



# Bradford Teaching Hospitals NHS Foundation Trust

Auditor's Annual Report 2023/24

30 August 2024

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# Key Messages

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## Audit opinion on the financial statements

We issued an unqualified opinion on the Trust's financial statements on 30 August 2024.

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## The Trust's arrangements to secure Value for Money

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### Significant weaknesses in the Trust's arrangements

On 22 August 2024 we reported to the Trust a significant weakness in the Trust's governance arrangements.

The significant weakness reported was in relation to the Trust's arrangements in dealing with issues arising during the year which led to action being taken by the regulators and which risks damage to the Trust's reputation.

Our recommendations for improvement are set out on page 16.

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### Commentary on the Trust's arrangements

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#### Financial Sustainability

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

The Trust has arrangements in place to secure financial sustainability and a track record of delivering financial targets delivering 100% of planned efficiencies in 2023/24, albeit with reliance upon non recurrent measures. The efficiency target for 2024/25 is particularly challenging and management must ensure that, through the closing the gap programme, clear focus is maintained throughout 2024/25 to ensure successfully delivery.

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#### Governance

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

We reported a significant weakness in respect of the Trust's governance arrangements following the departure of the chair and subsequent intervention by the Trust's regulators. We have made recommendations that the Trust continues to engage with and respond to the concerns raised by regulators and any further recommendations arising from the anticipated CQC report.

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#### 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*

We observed satisfactory arrangements to secure the economy, efficiency and effectiveness in the Trust's Use of Resources through the use of such measures as Getting It Right First Time (GIRFT), Model Hospital data and Patient Led Information and Costing Data (PLICS).

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# Purpose of this report

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Our Auditor's Annual Report sets out the key findings arising from the work we have carried out at Bradford Teaching Hospitals NHS Foundation Trust ("the Trust") for the year ended 31 March 2024.

This report is intended to bring together the results of our work over the year at the Trust, including commentary on the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM").

In preparing this report, we have followed the National Audit Office's ("NAO") 2020 Code of Audit Practice and its supporting Auditor Guidance Note ("AGN") 03 Value for Money, and AGN 07 Auditor Reporting. These are available from the NAO website. The 2024 Code of Audit Practice will apply for 2024/25 onwards.

A key element of this report is our commentary on the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM"). Our work considering these arrangements is based on our assessment of the adequacy of the arrangements the Trust has put in place, based on our risk assessment. The commentary does not consider the adequacy of every arrangement the Trust has in place, nor does it provide positive assurance that the Trust is delivering or represents value for money.

Where we identify recommendations, we indicate whether these are:

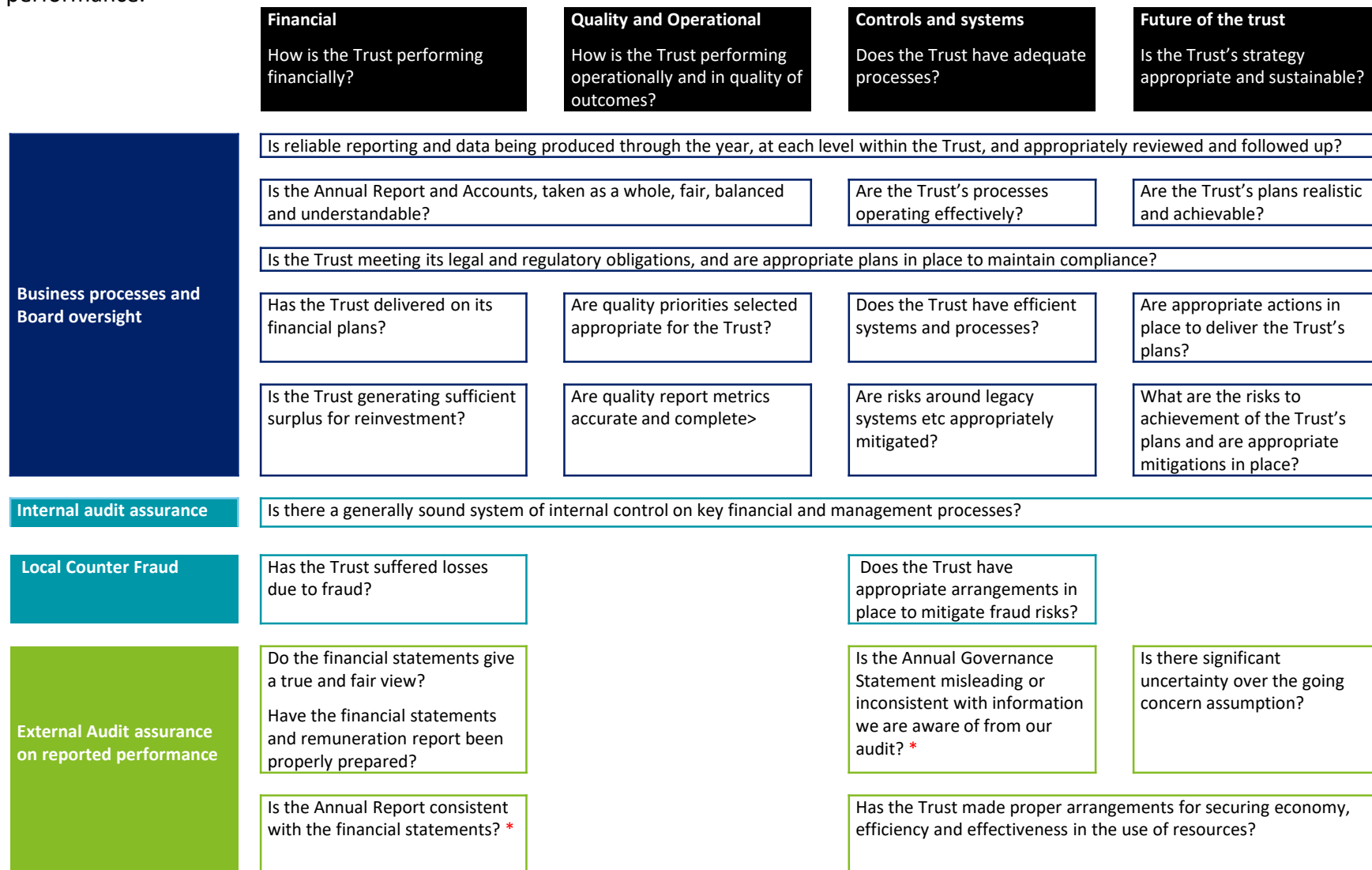
- Recommendations in respect of significant weaknesses in the Trust's VfM arrangements, which we are required to make in accordance with AGN 03 where we identify a significant weakness, or.
- Other recommendations, which we have indicated as "Deloitte Insights" intended to inform management and assist the Trust in further improving its control environment.

The significant weakness in the Trust's VfM arrangements and related recommendations are set out on pages 15 to 16.

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# Assurance sources for the Trust

The diagram below illustrates how the assurances provided by external audit around finance, quality, controls and systems and the future of the Trust (in the green rows) and how this fits with some of the other assurances available over the Trust's position and performance.



\* The scope of external audit in this area is "negative assurance" of reporting by exception of issues identified.

# Opinion on the financial statements

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## **We provide an independent opinion whether the Trust's financial statements:**

- Give a true and fair view of the financial position of the Trust at 31 March 2024 and of its income and expenditure for the year then ended;
- Have been properly prepared in accordance with the accounting policies directed by NHS England; and
- Have been prepared in accordance with the requirements of the National Health Service Act 2006.

The full opinion and certificate are included in the Trust's Annual Report and Accounts, which can be obtained from the Trust's website.

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We conduct our audit in accordance with the NAO's Code of Audit Practice, International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We are independent of the Trust in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

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<b>Audit opinion on the financial statements:</b>	We issued an unqualified opinion on the Trust's financial statements on 30 August 2024. We did not identify any matters where, in our opinion, proper practices had not been observed in the compilation of the financial statements.
<b>Remuneration and Staff Report:</b>	We reported 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.
<b>Annual Governance Statement:</b>	We did not identify any matters where, in our opinion, the Annual Governance Statement did not meet the disclosure requirements set out in the NHS Foundation Trust Annual Reporting Manual, was misleading, or was inconsistent with information of which we are aware from our audit.
<b>Annual Report:</b>	We reported that the information given in the Performance Report and Accountability Report for the year ended 31 March 2024 is consistent with the financial statements.
<b>Reports in the public interest and reports to NHS England:</b>	We did not exercise any of our additional reporting powers in respect of the year ended 31 March 2024.
<b>Reporting to the group auditor:</b>	In line with the group audit instructions issued by the NAO, we reported on 30 August 2024 that the Trust's consolidation schedules that feed into the Consolidated NHS Provider Account and Department of Health and Social Care's group accounts were consistent with the audited financial statements.
<b>Audit Certificate</b>	We certified completion of the audit on 30 August 2024, following completion of our responsibilities in respect of the audit for the year ended 31 March 2024.

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# Our financial statement audit approach

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## An overview of the scope of the audit

Our audit was scoped by obtaining an understanding of the Trust and the environment it operates in, including internal control, and assessing the risks of material misstatement to the financial statements. Our risk assessment procedures include considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address identified risks of material misstatement.

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team, led by the audit Associate Partner, Paul Hewitson. The audit team included integrated Deloitte specialists bringing specific skills and experience in property valuations.

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## Materiality

Our work is planned and performed to detect material misstatements. We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Trust to be £12.0m, on the basis of 2% of revenue, which is c3.4% of gross assets and c5.4% of taxpayers' equity.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £300k as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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## Procedures for auditing the Trust's financial statements

Our audit of the Trust's financial statements included:

- developing an understanding of the Trust, including its systems, processes, risks, challenges and opportunities and then using this understanding to focus audit procedures on areas where we consider there to be a higher risk of misstatement in the Trust's financial statements;
- interviewing members of the Trust's management team and reviewing documentation to test the design and implementation of the Trust's internal controls in certain key areas relevant to the financial statements; and
- performing sample tests on balances in the Trust's financial statements to supporting documentary evidence, as well as other analytical procedures, to test the validity, accuracy and completeness of those balances.

Data analytic techniques were used as part of audit testing, in particular to support profiling of populations to identify items of audit interest and in particular in our journal testing, using our Spotlight data analytics platform.

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## Approach to audit risks

We focused our work on areas where we considered there to be a higher risk of misstatement. We refer to these areas as significant audit risks.

We provided a detailed audit plan to the Trust's Audit Committee setting out what we considered to be the significant audit risks for the Trust, together with our planned approach to addressing those risks. We have provided a summary of each of the significant audit risks on the next page.

We have made recommendations in our Audit Committee reporting and to management for improvement in the Trust's policies, procedures and internal controls based on observations from our work. However, other than the matters detailed on page 15, we do not consider these recommendations to reflect significant weaknesses in the Trust's VfM arrangements.

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# Financial statement audit significant risks

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## Accounting for capital expenditure

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<b>Risk identified</b>	<p>The Trust has a significant capital programme and has forecasted £61m for capital works during 2023/24 (2022/23: £21.5m actual spend). Key projects include the SLH Day Case Unit and the Endoscopy Transformation Project.</p> <p>Where the Trust develops properties as part of its capital programme, determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards. The annual cut-off of capital budgets and requirements of PDC funding increase the risk of amounts being incorrectly capitalised, or of incorrect recognition in the current period. The increased levels of capital funding across the sector have led to increased materiality of judgements over whether expenditure is capital in nature, including in respect of the Trust's use of £2.5m of vesting certificates in the prior year for which we provided control recommendations in our Report to Those Charged with Governance.</p> <p>We consider this to be a risk of fraud in misreporting as there could be an incentive for the Trust to capitalise costs that are not capital in nature or to record capital spend in the wrong period.</p>
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<b>Deloitte response</b>	<ul style="list-style-type: none"><li>• We reviewed the Trust's capital plans as part of the planning process and discussed with management potential risks or issues identified.</li><li>• We tested the design and implementation of controls around the capitalisation of costs.</li><li>• We tested spending on a sample basis to confirm that it complies with the relevant accounting requirements.</li><li>• We tested the validity of year-end capital accruals to test cut-off of expenditure.</li><li>• We tested a sample of vesting certificates to assess whether they were appropriately accounted for, and also considered from a Value for Money perspective whether their use was in accordance with the requirements of Managing Public Money (which requires bodies not to make payments in advance of need or solely for the purposes of managing performance against spending controls).</li></ul>
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# Financial statement audit significant risks (continued)

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## Accounting for capital expenditure

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<b>Key observations</b>	<p>We tested a sample of items coded to capital expenditure in the period and, through examination of the underlying evidence, concluded whether they properly represented capital expenditure to be recorded in the period of accounts. Out of a sample of 30 items selected for testing we identified:</p> <ul style="list-style-type: none"><li>• One item of capitalised expenditure in respect of the purchase of iPhones. We did not consider that these items met the capitalisation criteria set out in the Group Accounting Manual as they were neither over the de minimis threshold nor operationally interdependent such that they would meet the grouped asset criteria for capitalisation; and</li><li>• Two instances where portacabin assets were classified as Land and Buildings where as, in our judgement, these should properly be classified as Plant and Equipment.</li></ul> <p>Neither the errors noted (individually or in aggregate) nor the extrapolated impact breached our reporting threshold of £300k and hence no misstatement has been identified however the errors are brought to your attention as indications of potential control weakness.</p> <p>Of the 30 items tested 4 were assets subject to vesting certificates. Whilst, through our testing we were content that there were sufficient business reasons for the use of such arrangements it was clear to us that that this consideration against the criteria of Managing Public Money did not form a routine part of the Trust's consideration and judgement. We recommend that future decisions to use vesting certificates clearly consider the implications and requirements of Managing Public Money.</p> <p>We further tested a sample of 9 Capital Creditors included in the Statement of Financial Position under Current payables. Through our testing we noted a single item which we judged had been incorrectly classified as a capital payable however both the value and extrapolated impact were trivial and, accordingly, no misstatement has been reported.</p> <p>In respect of one item of capital creditors the Trust was unable to provide satisfactory evidence that the asset had been received prior to the year end; accordingly we estimated an extrapolated error of £1.5m overstatement to both creditors and capital additions.</p>
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# Financial statement audit significant risks (continued)

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## Property valuations

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<b>Risk identified</b>	<p>The Trust is required to hold property assets within Property, Plant and Equipment at valuation, which will usually be on a modern equivalent use basis. Valuations are, by nature, significant estimates which are based on specialist and management assumptions, and which can be subject to material changes in value. The Trust has had an independent valuation carried out for the purposes of the 31 March 2024 financial statements.</p> <p>In our audit plan we noted that we were still completing our risk assessment in relation to the property valuation, as we were awaiting response to the queries raised with management in relation to what detailed evidence was held by the Trust to support the modern equivalent asset assumptions used in the prior year and current year, specifically the amalgamation percentages. These questions were triggered in response to the findings of an internal review conducted by Deloitte's Monitoring and Remediation team which concluded that, in the completion of the 2022/23 audit, the audit team had not sufficiently documented their understanding of the assumptions underpinning the modern equivalent asset used as the basis for the valuation.</p> <p>Management were ultimately unable to provide appropriate audit evidence to support the amalgamation percentages used in the property valuation reflected in the 2022/23 Financial statements and consequently the Trust undertook an exercise to re-establish the evidence base supporting the valuation assumptions, based on the exercise completed as part of the unsuccessful 2021 bid to secure funding for the proposed new hospital build. This revised evidence base was used to reassess the value of the land and building assets as at 31 March 2023 and to assess the value as at 31 March 2024 for the purposes of the current year audit.</p> <p>As the Trust has made changes to its valuation assumptions in the year, specifically in relation to the process for calculating the amalgamation percentages applied, we confirmed that there remained a significant risk relating to the revaluation of land and buildings.</p>
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# Financial statement audit significant risks (continued)

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## Property valuations

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### **Deloitte response**

The Trust is required to hold property assets within Property, Plant and Equipment at valuation, which will usually be on a modern equivalent asset basis. In considering the property valuation risk, we performed the following audit procedures that directly address this risk:

- We tested the design and implementation of key controls in place around the property valuation;
  - We tested the key inputs to the valuation, specifically the Gross Internal Areas (GIAs) and the amalgamation percentages, provided by the Trust to the valuer back to supporting documentation;
  - We interviewed the Trust's valuation advisors, Cushman and Wakefield, to better understand how the Modern Equivalent Asset design had been derived and tested the derivation back to the Trust's Model Hospital documentation;
  - We evaluated the extent to which Cushman and Wakefield could be relied upon as management's expert;
  - We used our valuation specialists (Deloitte Real Asset Advisory) to review and challenge the appropriateness of the assumptions used in the year-end valuation of the Trust's Land and Buildings, including the Modern Equivalent Asset Design;
  - We selected a sample of assets to confirm that the calculation of the valuation movement was correctly performed and correctly recorded in the underlying fixed asset records;
  - We tested the impact that applying the updated valuation approach would have had on the valuation as at 31 March 2023 had it been correctly applied in that year of account; and
  - We considered whether the impact on the reported values as at 31 March 2023 was sufficiently material to require the prior period figures to be restated.
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# Financial statement audit significant risks (continued)

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## Property valuations

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<b>Key observations</b>	<p>From our work on the implementation of key controls we identified that management had not undertaken a detailed review of the valuers' report at year end to confirm that the assumptions and methodology used were consistent with their knowledge and expectations before the figures were brought into the financial statements. This is a repeat of a finding from 2022/23. We noted through our testing that the Trust had insufficient control and oversight over the formulation of the Modern Equivalent Asset design as officers were unable to articulate how the design had been derived from the Model Hospital workings; it is essential that management are thoroughly acquainted with the judgements and assumptions that underpin the MEA design such that they can review and conclude whether any changes need to be directed to the valuer at each valuation point. It was in part this lack of understanding on the part of the Trust which has led to the delayed audit opinion. Our valuation specialists were able to confirm, following enquiry, that the values opined by the Trust's appointed valuer were acceptable for the purposes of financial reporting however they highlighted recommendations, which were included in our report to Those Charged with Governance, to consider when undertaking the valuation exercise for 2024/25.</p> <p>In considering what difference there would have been in the reported balance for Property Plant and Equipment in 2022/23 if the valuation had been undertaken based upon an MEA design which could be supported by the evidence held by the Trust. Under the new valuation assumptions the property valuation would have been £2.178m lower with an estimated reduction in the revaluation reserve via Other Comprehensive Income of £1.147m, and an estimated impairment recorded in expenditure of £1.031m. As these errors are immaterial we have not proposed a prior period adjustment to correct the Financial Statements as at 31 March 2023 however these observations are recorded as an error in the current year balances of Other Comprehensive Income and recognised expenditure.</p> <p>We further identified a single arithmetic error in the application of the Modern Equivalent Asset Design work in the respect of 2024 which resulted in a misstatement of £1.6m which remains uncorrected at the year end.</p> <p>We further noted that management had not undertaken a detailed review of the revaluation report prior to posting the results into the ledger. Whilst it is appropriate for management to seek the advice of an expert in determining the correct value to report in the financial statements it is essential that management retain ownership of the resulting valuations and subject the resulting report to a through, critical review, to ensure that the results are clearly understood and consistent with management's understanding of the relevant facts and circumstances.</p>
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# Financial statement audit significant risks (continued)

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## Management override of controls

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<b>Risk identified</b>	<p>In accordance with ISA (UK) 240 management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Trust's controls for specific transactions.</p> <p>The key judgments in the financial statements are those which we have selected to be the significant audit risks – capital expenditure and valuation of Property, Plant and Equipment. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.</p>
<b>Deloitte response</b>	<p>We considered the overall control environment and 'tone at the top' and noted no issues of concern.</p> <p>Manipulation of journal entries:</p> <ul style="list-style-type: none"><li>• We tested the design and implementation of controls in relation to journals and were content that the controls were designed and implemented effectively;</li><li>• We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;</li><li>• We have used Spotlight data analytics tools to select journals for testing with characteristics indicative of potential manipulation of reporting. We traced the journals to supporting documentation and evaluated the accounting rationale for the posting. We evaluated individually and in aggregate whether the journals tested were indicative of fraud or bias;</li><li>• We considered the year-end adjustments made outside of the accounting system between the general ledger and the financial statements in ensuring that the financial statements could be reconciled back to the general ledger; and</li><li>• We reviewed accounting estimates for biases that could result in material misstatements due to fraud and performed testing on key accounting estimates.</li></ul>
<b>Key observations</b>	<p>We have no matters to report in respect of this significant risk of material misstatement.</p>

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# Auditor's work on Value for Money (VfM) arrangements

The Accounting Officer and the Board are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

The Accounting Officer reports on the Trust's arrangements, and the effectiveness with which the arrangements are operating as part of their annual governance statement.

Under the National Health Service Act 2006, we are required to be satisfied whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. In accordance with the National Audit Office's Auditor Guidance Note 3, we are required to assess arrangements under three areas:

<b>Financial Sustainability</b>	<i>How the body plans and manages its resources to ensure it can continue to deliver its services</i>
<b>Governance</b>	<i>How the body ensures that it makes informed decisions and properly manages its risks</i>
<b>Improving economy, efficiency and effectiveness</b>	<i>How the body uses information about its costs and performance to improve the way it manages and delivers its services</i>

In this report, we set out the findings from the work we have undertaken. Where we have found significant weaknesses in arrangements, we are required to make recommendations so that the Trust can consider them and set out how it plans to make improvements. The significant weakness we have reported is set out on the following pages.

In planning and performing our work, we consider the arrangements that we expect bodies to have in place, and potential indicators of risks of significant weaknesses in those arrangements. Our assessment of potential indicators has been performed in the context of the overall operating environment for the NHS during 2023/24, including the impact of industrial action, demand pressures, and the activities to recover elective activity levels following the pandemic.

In addition to our financial statement audit, we performed a range of procedures to inform our VfM commentary, including:



Interviews with key stakeholders, including Sarah Jones (Trust Chair), Matthew Horner, Director of Finance, and Michael Quinlan, Deputy Director of Finance.



Review of Board and committee reports and attendance at Audit Committee meetings.



Reviewing reports from third parties including external advisors, internal audit and correspondence with NHS England.



Considering the findings from our audit work on the financial statements.



Review of the Trust's annual governance statement and annual report.

# Significant weaknesses in VfM arrangements

**During our audit, we identified a significant weakness in the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources. We reported this weakness to the Trust, with recommendations for improvement.**

Significant weakness	Issues arising during the year which give rise to action by the regulators and risks damage to the Trust's reputation.
Date reported to the Trust	22 August 2024
VfM criteria affected	Governance – <i>How the body ensures that it makes informed decisions and properly manages its risks.</i>
Description of the significant weakness	Weaknesses in arrangements in respect of governance (how the Trust ensures that it makes informed decisions and properly manages its risks) specifically in respect of circumstances in the year which resulted in investigation by NHS England and the Care Quality Commission.
Evidence for our conclusion	<p>Following a breakdown in the relationship between the Chair and the Chief Executive, in October 2023, the Chair of the Trust resigned from his position and, in doing so, gave voice to a number of specific concerns and allegations via the Health Service Journal and the Financial Times.</p> <p>In March 2024 further adverse publicity was attracted by comments made by certain Non Executive Directors, again in the Health Service Journal, making further, unconnected, allegations about the Trust.</p> <p>In response to these events in the year;</p> <ul style="list-style-type: none"><li>• NHS England undertook a review of the circumstances, including reviewing the Trust's own internal review into the decline of the relationship between the Chair and the Chief Executive, and</li><li>• The Care Quality Commission have undertaken a responsive Well Led Review</li><li>• NHS England have moved the Trust to Segment 3 of the Oversight Framework and proposed regulatory actions connected to restoring effective governance.</li></ul> <p>The Auditor Guidance Note which sets out the expectations of auditors in respect of Value for Money (AGN03) sets out at paragraphs 40 and 41 that adverse events which could result in reputational damage and which result in regulator action can be indicative of Significant Weakness.</p> <p>As neither the CQC nor the Trust's internal report concerning the allegations made by the Non Executive Directors are available at the time of concluding our 2024 audit, we will consider any matters included in these reports as part of our Value for Money work for the year ended 31 March 2025.</p>

# Significant weaknesses in VfM arrangements (continued)

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<b>Impact of the weakness on the body</b>	The events which led to the adverse publicity have resulted in a responsive Care Quality Commission review which could result in further adverse comment and downgrading of the Trust's regulatory rating.
<b>Recommendation</b>	<p>We recommend that management ensure that:</p> <ul style="list-style-type: none"><li>• The Trust acts upon the recommendations made by NHS England; and</li><li>• The Trust addresses any findings that may be made by the Care Quality Commission when they report the results of their review.</li></ul>
<b>Management response</b>	The Trust will put in place appropriate actions to address NHS England's recommendations, and to respond to the findings of CQC when their inspection reports are finalised.

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# VfM arrangements: Financial Sustainability

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## Approach and considerations

We have considered how the Trust plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Trust ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Trust plans to bridge its funding gaps and identifies achievable savings;
- How the Trust plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Trust ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- How the Trust identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

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## Commentary

The Trust recognised a deficit for the year of £6.9m (31 March 2023: £9.3m deficit). The Trust also report their non-statutory adjusted financial performance on a control total basis which shows a surplus for the year of £4.6m (31 March 2023 £0.2m). At 31 March 2024, the Trust had net assets of £223.3m (31 March 2023: £196.7m), net current liabilities of £11.1m (31 March 2023: net liabilities £1.1m), and a cash balance of £64.2m (31 March 2023: £73.1m).

Capital expenditure was £55.6m for the year (£5.5m above plan), which included patient facilities, replacement medical equipment, improvements to clinical areas, and various other schemes across the hospital. The Trust recognises the importance of ongoing capital expenditure to maintain the infrastructure and have budgeted £65m for 2024/25.

The Trust has in place a Budgetary Management Framework that sets out the operational rules and processes which management rely upon to ensure sound financial management. The annual budget setting is conducted as part of the annual planning exercise for which the Director of Finance has executive responsibility. The plan includes consideration of the high level planning parameters set at the national level by NHS England i.e. inflation and funding reductions, the Integrated Care System (ICS) also communicates funding assumptions and ICS level pressures to all providers and there are regular meetings with ICS and local provider colleagues via Bradford District & Craven Place meetings throughout the planning process to ensure that there is alignment across the ICS. To ensure consistency between the budgets and the Trust's other plans, communication is provided by the central finance team to the departments which sets out the base assumptions which tie back to the overall budget in relation to efficiency targets, establishment, vacancy and investments in the service. The planning assumptions are approved by the Executive Team who also have a responsibility and overview of all aspects of planning to ensure consistency and linkage between plans and the overall corporate strategy. Departments then provide 'bottom up' input in relation to capacity and demand to tailor the plans.

# VfM arrangements: Financial Sustainability (continued)

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## Commentary

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The Trust has a detailed Risk Management Strategy which sets out the arrangements for assessing and monitoring risk. This includes a Board Assurance Framework and Risk Registers, the risk registers are regularly reviewed and challenged by the Board and Academies. During the year internal audit undertook a review of the Risk Management Framework and Strategy. The report had an overall opinion of 'Significant' assurance and found that '...there are appropriate risk management processes in place that oversee the management of risks from CSU to Board level. A Risk Management Strategy is in place that clearly outlines the governance structure that is to be followed throughout the Foundation Trust from operational to strategic management. Our review confirmed that regular reporting takes place through the Executive Team Management (ETM), the Academies and the Board around the High-Level Risk Register (HLRR).'

From review of meeting minutes and risk registers we have seen that risks are reviewed, the ratings tracked and updated throughout the year. The risks are RAG rated with assigned responsibilities to individual directors, a risk lead and board committees where relevant. From the updates made throughout the year we noted that there has been progress made in reducing the impact or likelihood of the risks due to the application of the mitigating actions. But there have also been increases in risks where additional factors have been identified such as renewed or increased pressure on the Trust. We also note that the Trust have included risks with appropriate actions plans for the areas we would have expected specifically for 2023/24 i.e impact of industrial actions, staffing levels in pharmacy and fixed asset maintenance.

The Trust initially submitted a plan for 2024/25 which expected to deliver a statutory deficit of £19.3m which assumed efficiency savings of £33.9m, an increase of £5.9m on 2023/24.

We identified a risk of significant weakness in respect of the Trust's arrangements to have in place appropriately developed plans to address the forecast deficit in 2024/25 and the delivery of the significant level of efficiency savings that the plan requires. In response we discussed with management the progress made in identifying and delivering the required efficiencies as part of the Closing the Gap ('CTG') programme and we benchmarked the Trust's previous delivery of efficiencies and the future requirements against the performance of the other Acute and Specialist trusts that we audit to assess the reasonableness of the position. The planned efficiency programme for 2024/25 represents 5.4% of planned expenditure which is the 5th largest plan of the Trust's we audit. The Trust has a strong track record of achieving savings targets and, in 2023/24, the Trust delivered 100% of the planned efficiency target, comparing favourably to an average of 96.5% observed at the other Acute and Specialist Trusts that we audit. We noted that only 44.4% of the savings delivered in 2023/24 were recurrent which is modestly behind the average of the Acute and Specialist Trusts that we audit who delivered 48% recurrently in the period. The Trust has in place a Director of Strategy and Transformation to lead on the CTG programme which is aimed at both delivering savings in 2024/25 and being sustainable into 25/26 and beyond.

## Conclusion

We concluded that there was no significant weakness in the Trust's arrangements but have made recommendations for improvement in our Audit Committee Reporting for management to take steps to deliver a greater proportion of the cost reduction plan recurrently in order to ease pressure on future periods and to continue to focus upon the delivery of the cost reduction plan which remains challenging in the current period.

# VfM arrangements: Governance

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## Approach and considerations

We have considered how the Trust ensures that it makes informed decisions and properly manages its risks, including:

- how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the body approaches and carries out its annual budget setting process;
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

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## Commentary

The Trust has a risk management strategy which sets out in detail the purpose and principles underlying the strategy as well as the risk scoring, monitoring and reporting processes. Alongside this the Trust has a risk assessment handbook which provides additional guidance to the individuals on identification, assessment and managing of the risks.

The Audit Committee reviews the adequacy of the risk management arrangements and has oversight of the Trust's system of internal control, including arrangements to prevent and detect fraud. The Audit Committee receives regular progress reports from the Local Counter Fraud Specialist in relation to any proactive and reactive work undertaken, and progress against the Counter Fraud work plan. The Trust has an Anti-Fraud, Bribery and Corruption Policy which is developed in conjunction with the LCFS. Counter fraud services are provided by Audit Yorkshire.

The Trust's Audit Committee approves the annual Internal Audit Plan and Counter Fraud Plan, and receives updates at committee meetings through the year, where there is consideration of any recommendations raised and management's action plan. Changes to the plan are also discussed and agreed by the Committee. The Committee also provides challenge to ensure the timely implementation of agreed actions in relation to previous recommendations.

The Trust uses its internal audit function to provide independent, objective assurance, and it is designed to add value to and improve operations. The Trust's Head of Internal Audit opinion for the year was "Significant Assurance" that there is "a good system of governance, risk management and internal control designed to meet the organisation's objectives, and that controls are generally being applied consistently".

However, there was an increase in the number of 'limited' and 'low' assurance ratings allocated to specific reports. In the prior year there had been 2 'limited' reports, in the current year there has been 8 'limited' assurance opinions and 1 'low' assurance opinion.

# VfM arrangements: Governance (continued)

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## Commentary

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Budget setting combines elements of top down planning and modelling at a corporate level and bottom up intelligence gathering and forecasting in which individual departmental budget holders contribute. The top down part ensures that issues such as inflation rates, commissioner contracts, demographic changes and system level pressures are factored in while the bottom up methodology considers capacity and demand at a specialty or service level, quality issues, new clinical standards or service specific issues. The objective of the planning process is to give Clinical Service Units (CSUs) the opportunity to produce activity, workforce and financial plans that are synchronised and aligned to the strategic aims of the Trust.

The Trust has Standing Financial instructions in place to ensure it makes properly informed decisions, these include approval process for the activities undertaken by the Trust for example investment and financing decisions, which includes approval by finance personnel, and other senior officers.

For operational matters to ensure that the budget holders have sufficient appropriate information to make informed decisions the finance team provide service analysis data pack, which provided detailed analysis of changes in each specialty's cost base, workforce, clinical output, use of resources and productivity in 2022/23 against 2019/20. This data pack will signpost where material changes have occurred during the pandemic and is intended to signpost to the CSU areas for further investigation which may provide opportunities for efficiencies. At a higher level the Finance & Performance Academy also receives a monthly financial performance report which includes a range of detailed financial metrics, which cover the key areas of I&E forecasts and variances, cash forecasts, capital spend and the progress in the waste reduction programme.

The Trust has a number of staff policies in place including a code of conduct and conflicts of interest. These are readily available for all staff to access. Declarations of interest are maintained for all senior members of staff and decision making officers and are publicly available.

In NHS England's latest assessment of the Trust in June 2024 it has placed the Trust in segment 3 under the Single Oversight Framework, which is "Providers receiving mandated support for significant concerns: there is actual or suspected breach of licence, and a Regional Support Group has agreed to seek formal undertakings from the provider or the Provider Regulation Committee has agreed to impose regulatory requirements.

The new NHS Provider Code of Governance was effective from 1 April 2023. The Trust's compliance statement with the Code is in section 3.5 of the Annual Report, which states the Trust considers it has complied with the majority of the provisions of the Code throughout the year. As explained in the disclosure, the Trust has not complied with certain provisions in relation to the annual appraisals for the Chair, Non-executive Directors and Chief Executive due to the changes and issues which have occurred in the current year. As well as the Non-executive Directors remuneration being above the level set out in the relevant guidance as the Trust's rate was in place before the introduction of the guidance in 2019.

# VfM arrangements: Governance (continued)

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## Commentary

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The Trust entered into vesting certificates with certain of its capital suppliers ahead of year-end, with £2.4m of capital expenditure recognised. These agreements are intended to transfer legal title ahead of receipt of goods, in exchange for payment in advance. Vesting certificates can be a legitimate risk management tool if advance payments are required for commercial reasons to secure orders for goods in high demand or with long lead times. Managing Public Money states that public sector organisations should not use interim payments to circumvent spending controls, such as to avoid underspending the capital budget for the year. We have recommended in our Report to those Charged with Governance that the Trust put in place approval processes to check that any use of vesting certificates reflects genuine commercial requirements.

Climate change presents significant challenges for the NHS in adapting to a changing environment. As part of its response to these challenges, the Government is adopting the Task Force on Climate-related Financial Disclosures (TCFD) as a framework for public sector bodies to analyse, understand and disclose climate-related financial information, in order to support the management of climate-related financial risks and opportunities. The Government is adopting a phased approach to implementing TCFD disclosures in the public sector, with 2023/24 only requiring disclosures under the “Governance Pillar”. The Trust’s disclosures in the Performance Analysis section of the Annual Report set out the Board’s oversight of the Trust’s approach to assessing and managing climate-related issues, and underlying management structures in respect of this.

## Conclusion

As discussed above on page 15 we reported the existence of a significant weaknesses in respect of the Trust’s governance arrangements (how the Trust ensures that it makes informed decisions and properly manages its risks) specifically in respect of circumstances in the year which resulted in investigation by NHS England, a ‘Well led’ review by the Care Quality Commission and the placing of the Trust in oversight framework segment 3. The Trust has not yet received CQCs report following this inspection.

# VfM arrangements: Improving economy, efficiency and effectiveness

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## Approach and considerations

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We have considered how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- How financial and performance information has been used to assess performance to identify areas for improvement;
- How the Trust evaluates the services it provides to assess performance and identify areas for improvement;
- How the Trust ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- Where the Trust commissions or procures services, how the Trust ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the Trust assesses whether it is realising the expected benefits.

## Commentary

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The Chief Medical Officer jointly chairs the Clinical Services Improvement Programme (CSIP) with the Director of Finance. The groups triangulates information from GIRFT, Model Hospital and PLICS information for discussion with clinical services with the aim of improving the quality of services delivered alongside identifying opportunities to reduce costs and / or improve productivity.

Finance and performance is monitored and reviewed by the F&P Academy and the Board of Directors. The Board of Directors receives an integrated dashboard which includes financial metrics, e.g. I&E, cash and capital, but also covers a wide range of performance metrics such as 'Emergency Care standards', RTT, and diagnostic waits etc.

Many financial matters are now driven by decisions taken at a place or ICS level. To ensure that relevant information is fed back into the Trust's processes relevant executive directors, deputies and clinicians are involved in a range of regular meetings at Place committees covering quality, finance and performance and leadership as well as ICS meetings for 'Leadership and oversight', Finance Directors and Delivery Programmes.

The Trust has a procurement function who are appropriately qualified and develop the Trust's procurement strategy in line with the procurement policy. The policy's aim is to ensure that the Trust operates in an open and transparent manner and achieves value for money. It focuses on ensuring that an appropriate level of competitive tendering is used in each case and that any use of the options to waive the tendering requirements are appropriately approved by senior officers and reported to the Audit Committee.

### Conclusion

We concluded that there were no significant weaknesses in the Trust's arrangements in relation to improving economy, efficiency and effectiveness.

# Purpose of our report and responsibility statement

## What we report

Our report fulfils our obligations under the Code of Audit Practice to issue an Auditor's Annual Report that brings together all of our work over the year, including our commentary on arrangements to secure value for money, and recommendations in respect of identified significant weaknesses in the Trust's arrangements.

## What we don't report

Our audit was not designed to identify all matters that may be relevant to the Trust.

Also, there will be further information the Board of Directors and Council of Governors need to discharge their governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and work under the Code of Audit Practice in respect of Value for Money arrangements.

## The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

## Use of this report

This report is made solely to the Council of Governors and Board of Directors ("the Boards") of Bradford Teaching Hospitals NHS Foundation Trust, as a body, in accordance with the National Health Service Act 2006. Our audit work has been undertaken so that we might state to the Boards those matters we are required to state to them in our Audit Report and Auditor's Annual Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Boards as a body, for our audit work, for this report, or for the opinions we have formed.

**Deloitte LLP**

Newcastle upon Tyne | 30 August 2024

# Appendix 1: Trust's responsibilities

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**Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.**

**Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.**

**All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.**

The Chief Executive, as Accounting Officer of the Trust, is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Accounting Officer is required to comply with the Accounts Direction issued by NHS England, which requires the Trust to comply with the Department of Health & Social Care Group Accounting Manual and prepare the financial statements on a going concern basis, unless the Trust is informed of the intention for dissolution without transfer of services or function to another entity. In applying the going concern basis of accounting, the Accounting Officer has applied the 'continuing provision of services' approach set out in the Group Accounting Manual, as it is anticipated that the services the Trust provides will continue into the future.

The Accounting Officer is required to confirm that the Annual Report and Accounts, taken as a whole, is fair, balanced, and understandable, and provides the information necessary for patients, regulators and stakeholders to assess the Trust's performance, business model and strategy.

The Accounting Officer is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of the Trust's resources, for ensuring that the use of public funds complies with the relevant legislation, delegated authorities and guidance, for safeguarding the assets of the Trust, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Accounting Officer and the Board are responsible for ensuring proper stewardship and governance, and reviewing regularly the adequacy and effectiveness of these arrangements.



# Appendix 2: Auditor's responsibilities

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## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Auditor's responsibilities relating to the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources**

We are required under the Code of Audit Practice and the National Health Service Act 2006 to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the foundation trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our work in accordance with the Code of Audit Practice, having regard to the guidance, published by the Comptroller & Auditor General, as to whether the Trust has proper arrangements for securing economy, efficiency and effectiveness in the use of resources against the specified criteria of financial sustainability, governance, and improving economy, efficiency and effectiveness.

The Comptroller & Auditor General has determined that under the Code of Audit Practice, we discharge this responsibility by reporting by exception if we have reported to the Trust a significant weakness in arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2024. Other findings from our work, including our commentary on the Trust's arrangements, are reported in our Auditor's Annual Report.

## **Auditor's other responsibilities**

We are also required to report to you if we exercise any of our additional reporting powers under the National Health Service Act 2006 to:

- make a referral to NHS England if we believe that the Trust or an officer of the Trust is:
  - about to make, or has made, a decision which involves or would involve the Trust incurring unlawful expenditure; or
  - about to take, or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency.
- consider whether to issue a report in the public interest.



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