Auditor’s Annual Report

Manchester University NHS Foundation Trust – year ended 31 March 2021

June 2021

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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 Manchester University NHS Foundation Trust (‘the Trust’) for the year ended 31 March 2021. 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 15 June 2021. Our opinion on the financial statements was unqualified.

Wider reporting responsibilities
In line with group audit instructions issued by the NAO, on 16 June 2021 we reported that the Trust’s consolidation schedules were consistent with the audited financial statements.

Value for Money arrangements
In our audit report issued we reported that we had not completed our work on the Trust’s arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Trust’s arrangements.

Following the completion of our work we have issued our audit certificate which formally closes the audit for the 2020/21 financial year.

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

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 2021 and of its financial performance for the year then ended. Our audit report, issued on 15 June 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

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 2020/21, appropriately tailored to the Trust's circumstances.

Draft accounts were received from the Trust on 28th April 2021 and were of a good quality. Working papers were provided during the course of the audit.

Significant matters discussed with management

During the audit we maintained a regular dialogue with management. Among the matters discussed through these conversations were:

Valuation and accounting treatment of consumable inventory provided by DHSC

During 2020/21 the Trust received £28.1m of consumables inventory which was centrally procured by DHSC to help the Trust manage the Covid-19 pandemic. The Trust has elected to treat the whole amount as consumed in year. This means the Trust has included the £28.1m in expenditure with an equal entry in income to recognise the donation of the inventory. The Trust has concluded the consumables unused at year end would not have a material impact on the year end inventories balance. This is therefore not included in the Statement of Financial Position. Based on the values involved, we are satisfied this does not create a material understatement of the Inventories balance as at the year end.

Impairment of IM&T assets

During the course of the audit, we challenged the basis of the Trust's impairment of IT assets given the significant increase in the value of impairments since the prior year. Management confirmed the main increase is due to the development of the new Hive EPR system. Management has assessed the value in use of the system as £12m and impaired the carrying value of the asset to £4.3m on the basis of the proportion of time of the project that has elapsed. In our view this results in an understatement to the carrying value of the asset as the accounting standards require the asset to be impaired to the recoverable amount i.e., the value in use of the asset. This understatement will unwind as the development of the system continues and on the go-live date the asset will be held at the value in use.

Management have reviewed the impairments of other major capital schemes in year and identified an over-impairment of £1.2m. As this is not material the accounts have not been amended for 2020/21 but will be corrected in 2021/22.

Based on our discussions with management it became apparent spend on intangible assets had been classified as property, plant and equipment. Management reviewed the spend on major capital schemes and reclassified £26.0m of spend and impairment from property, plant and equipment to intangible assets.

We have raised a recommendation in section 5 for management to review their process for classifying and impairing capital spend.

Credit loss allowances

As in previous years, management has included a credit loss allowance in respect of debtors due from NHS bodies within Note 15 (Allowances for credit losses). This totals £4.2m and is mainly in respect of debts greater than 90 days overdue. However, in line with the requirements of the GAM, NHS bodies are not expected to provide against income due from other NHS bodies. We have queried the treatment with management who have confirmed they believe this provides a prudent view of the Trust's receivables position. The amount is not material, however is not consistent with the accounting treatment required by the GAM.

2. Audit of the financial statements

Significant matters discussed with management continued

Valuation of the annual leave accrual

To reflect the significant impact of Covid-19 on the pattern of Trust staff taking annual leave the Trust has adapted its previous approach to calculating the accrual that reflects the value of leave remaining untaken at the end of the financial year. We discussed the approach with the Trust and obtained evidence to satisfy ourselves that the value included as an accrual was based on a reasonable estimate of the cost of untaken leave at the end of the financial year.

Significant difficulties during the audit

There were no significant difficulties arising during the audit.

2. Audit of the financial statements

Internal control recommendations

As part of our audit, we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Description of deficiency

Our review of the Trust's impairments identified assets which in our view had been impaired to below their recoverable amounts. This is because of a difference in interpretation of the application of International Accounting Standard 36 – Impairments. Management have impaired to a value based on the percentage of the project complete at the balance sheet date.

Potential effects

There is potential for the Trust to understate it's asset values if impairments are not calculated correctly.

Recommendation

The Trust should review its methodology for identifying and calculation impairments, ensuring this complies with the requirements of International Accounting Standard 36 – Impairments.

Management response

We consider it to be appropriate to have impaired the HIVE assets to a value based on the percentage of completion at the balance sheet date. However, we do accept that the year-end calculations included in a number of misclassifications (between PPE and intangibles) and over-impairments. Accordingly, we will review the process and methodology adopted for impairment reviews and ensure that key assumptions and decisions are documented as part of this review process going forward.

Description of deficiency

The Trust's valuation of land and buildings did not include four buildings which had been purchased in year totalling £2.2m. These are valued at cost on the Trust's Statement of Financial Position.

Potential effects

Missing assets from the list of buildings to be valued could lead to an under or overstatement of the Trust's asset values.

Recommendation

The Trust should ensure all land and building assets are communicated to the valuer prior to the valuation taking place.

Management response

The Trust will implement a review to ensure all Trust properties are communicated to the valuer at the outset of the valuation process.

2. Audit of the financial statements

Internal control recommendations continued

Description of deficiency

In testing access management controls we selected a sample of 25 staff who joined the trust and 25 staff who changed roles during the financial period and who have access to Integra. For this sample we then asked management to provide evidence that access changes are appropriately requested. Access requests were not supplied for 13 joiners and for 23 individuals who had changed roles. We followed up all exceptions and confirmed there had been no inappropriate postings to Integra.

Potential effects

Without appropriate access management in place there is a risk of inappropriate transactions being posted which may affect the accuracy of the financial statements.

Recommendation

1. Access management procedures should be reviewed, such that access requested is authorised and that these records are readily available for future audit inspection.

2. Management should assess access request evidence for the remaining joiners and role changes to assure themselves that access is appropriate. Records of this assessment should be retained for inspection during next years audit.

Management response

The finance department will review and revise access management procedures so that authorisation is evidenced and retained. The implementation of the revised policy referred to under 1 above will include reviewing existing access levels and authorisation of this review at a senior level.

Description of deficiency

Of the 3699 individuals that left the trust in the 12 months to 31st March 2021, 203 had access to Integra which had not been disabled. After discounting user accounts that were not used after the individuals leave date, and for other reasons, we noted 25 user accounts that were used after their owners had left the trust. We followed up all exceptions and confirmed there had been no inappropriate postings to Integra.

A factor that may have led to this issue is that financial systems disable Integra accounts for staff outside of finance, by inspecting a quarterly leavers report provided by HR. As this only occurs quarterly, Integra accounts will not always be disabled on individuals last day of employment.

Potential effects

Without appropriate access management in place there is a risk of inappropriate transactions being posted which may affect the accuracy of the financial statements.

Recommendation

The financial systems team should obtain notifications from HR of leavers on a daily basis such that Integra accounts can be disabled on the individual's final day of employment. The existing quarterly report, should then be used as a secondary control to ensure that leavers have already been disabled.

Management response

We consider a monthly review to be more appropriate and realistic than a daily review. The majority of actions in integra require a minimum of two users to approve before they are completed, journals need approval, invoices can be approved but are reviewed before payment etc. Therefore, notifications will be reviewed monthly to ensure that staff are removed, and this review will be signed off at a senior level.

2. Audit of the financial statements

Internal control recommendations continued

Description of deficiency

The Charity investments included in the Group investments balance are classified as Fair Value through Other Comprehensive Income, which mirrors the treatment in the single entity Charity accounts. As the investments include both equity and non-equity elements the Trust should consider whether non-equity elements meet the classification criteria for financial assets valued at Fair Value through Other Comprehensive Income in the Group Accounts.

Potential effects

There is potential for the fair value gains and losses to be incorrectly classified on the Statement of Comprehensive Income.

Recommendation

Management should review the classification of the Charity's investments in line with the requirements of IFRS 9 to determine the correct classification for its financial assets.

Management response

Agreed, we will review the classification of investments in conjunction with our investment advisors.

Description of deficiency

Our review of the Trust's allowance for credit losses identified allowances allocated against NHS receivables. However, in line with the requirements of the GAM, NHS bodies are not expected to provide against income due from other NHS bodies.

Potential effects

There is potential for NHS receivables to be understated if the correct process is not followed.

Recommendation

Management should review its policy for credit loss allowances and ensure the treatment for NHS receivables is consistent with the treatment set out in the DHSC GAM.

Management response

Agreed, we are reviewing and revising our debtors policy and will include this point in that review.

2. Audit of the financial statements

Internal control recommendations continued

Description of deficiency

Our testing of the Trust's lease disclosure identified errors in relation to leases subject to in year variations.

Potential effects

The Trust's disclosure of future minimum lease payments could contain errors if lease information is not up-to-date. Furthermore, with the introduction of the new accounting standard for leases, IFRS 16, from 2022/23 errors in the Trust's lease register could lead to inaccuracies in the lease liabilities held on the Trust's Statement of Financial Position.

Recommendation

Management should ensure a process in place to update the lease register following a lease variation on a timely basis.

Management response

We will implement a process to ensure that the lease register is reviewed and updated on a regular basis.

Description of deficiency

Our review of the Trust's bank reconciliation identified a number of longstanding reconciling items. Whilst these are trivial in value it is important they are cleared to ensure accurate presentation of the Trust's financial position.

Potential effects

Delays in resolving reconciling items can lead to potential inaccuracies in reporting the Trust's financial position.

Recommendation

We recommend the Trust completes an exercise to clear historic reconciling items on the bank reconciliation.

Management response

Agreed, this work is under way currently.

03

Section 03:

Commentary on VFM arrangements

3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

The new Code of Audit Practice (the Code) has changed the way in which we report our findings in relation to Value for Money (VFM) arrangements from 2020/21. 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

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. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. 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.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement.

The table below summarises the outcomes of our work against each reporting criteria. On the following pages we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	14	No	No
Governance	16	No	No
Improving economy, efficiency and effectiveness	18	No	No

3. VFM arrangements - Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to the NHS financing regime in 2020/21

Following the onset of the Covid-19 pandemic in March 2020, the original NHS Planning Guidance 2020-21 was suspended and a new financial regime was implemented. For the first half of the year (April to September 2020) all NHS trusts and NHS foundation trusts were moved to block contract payments 'on account' and the usual Payment by Results national tariff payment process was suspended. The Financial Recovery Fund was also suspended and NHS providers were able to claim for additional costs due to COVID-19. Whilst commissioner allocations for 2020-21 had already been notified, individual commissioner financial positions were kept under review and top-up payments were issued to commissioners to cover the difference between allocations and expected costs to pass on to providers.

For the second half of the year (October 2020 to March 2021) there was a move to "system envelopes" with funding allocations covering most NHS activity made at the system level, including resources to meet the additional costs of the Covid-19 pandemic. There were no further general retrospective top-up payments and all Covid-19 costs from that point were funded through the fixed Covid-19 funding allocation with a few exceptions.

Systems were expected to achieve financial balance within this envelope and individual organisations were able to deliver surplus or deficit positions by mutual agreement within the system. However, NHS trusts and foundation trusts were still required to meet statutory break-even duty and CCGs required to meet their resource limits.

The Trust's financial planning and monitoring arrangements

In response to the new finance regime, the Trust approved and submitted a revised financial plan. This plan included a requirement for top-up funding for the first half of the year to support the Trust in achieving it's forecast break-even position. We reviewed the assumptions underpinning the revised 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 at the approval meeting.

The Trust has reported an adjusted outturn position at 31 March 2021 of £37.1m surplus. This takes account of one off funding received for the annual leave accrual. We have considered the arrangements in place in respect of budget management as part of the Governance criteria on page 16.

During the year the Trust reported its financial position to the Finance Scrutiny Committee (FSC) and then subsequently to the Board. We reviewed a sample of reports presented for 2020/21, which contain evidence of a clear summary of the Trust's performance, detail any variances and provide adequate explanation of the causes. The reports also provide an updated forecast to the end of the financial year. There was also evidence of appropriate oversight of the Trust's Waste Reduction Programme through these reports. The Waste Reduction Programme is considered in further detail below.

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

The Trust has developed a comprehensive Waste Reduction Programme which aims to deliver efficiencies and savings whilst driving service improvements across the Trust. Waste Reduction Programme targets are built into the Trust's annual financial planning both at group level and across individual hospitals. Scheme ideas and live schemes are reported on the Trust's reporting system, Wave. The annual cycle for developing schemes is overseen by the Trust's Turnaround team and includes a timetable for staged development and submission of projects. Development 'cuts' are submitted at three stages, each requiring more detailed information. These cuts are reported to the Trust Executive and the final programme is incorporated into the Annual Plan submitted to NHSI.

We reviewed the Cut 1 reporting for both 2020/21 and 2021/22 and confirmed it included a summary of identified schemes, split by Hospital and by type of scheme, with values assigned and next steps identified for each of the schemes.

The Waste Reduction Programme is subject to detailed monitoring and review across the Trust with involvement from the Turnaround team and Finance/Operational teams and through Chief Finance Officer led meetings with Divisional Directors. Monthly progress is reported through to the Group Chief Finance Officer and Group Chief Operating Officer. Wider discussions on Waste Reduction are addressed in monthly finance teams chaired by Group Chief Finance Officer with Hospital leadership teams.

The Turnaround Team produces a detailed monthly report of performance to date. We reviewed an example of this report and confirmed it contains a high level Trust-wide summary of performance against plan alongside a detailed review of each hospital's performance including commentary and identification of the top and bottom schemes against planned savings. As reported above this report is incorporated into the Trust's financial reporting to Board allowing for effective oversight of the programme. As at Month 12 the Trust reported £22.1m of schemes had progressed to "Level 3" (being those schemes sufficiently developed with identified financial savings and non-financial KPIs) or higher against a target of £23.3m for 2020/21. A further £2m of schemes were reported below Level 3.

3. VFM arrangements - Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

The Trust's arrangements and approach to 2021/22 financial planning

For the first half of 2021/22 the NHS will remain under the same financial arrangements as for the second half of 2020/21. The arrangements will continue to include system funding envelopes. Block payments will remain in place for relationships between CCGs and NHS providers. NHS England and improvement (NHSE/I) have nationally calculated CCG and NHS provider organisational plans as the default positions for systems and organisations to adopt. These then provide a starting point for budget management without the need to complete an extensive planning process.

The requirement had been to submit plans for the first half of 2021/22. However, the Trust was keen to understand the full extent of financial pressures it faced and therefore developed plans to cover the full twelve month period of revenue expenditure for 2021/22 and for two years of capital expenditure, together with its cash position. In March 2021, the Trust developed an initial plan for 2021/22 based on a forecast breakeven position. However, this was subsequently revised in order to support the system breakeven position and as a result, the Trust has agreed a financial plan which delivers a £23.1m surplus and wider system partnership arrangements.

The plan submitted by the Trust includes assumptions around staffing levels, pay awards and recurrent COVID-19 expenditure and is based on block funding based on 2020/21 values adjusted for inflation for the first half of 2021/22. The 2019/20 outturn values are used as a starting point for the second half of the financial year. The revised plan therefore included a Waste Reduction Requirement of £126m. This was based on the Trust's prudent assumptions of income levels known at the time of producing the annual plan and in advance of receiving formal guidance on funding arrangements for the second half of the financial year. Recognising the prudence in the assumptions made, the Trust set a Waste Reduction Programme target of £50m for the year. Work is underway to develop schemes as part of the Waste Reduction Programme. A total of £20.8m of savings schemes are identified. Further mitigations are expected against the full value of the Waste Reduction Requirement as funding becomes clearer through the financial year.

We have critically assessed the underlying assumptions used in the 2021/22 financial plan including the timings and forecasts of cashflows for 2021/22 and we have considered the level of debt within the Trust. We have also considered the Trust's achievement of cost improvement plans in 2020/21 (and prior years) and we have reviewed the savings plans in place for 2021/22 and the Trust's wider plans for mitigation of these funding gaps, including its contribution to the performance monitoring of the wider system. It is clear that the Trust is closely monitoring the progress against plan to date, is fully aware of where the gaps lie and continues to identify mitigating actions to bridge the funding gap. Therefore we are satisfied that there is not a significant weakness in the Trust's arrangements in relation to financial sustainability.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

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 by the Trust-wide Risk Management Strategy and the Trust leadership plays a key role in implementing and monitoring the risk management process.

All risks, externally and internally generated including financial, are managed and monitored through the Trust's risk management software programme, Ulysses. Owners of risks are requested automatically on an agreed period to review the present status of the risk, mitigations in place and actions to be taken. Risks are added and deleted from the system on a regular basis.

The Group Chief Executive chairs the Group Risk Oversight Committee. Risks scoring 15 or above are reported to the Committee. Risk reports are received from each responsible Director with details of the controls in place and actions planned and completed against which assessment is made by the Committee. Minutes of the Group Risk Oversight Committee are presented to meetings of the Audit Committee and Board to allow for scrutiny and challenge by the Trust leadership.

We have reviewed minutes of Group Risk Oversight Committee meetings and confirmed detailed discussion and challenge has taken place on high level risks. The risks are clearly linked to the Strategic Aims of the Trust and are cross-referred to the Board Assurance Framework, providing a thread from operational to strategic risk management. The minutes include an action tracker allowing for timely monitoring of risks scheduled for review by the committee. We also reviewed an example high level risk report and confirmed it included sufficient detail to allow for effective review including mitigating actions in place, additional controls and actions required and a summary of the current risk rating and target risk rating.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, the Trust has appointed internal auditors and local counter fraud specialists. 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 2020/21 and 2021/22 and confirmed planned work is based around a group assurance model covering each of the hospitals within the Trust. 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 Group Strategy team and the Strategic Planning Group. The timetable for the planning process sets out the dates for key returns to NHSE/I, sign off by individual hospital leads and engagement sessions with the Council of Governors prior to final sign off by the Board of Directors. The budget process, led by the Group Finance team, results in agreed control totals being allocated for each hospital, managed clinical service, local care organisation and corporate directorates, referred to as "sub organisations".

Each sub organisation develops its detailed budget based on forecast outturn from the previous year and known planning guidelines for the following year. The sub organisation is able to submit any material pressures new to the year or the full year effects of pressures from the previous year, alongside the impact of business cases, inflation and adjustments for non-recurrent items. Review meetings take place between the sub organisations and group level management to review and challenge initial budgets prior to final approval. We have obtained a sample of papers taken to these review meetings and confirmed they provide detailed explanations of movements in budget assumptions and are supported by evidence of business case approvals as necessary.

Following consolidation of the sub organisation budgets, the Trust-wide strategic plan is taken through the Trust governance process including Group Management Board, Finance Scrutiny Committee and Board of Directors. Our review of minutes confirms this to be the case with papers covering the Trust's I&E position, statement of financial position, forecast cash and capital expenditure and links into the Trust's Waste Reduction Programme.

Budget information is held within the Trust's general ledger system and reconciled to the approved annual plan and individual sub organisation control totals. The Trust's finance team operates on a day one closedown timetable, meaning budget statements are provided to budget holders on the first working day of the month allowing for timely review and scrutiny. We have reviewed an example budget report and confirmed it contains a detailed variance analysis which is linked to the Trust's general ledger. This allows the budget holder to drill down to transactional level for detailed review.

As set out in the previous section the financial position is reported to the Finance Scrutiny Committee and Trust Board each month and includes sufficient detail to allow for effective review and challenge at the senior leadership level.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria continued

The Trust's decision making arrangements and control framework

The Trust has an established governance structure in place which is set out within its Annual Governance Statement. This is supported by the Trust's Constitution and scheme of delegation covering both the Trust-wide and sub organisation level. 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.

At the start of the COVID-19 pandemic the Trust acted swiftly to implement revised financial governance arrangements which would allow the Trust to maintain appropriate governance whilst expediting necessary operational actions. Our attendance at Audit Committee confirmed these revised arrangements were reviewed by those charged with governance at the start of the pandemic and subsequently reviewed on a regular basis by Trust management thereafter.

Financial investment decisions are managed through the Trust's Business Case process which is updated by the Strategic Planning Team. The process sets out the approvals required for individual business cases. We have reviewed an example business case approved by the Trust Board of Directors and confirmed it included a comprehensive justification supporting the business case covering areas including strategic needs, commercial basis and a financial analysis. The business case included a cost-benefit analysis and options appraisal and a full suite of supporting information was included to allow for proper scrutiny. The case had been through several approval processes at relevant sub-committees prior to reaching the Board for final approval.

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 and the Board completing an annual review and self certification of its compliance with the conditions of the NHS provider licence.

The North Manchester General Hospital (NMGH) transaction

The acquisition of NMGH has been a long term strategic priority for the Trust. It is part of the Single Hospital Service Programme, and enables a single, City-wide hospital service to finally be created following the merger of Central Manchester University Hospitals NHS Foundation Trust and University Hospital South Manchester Trust in 2017. On 1st April 2020, MFT took responsibility for NMGH under the terms of a management agreement with the Board of Pennine Acute Hospitals NHS Trust. This means the hospital has effectively operated as part of MFT throughout 2020/21.

In December 2020 the Trust Board of Directors considered and approved the Business Case for the proposed acquisition of NMGH. The transaction was considered 'material' but not 'significant' under NHS transaction guidance and therefore required Board self-certification. This was completed in January 2021. Given the impact of the COVID-19 pandemic since the original due diligence work had taken place, the Trust undertook a refresh. No concerns were identified through this process and the final documents were signed on 30 March 2021. The transfer of NMGH to MFT completed on 1 April 2021.

Our consideration of the NMGH transaction has included discussions with senior officers of the Trust, review of minutes and papers including the acquisition business case, due diligence refresh undertaken in year and correspondence from NHSI/E. It is clear from our work that the Board has been fully sighted on progress throughout the acquisition process, with papers taken to each Board meeting updating on the latest position. The Trust ensured stakeholder views were considered throughout the process; in particular we have seen evidence of regular updates to the Councillor of Governor meetings and their views being shared with the Board of Directors. By undertaking a due diligence refresh in year the Trust has been able to mitigate the risks arising from the business case being based on outdated information which can occur in such complex, lengthy transactions.

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

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

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

The Trust's Single Operating Model is underpinned by the Accountability and Oversight Framework (AOF) which contributes to the overarching Board Governance Framework, enabling the Group Board of Directors to fulfil its obligations and effectively run the organisation. The Trust's AOF process incorporates six domains: Safety, Patient Experience, Operational Excellence, Finance, Workforce & Leadership and Strategy.

To support the AOF monthly reporting cycle, a performance dashboard for each Hospital/MCS/LCO has been developed which captures in one place the overarching Hospital/MCS/LCO AOF score, individual domain scores and performance against the KPIs which form each domain.

A focused governance and accountability framework was maintained throughout the Group during 2020/21 in response to the rapidly escalating phases of the Covid-19 pandemic. Whilst the AOF was 'stood down' during the National Emergency, the Trust maintained performance management oversight through its adapted committee structure and EPRR Framework; including 2-3 times weekly Strategic Command Group meetings chaired by the Group Chief Operating Officer, and the monthly Finance Review meetings chaired by the Group Chief Finance Officer.

We have reviewed the terms of reference for the Finance Review meetings and the underlying Finance Accountability Framework which forms the basis of discussion at these meetings. From our review we have confirmed the performance of the sub-organisation drives the frequency of meetings required allowing the Group CFO to focus on areas of concern within the Trust. The agenda for the meetings covers both a review of historic data and a forward looking forecast allowing for areas of improvements to be identified and incorporated into future plans.

Performance information is presented to the Board of Directors on a regular basis. In 2020/21 the Board has received a wide range of performance related reports. The Board has paid particular focus to the impact of the COVID-19 pandemic on performance. We have reviewed the performance information provided to Board as part of our review of board papers and minutes. Through this we have confirmed the Board effectively hold managers to account where performance improvements are required.

The latest CQC inspection of the Trust was undertaken in 2018 and the Trust was rated as good overall and outstanding in the caring domain.

The Trust's arrangements for effective partnership working

The Trust has historically demonstrated strong partnership working with key stakeholders across the Greater Manchester region and beyond. These include key strategic partners such as the University of Manchester, Manchester Health and Care Commissioning, Manchester City Council and Trafford Council.

Due to the revised arrangements in place in 20/21, the Trust has had to work with partner organisations across the Greater Manchester Integrated Care System to deliver a sustainable financial position for the wider area in addition to agreeing the Trust's financial control totals. The Group Chief Finance Officer has played an active role in establishing the new system and is a member of the Finance Advisory Committee. She regularly attends Director of Finance meetings across Greater Manchester and the North West. This has enabled the Trust to contribute to the agreement of capital and revenue system envelopes for the forthcoming financial year whilst ensuring the Trust's strategic objectives are incorporated into the financial plans.

The Trust's arrangements for commissioning services

The Trust has professionally qualified procurement and commercial resources team that is structured both on a Group and on a sub-organisation and Group Directorate support basis. All procurement activity is conducted in accordance with the Trust Purchasing Procedure manual.

When commissioning or procuring services, the selection of a provider is always in accordance with relevant procurement legislation, either through the use of existing frameworks or by the design and implementation of a bespoke procurement process. On the award of a contract, the provider is then contractually obliged to deliver such services in accordance with legislation. More specifically, procurement processes and contractual documentation expressly refer to compliance with FOIA obligations and anti-bribery legislation. Trust employees are obliged to declare any actual or potential conflicts of interest with suppliers and this information is reviewed and published on an annual basis.

Our review of business cases in the previous sections of this report confirmed compliance with the Trust's procurement arrangements. Regular reports are provided to Audit Committee. The Trust has a Standards of Business Conduct and Hospitality Policy in place to mitigate the risk of conflicts of interests arising. Our review of Board minutes confirms these are published on a regular basis.

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.

04

Section 04:

Other reporting responsibilities and our fees

4. Other reporting responsibilities and our fees

Matters we report by exception

The NHS Act 2006 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest; and
- make a referral to the regulator.

We have not exercised any of these statutory reporting powers.

We are also required to report if, in our opinion, the governance statement does not comply with relevant guidance or is inconsistent with our knowledge and understanding of the Trust. We did not identify any matters to report in this regard.

Reporting to the NAO in respect of consolidation data

The NAO, as group auditor, requires us to report to them whether consolidation data that the Trust has submitted is consistent with the audited financial statements. We have concluded and reported that the consolidation data is consistent with the audited financial statements.

4. Other reporting responsibilities and our fees

Fees for work as the Trust's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in February 2021. Having completed our work for the 2020/21 financial year, we can confirm that our fees are as follows:

Area of work	2020/21 fees
Planned fee in respect of our work under the Code of Audit Practice	£85,000
Total fees	**£85,000**

Due to the COVID-19 pandemic our work on the Trust's Quality Report was cancelled in 2020/21. There were no fees arising in relation to this work in 2020/21.

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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