in the Well-led domain which has progressed from 'Inadequate' to 'Requires Improvement' with many 'Good' characteristics including significant improvements in leadership, governance and oversight of performance and risk, and an improved culture and engagement with staff and people using services. The Trust retained the overall rating of 'Requires Improvement' and the 'Good' rating for 'Caring'.</p> <p>In May 2022, CQC published a further report following an unannounced inspection of the acute wards for adults of working age and psychiatric intensive care units in February 2022. The unannounced inspection took place to check whether specific improvements had been made following the previous inspections in May to July 2021. The CQC moved the ratings in recognition of the improvements in two areas inspected: Safety moved from inadequate to requires improvement and responsiveness moved from requires improvement to good.</p> <p>The CQC concluded that all actions required in the enforcement action issued at the last inspection have been met.</p> <p>The Trust acknowledges that work is ongoing to improve the rating provided by the CQC and continues to be a key priority for the Trust.</p> <p>Through considering these arrangements, we have not identified a significant weakness linked to the Improving Economy, Efficiency and Effectiveness risk.</p>



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