

Auditor's Annual Report

Manchester University Hospitals NHS
Foundation Trust

Year ended 31 March 2023

30 June 2023



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01

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 Hospitals NHS Foundation Trust for the year ended 31 March 2023. Although this report is addressed to the Trust, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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



Opinion on the financial statements

We issued our audit report on 30 June 2023. Our opinion on the financial statements was unqualified. .



Wider reporting responsibilities

In line with group audit instructions issued by the NAO, 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 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 provides our commentary on Trust's arrangements.

We have issued our audit certificate which formally closes the audit for the 2022/23 financial year

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

Our audit of the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Trust and whether they give a true and fair view of the Trust’s financial position as at 31 March 2023 and of its financial performance for the year then ended. Our audit report, issued on 30 June 2023 gave an unqualified opinion on the financial statements for the year ended 31 March 2023.

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

Qualitative aspects of the Trust’s accounting practices

Auditors may wish to bring certain matters to the public’s attention in relation to the Trust’s accounting practices and matters discussed with management.

There are no such matters to report.

Significant difficulties during the audit

We did not encounter any significant difficulties during the course of our audit.

Other reporting responsibilities

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

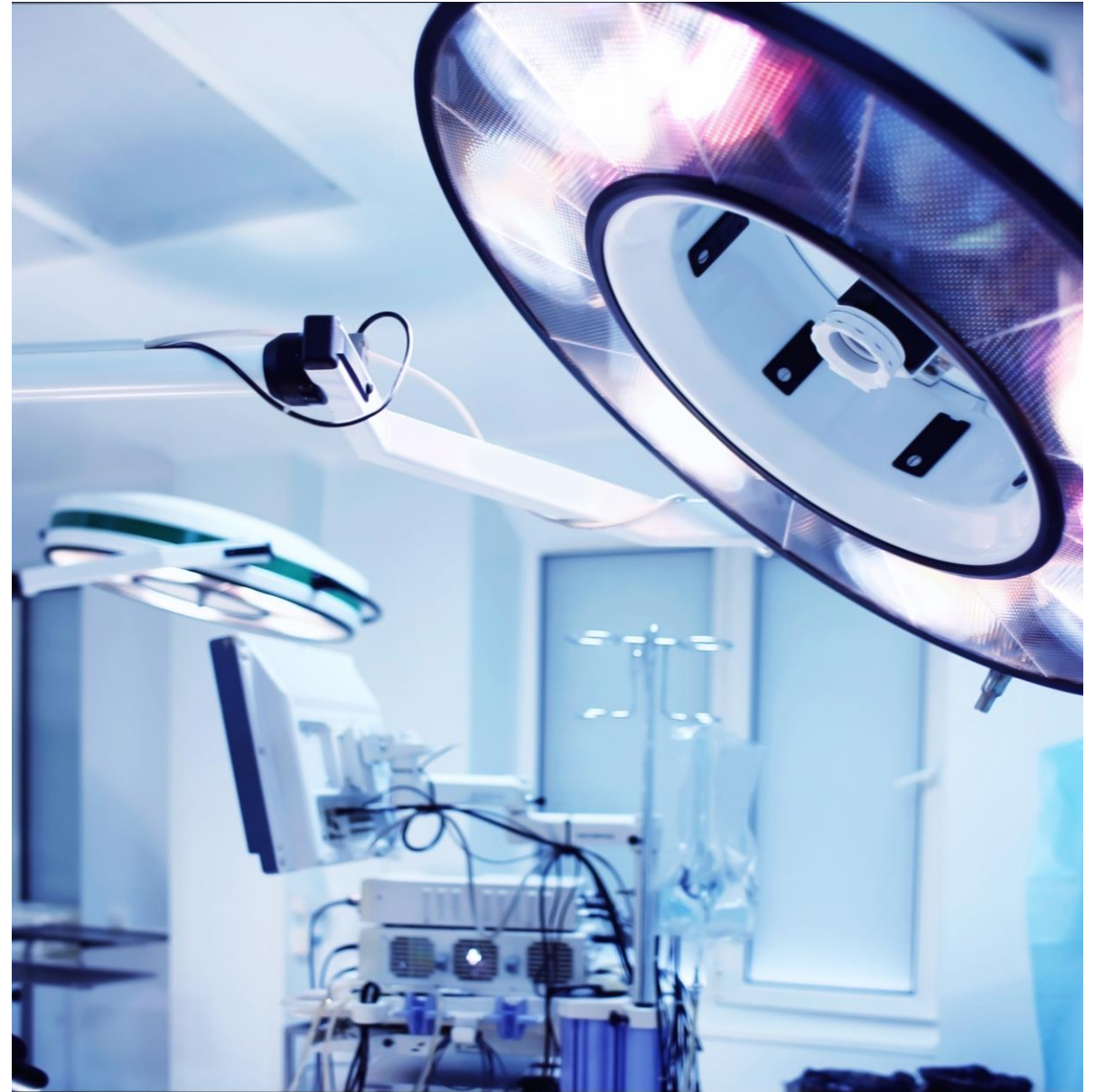
03

Section 03:

**Our work on Value for Money
arrangements**

3. VFM arrangements


Overall Summary




3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

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

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

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

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

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

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

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

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

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

Phase 2 - Additional risk-based procedures and evaluation

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

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

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

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

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

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

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

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	12	No	No	No
 Governance	15	Yes	No	No
 Improving economy, efficiency and effectiveness	18	Yes	No	No

7. Value for Money

Risks of significant weaknesses in arrangements

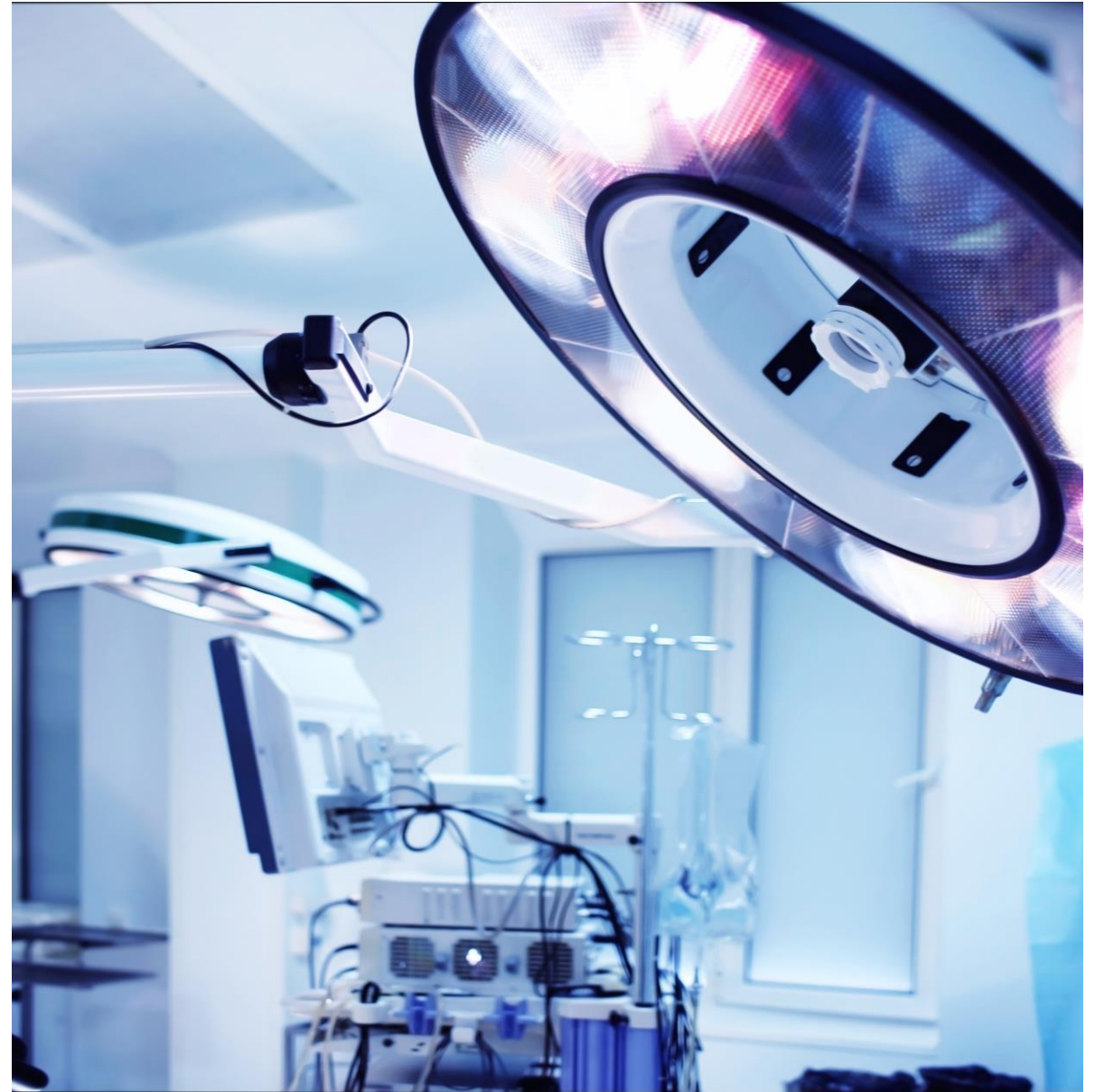
In our Audit Strategy Memorandum presented in April 2023 we reported that we had not identified any risks of significant weaknesses in arrangements as part of our planning procedures. Our risk assessment was ongoing and we subsequently identified one risk of significant weakness as set out below.

Risk of significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Work undertaken and conclusions reached
<p>1 CQC Inspection of maternity services</p> <p>In March 2023 the CQC undertook an unannounced inspection of the maternity services provided by the Trust across their three hospital sites that provide maternity services; North Manchester General Hospital, Saint Mary's Hospital and Wythenshawe Hospital.</p> <p>Following the inspection, the Trust received a Section 29A warning notice as a result of concerns raised in respect of delays in triage, delays in elective caesarean section and induction of labour, and the numbers and skill mix of staff available. The warning notice was confirmed on 26 May 2023 although the CQC inspection report has yet to be finalised.</p> <p>This represents a risk of significant weakness in arrangements in respect of the Governance and Improving 3Es reporting criteria.</p>		●	●	<p>Work undertaken</p> <p>We have undertaken work in respect of this risk as follows:</p> <ul style="list-style-type: none"> • reviewed the action plan put in place by the Trust to address the concerns raised in the CQC Warning Notice; • considered the links between the actions needed and the Trust's wider risk management arrangements; • reviewed the report presented to the Quality & Performance Scrutiny Committee (Q&PSC) to ensure there is sufficient oversight of the action plan and progress against it by the Board; and • discussed with management the potential impact of the Notice on the Trust's CQC ratings for each of the three sites and for the Trust overall <p>The report to the June extraordinary meeting of Q&PSC provides a detailed action plan together with an update on the implementation of the actions. Progress in implementing the recommendations is assessed. The report provides an update on the impact of the actions in driving improvements in performance in the key areas. There is evidence of improvement in key metrics in May 2023 when compared to the pre-inspection period. The action plan is supported by examples providing a clear explanation of the changes in patient experience over the period since the inspection took place.</p> <p>We are satisfied the issues raised by CQC are specific to maternity services within the Trust and are not indicative of overall weaknesses in the proper arrangements in place for Governance and for Improving Economy Efficiency and Effectiveness across the Trust.</p>

3. VFM arrangements

Financial Sustainability

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



3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to the NHS Financing regime in 2022/23

During the course of the year, and into 2023/24, the focus of the NHS funding regime has shifted away from responding to the immediate challenges caused by COVID-19 to supporting recovery across the healthcare system. This has facilitated the need for collaborative working between commissioners and service providers, as local systems were expected to work together to deliver a balanced financial position in 2022/23, with additional funding available for those systems exceeding target activity levels through the Elective Recovery Fund. The planning guidance for 2022/23 supports the transition back to local agreement of contracts and requires systems to achieve a break even position each year. This will necessitate further collaboration through the planning process, as individual organisations work together to achieve system-level outcomes.

2022/23 Financial performance

We have undertaken a high level analysis of the financial statements, including the Statement of Comprehensive Income, the Statement of Financial Position and the Statement of Changes in Equity.

The Trust has reported a deficit for the year from continuing operations of £73m, compared with a deficit of £11m in the 2021/22 year. The deterioration in the financial performance is driven in part as a result of the gain recognised in the prior year from transfers by absorption of £62m for the Transfer of North Manchester General Hospital to the Trust on 1st April 2021.

The Statement of Financial Position shows an improved position with total net assets of £412m at 31 March 2023 (£356m at 31 March 2022). This reflects an increase in property, plant and equipment of £105m and the recognition of £157m of “right of use assets” for the first time following the implementation of IFRS 16 from 1 April 2022. Total borrowings have also increased to £532m as at 31 March 2023 (£396m 31 March 2022) in the main due to the recognition of lease liabilities as a result of the implementation of IFRS 16 for the first time. Total taxpayer’s equity for the Trust stood at £413m as at 31 March 2023 (£356m 31 March 2022). The increase has primarily been due to the receipt of £63m of public dividend capital (PDC).

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

The Trust has a Turnaround Team in place to provide project and programme management, benefits realisation and benchmarking support to both Hospitals and Corporate functions as well as providing direct support to services when required. This is intended to ensure a rigorous and systematic approach across all parts of the Group.

The Trust has developed a comprehensive approach delivering efficiencies and savings whilst driving service improvements across the Trust. The savings and cost improvement schemes are brought together into a Trust-wide Waste Reduction Programme (WRP) and targets are built into the Trust’s annual financial planning both at group level and across individual hospitals. Scheme proposals and live schemes are reported consistently through 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 GM Integrated Care System.

The WRP is subject to detailed monitoring and review across the Trust with involvement from the Turnaround team and Finance/Operational teams and also through Chief Finance Officer led meetings with Divisional Directors. The Turnaround Team has developed a number of standard on-line reports that are used across the Trust to allow detailed review of spending. The reporting tool is set up to enable users to drill down into the underlying data. Monthly progress is reported through to the Group Chief Finance Officer and Group Chief Operating Officer. 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.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

In 2022/23 the Trust achieved its WRP target of £117m and this contributed to the achievement of the planned outturn for 2022/23. To deliver the financial plan for 2023/24, the Trust will need to deliver a WRP of £136m.

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

The financial planning arrangements for 2023/24 are consistent with 2022/23. The Trust was required to submit a financial plan to the Greater Manchester Integrated Care System (ICS) that contributes to the breakeven position of the ICS for the year. In line with prior years, and in order to facilitate this system-wide position, the Trust has actively worked with its ICS partners on the key aspects of local and ICS system financial and operational planning. We have reviewed papers prepared at each submission round for 2023/24 which demonstrate MFT's contribution to the planning process at both the system and local level.

The Trust's Strategy and Finance teams co-ordinate the annual planning process, drawing on input from clinical, operational and support functions across the Trust, with Executive oversight. The annual planning and budget setting exercise includes the identification and quantification of financial and operational risks. Detailed instructions are sent out to all finance staff across the Trust who are provided with bespoke excel templates to complete. Weekly drop-in sessions are held throughout the budget setting process to support finance teams. Financial plans are then considered by the Finance Scrutiny Committee prior to receiving Board approval. The Board and relevant sub-committees are kept updated on longer term financial modelling assumptions via regular reporting from the Group Chief Finance Officer. We have seen evidence of this through review of minutes from Finance and Digital Scrutiny Committee, Group Risk Oversight Committee and full Board meetings.

The Trust's final submission to the ICS in May 2023 reflected a balanced plan for the year, after allowing for a WRP of £136m. This reflected an improved position from the earlier first submission made in February 2023 which identified an overall deficit for the Trust of £112m with a WRP of £25m. We have reviewed the submissions made to NHSE and the underlying reports presented to Board in support of those submissions.

The revised breakeven plan is reflected in the Greater Manchester ICS position which also shows a balanced plan. The reports presented to Board in support of the revised balanced plan set out the key assumptions and risks underpinning the delivery of that plan, including the Trust's achievement of the 103% activity target set to reduce elective waiting times and the achievement of the trusts WRP. At the time of submitting the plan the Trust had identified £99m of savings under the WRP. There is acknowledgement within the Trust of a further £115m system-wide efficiency currently held by the ICB will need to be delivered across the Greater Manchester organisations including MFT.

Financial reporting at Month 2 (May 2023) suggests the Trust is continuing to closely monitor delivery of the financial position in 2023/24. The reporting reflects the challenges to presented by industrial action and the restoration of elective activity to the delivery of the overall financial plan.

On the basis of the work undertaken, we have not identified any weaknesses in Trust's arrangements in relation to financial sustainability. Notwithstanding this, 2023/24 will be a challenging year for the Trust, because it is required to deliver its highest WRP to date whilst increasing activity to address the backlog in elective care. We will continue to monitor the Trust's financial sustainability as the year progresses.

3. VFM arrangements

Governance

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



3. VFM arrangements – Governance

Overall commentary on Governance

The Trust's decision making arrangements and control framework

As reported in previous years, 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, which was last reviewed and updated in February 2021, together with a scheme of delegation covering both Trust-wide and sub-organisation levels. Executive Directors have clear responsibilities linked to their roles and the Board Sub-Committee structure in place at the Trust allows for effective oversight of the Trust's operations and activity.

The Board of Directors and Council of Governors are committed to operating to the highest corporate governance standards. The Board of Directors meets formally on a bi-monthly basis in order to discharge its duties effectively, including ensuring that systems and processes are maintained to measure and monitor the Trust's effectiveness, efficiency and economy as well as the quality of its healthcare delivery. The Board of Directors has a balance of skills, independence and completeness appropriate for the requirements of the Trust. The Council of Governors also meets on a regular basis in order to discharge its duties, including holding the Board of Directors to account for the performance of the Trust and to receive appropriate assurance and risk reports.

Group Non-Executive Directors (NEDs) are appointed for a term of three years by the Council of Governors. The Council of Governors can appoint or remove the Group Chairman or the Group NEDs at a general meeting. Group NEDs scrutinise the performance of the Group Executive management in meeting agreed goals and objectives and monitor the reporting of performance.

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.

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 counter fraud specialists. Work plans for both are agreed with management and then Audit Committee. We have reviewed the Internal audit plan for 2022/23 and confirmed that 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 reporting of recommendations not fully implemented by agreed due dates. Through attendance at Audit Committee meetings throughout the year we can confirm the significance placed in internal audit findings. The Audit Committee has requested management attendance at meetings to discuss findings from reports and progress with the implementation of recommendations.

The Trust's risk management and monitoring arrangements

As identified in the prior year, 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, which was updated in May 2022. The Trust's 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. Owners of risks are requested automatically on an agreed period to review the status of the risks, the mitigations in place and any actions to be taken and to update the system accordingly. There is evidence risks are added and deleted from the system on a regular basis as a result.

Regular risk management oversight takes place at Group-level in bi-monthly meetings held with representatives from Group and each hospital/MCS/LCO attending the Group Risk Oversight Committee (GROC) and Integrated Governance and Risk Committee (IGRC). From October 2021, the IGRC received a Group Risk and Assurance Profile detailing all local risks newly escalated to score 12 or above, and all risks scored at 15 or above. These meetings allow for a holistic view of both current and emerging risks across the Group, with hospital/MCS/LCO representatives able to consider how risks could affect multiple sites across the Group.

Following the implementation of the new Risk Management Strategy in year, Internal Audit completed reviews of both Trust's risk management and Board assurance arrangements. These both focused on the new framework in place and provided an overall rating of 'significant assurance with minor improvement opportunities' for both.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

The Trust's arrangements for budget setting and budgetary control

The Trust's budget setting process is informed by, and based on, national guidelines which set out the assumptions and processes required. The outcome of the Trust's baseline budget setting process is set out in the previous section. The Trust produces an Annual Plan which is presented to the Trust Board for formal approval. The Plan establishes the overall financial and operational framework for the year.

Budgetary control guidelines and templates are shared annually with all budget managers and formal sign off of the budget is obtained from the relevant finance manager. We have reviewed samples of budgets and confirmed the budget holder had signed off their budget as approved as part of the budget setting process.

The Trust use the Integra Financial Ledger system. All budget information is uploaded into the financial ledger and this is then reconciled to the agreed annual plan as signed off by the Board. This ensure the Trust monitors it's delivery against the agreed position.

Budgetary control is a continuous process at the Trust. The Trust is required to formally report its financial position and forecast outturn at each month end to NHSE. A detailed timetable is in place and followed each month by the Finance Team. Reviews of the financial position for each individual hospital are also completed monthly and reported to senior management.

Regulators – Care Quality Commission (CQC)

The latest full CQC inspection of the Trust was undertaken during 2018, with the report published in March 2019. The overall CQC rating for the Trust was 'Good', with some outstanding practice identified within the Trust. Some areas of improvement were also noted and actions to deliver these were developed.

In the previous years the Trust has had a number of regulatory reviews including a Dynamic Monitoring review on the CQC's core service Medicine including Older People's Care in October 2021. Medicine, including Older People's Care was reviewed at Manchester Royal Infirmary, Wythenshawe, Trafford; and North Manchester General Hospitals. The overall feedback from the CQC was positive with no concerns identified from the review.

The Saint Mary's Sexual Assault Referral Centre (SARC) and the Child and Adolescent Mental Health Service (CAMHS) were also inspected by the CQC in September 2021. The CQC report was positive overall.

The Trust received an unannounced inspection of its maternity services in March 2023. This covered the provision of services at three St Mary's locations covering Oxford Road, North Manchester General and Wythenshawe. The Trust has not yet received the final ratings for this inspection. However, as reported to the Board of Directors in May 2023, the Trust received a warning notice under section 29a of the Health and Social Care Act. The notice reflects significant concerns the CQC identified in relation to the safety of maternity services provided at the sites, specifically referencing maternity triage, access to elective care and treatment, and staffing.

An action plan has been put in place to address the matters raised. Delivery of the actions is being overseen by Management, the CQC, NHS England and the ICB.

We reviewed the action plan put in place by the Trust. We considered the links between the actions and the Trust's wider governance and risk management arrangements. We reviewed the report presented to the Quality & Performance Scrutiny Committee (Q&PSC) to ensure there is sufficient oversight of the action plan and progress against it by the Board.

The report to the June 2023 meeting of Q&PSC provides a detailed update on the actions and notes improvements in performance in key areas in May 2023 when compared to the pre-inspection period. The action plan is supported by case study examples providing a clear explanation of the changes in patient experience over the period since the inspection took place.

Although the CQC inspection report has yet to be published, we discussed with Management the potential impact of the Warning Notice on the CQC ratings for each of the three sites inspected and on the Trust's overall rating.

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

3. VFM arrangements

Improving Economy, Efficiency and Effectiveness

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



3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness

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

The Trust's Single Operating Model continues to be 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 and applies to all hospitals, corporate departments and other areas of the Trust.

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

In 2022/23 we reviewed the terms of reference for the Finance Review meetings and the underlying Finance Accountability Framework which forms the basis of discussion for these meetings. From our review we have confirmed the performance of the sub-organisation drives the frequency of meetings thus allowing the Group CFO to focus on areas of concern within the Trust and that membership of the meetings includes the Group Chief operating Officer, the Turnaround Director and the Chief Finance Officer. This ensures operational and financial performance are considered together. The agenda for the meetings covers both a review of historic data and a forward-looking forecast allowing areas of improvements to be identified and incorporated into future plans.

During 2022/23 the PLICS team were also linked into the AOF framework to help develop efficiencies using patient level information. We have reviewed presentations made to by the Head of Costing setting out how PLICS can help identify cost opportunities. This included the use of case studies to inform and support decision-making.

Performance information is presented to the Board of Directors on a regular basis. The Board received a wide range of performance related reports throughout the year. We have reviewed the performance information provided to Board as part of our review of board papers and minutes and have confirmed the Board effectively holds managers to account where performance improvements are required.

Operational challenges are also monitored and reported through weekly Operational Excellence Board meetings where performance on areas such as elective procedure waiting times are considered. We have reviewed agendas for these meetings which confirm current performance levels are discussed and areas identified for escalation as necessary.

The Trust's arrangements for effective partnership working

The Trust has well-developed mechanisms for engagement with third party bodies at all levels across the organisation. This includes regular arrangements, such as standing meetings, as well as time-limited arrangements set up for specific purposes as appropriate.

Following the NHS-wide restructure of commissioning arrangements, and the move from clinical commissioning groups to the GM Integrated Care Board, in July 2022, the Trust remains a key player in the ICS. Greater Manchester Devolution had previously supported the development of wider governance arrangements to support cooperation and joint working across the whole of the Greater Manchester. Although one of the largest and most complex systems, the recent structural changes provide an opportunity to refresh and reinvigorate collaboration.

The Trust has strong and well established partnership arrangements with other local providers, local authorities and academic institutions. The key strategic partners of the Trust include Manchester City Council, The University of Manchester and The Christie.

The Trust also has established collaborations with industry partners to enable the acquisition of new equipment, facilities and services using a shared risk approach.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness

The Trust's arrangements for commissioning services

The Trust has a 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.

The Trust's procurement policy sets out the tendering process requirements for contracts of varying financial values under the standing financial orders. In 2022/23 the Trust has utilised subject matter experts from a range of NHS procurement partners in areas such as capital equipment purchases.

The tendering requirements are set in line with both legal requirements and best practice for ensuring value for money in the procurement of goods and services.

The procurement policy also sets out the Trust waiver approval procedures for the exceptional circumstances where the tendering process requirements cannot be met. Waivers are reported regularly to the Audit Committee. We have attended these meetings and seen the Committee challenge management and seek comprehensive explanations for tender waivers in order to ensure they are appropriate.

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

Other reporting responsibilities

Statutory recommendations and public interest reports

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

We did not issue any statutory recommendations or exercised our power to make a report in the public interest during 2022/23.

Section 30 referrals

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

Reporting to the National Audit Office (NAO)

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

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

Fees for our work as the Trust's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in April 2023. Having completed our work for the 2022/23 financial year, we can confirm that our fees are as follows:

Area of work	2022/23 fees	2021/22 fees
Planned fee in respect of our work under the Code of Audit Practice	£117,000	£85,000
Actual fees	£117,000	£85,000

Fees for other work

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



Appendix

A. Further information on our audit of the financial statements

Significant risks and audit findings

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

Risk	Our audit response and findings
<p>Management override of control</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none">• accounting estimates impacting amounts included in the financial statements;• consideration of identified significant transactions outside the normal course of business; and• journals recorded in the general ledger and other adjustments made in preparation of the financial statements. <p>We have completed our work in this area and there are no matters to bring to your attention.</p>
<p>Risk of fraud in revenue recognition</p> <p>The risk of fraud in revenue recognition is presumed to be a significant risk on all audits due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues.</p> <p>For the Trust we deem the risk to relate specifically to recognition of income around the year end.</p>	<p>We addressed the risk through performing audit work over:</p> <ul style="list-style-type: none">• the design and implementation of controls in place to mitigate the risk of income being recognised in the wrong year; and• the Trust's accounting policy in respect of revenue recognition to ensure it is in line with the requirements of the DHSC Group Accounting Manual. <p>In addition we will undertake a range of substantive procedures including:</p> <ul style="list-style-type: none">• testing of samples of transactions recognised around the year-end to obtain assurance each item was recorded in the correct financial year at the correct value; and• considering information provided by the Department of Health and Social Care in respect of year-end intra-NHS transactions <p>We have completed our work in this area and there are no matters to bring to your attention.</p>

A. Further information on our audit of the financial statements

Significant risks and audit findings

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

Risk	Our audit response and findings
Risk of fraud in expenditure recognition	We addressed the risk through performing audit work over:
<p>In the public sector, auditors also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition, which may materialise due to the audited body manipulating expenditure to meet externally set targets.</p>	<ul style="list-style-type: none">• the design and implementation of controls in place to mitigate the risk of expenditure being recognised in the wrong year; and• the design and implementation of the controls that the Trust has in place which ensure that expenditure is recorded completely and accurately during the year and at the year end.
<p>We consider there to be a risk that management could record expenditure and/or liabilities within 2022/23 accounts that do not properly meet the relevant expenditure recognition criteria.</p>	<p>In addition we will undertake a range of substantive procedures including:</p>
<p>We consider the risk to be in relation to the recognition of expenditure around the year end and the accuracy and existence of non-pay accruals, provisions, deferred income and the existence and accuracy of capital expenditure in quarter 4 of 2022/23.</p>	<ul style="list-style-type: none">• testing a samples of individual accruals to supporting documentation to confirm the method of calculation and to confirm inclusion in the correct period;• testing a samples of provisions to supporting documentation to confirm they met the recognition criteria such as representing a probable outflow of resources;• testing a samples of capital additions of PPE and/or intangible assets focusing around the transactions recorded in quarter 4 to confirm they met the recognition criteria of capital expenditure;• considering the completeness and valuation of deferred income recorded in the statement of financial position; and• testing of samples of transactions recognised around the year-end to obtain assurance each item was recorded in the correct financial year at the correct value.
	Our work in this area is complete. We have reported one unadjusted misstatement in relation to the Trust’s expenditure

A. Further information on our audit of the financial statements

Significant risks and audit findings

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

Risk	Our audit response and findings
Valuation of property, plant and equipment (land and buildings)	We evaluated the design and implementation of any controls which mitigate the risk. In addition our procedures included:
Land and buildings are some of the Trust's highest value assets accounting for £744m of the Trust's £904m Property, Plant and Equipment balance at 31 March 2023.	<ul style="list-style-type: none">obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the instructions to the valuer from the Trust;
Management engage a valuation expert, District Valuer, ('the valuer') to provide the Trust with valuations in accordance with Royal Institution of Chartered Surveyors (RICS) requirements.	<ul style="list-style-type: none">obtaining an understanding of the basis of valuation applied by the valuer in the year. This includes understanding and evaluating the methodology applied to estimate the gross replacement cost of the Trust's operational land and buildings on a modern equivalent asset basis;
We consider there to be a significant risk of material misstatement in relation to the valuation of the Trust's land and buildings as a result of the:	<ul style="list-style-type: none">considering and challenging the Trust's review of the continuing appropriateness of its application of the modern equivalent asset approach in 2022/23;
<ul style="list-style-type: none">high degree of estimation uncertainty associated with the valuations;	<ul style="list-style-type: none">reviewing and sample testing to gain assurance over the completeness and accuracy of underlying data provided by the Trust and used by the valuer as part of their valuations;
<ul style="list-style-type: none">level of judgement applied by management and the valuer in estimating current values; and	<ul style="list-style-type: none">testing the accuracy of how valuation movements were presented and disclosed in the financial statements; and
<ul style="list-style-type: none">extent to which the valuations are reliant on complete and accurate source data on individual assets being provided to the valuer	<ul style="list-style-type: none">using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2023 and engaging our own valuation expert if considered necessary
	We have completed our work. There are no matters to bring to your attention.

A. Further information on our audit of the financial statements

Significant risks and audit findings

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

Risk	Our audit response and findings
<p>Implementation of IFRS 16</p> <p>IFRS 16 has been applicable from 1 April 2022 and is designed to report information that better shows lease transactions and provides a better basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.</p> <p>The Trust is required to re-classify a number of lease arrangements in line with this new standard for the first time in the 2022/23 accounts.</p>	<p>We addressed the risk by undertaking the following procedures:</p> <ul style="list-style-type: none">• Reviewing the work the Trust has carried out for the implementation of IFRS 16 on 1 April 2022.• Substantively testing lease balances and seek evidence to support that they have been correctly classified and accurately measured under the new standard. <p>Management have identified errors in the lease calculations used in the financial statements. These errors arise from a range of issues impacting the calculations in respect of individual lease arrangements.</p> <p>There are no other matters to bring to your attention</p>

A. Further information on our audit of the financial statements

Summary of uncorrected misstatements

		SOCl		SOFP	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Operating expenses – Loss on disposal of PPE	5,717			
	Cr: Gains and losses arising from transfer by absorption		5,717		
<p>The Trust have acted as a host for a number for Greater Manchester Trusts to procure assets. These assets have been transferred out to the relevant Trusts at nil consideration but accounted for as a transfer by absorption. The correct treatment in line with the GAM is dispose of these assets and to record a loss on disposal. This is a classification issue within the SOCl.</p>					
2	Dr: Capital Prepayments			5,750	
	Cr: Property, Plant & Equipment				5,750
<p>Management were unable to provide sufficient evidence for us to conclude capital works had been completed as at 31/03/2023 relating to a £5.75m advanced payment made to a supplier.</p>					
3	Dr: Lease Liabilities (01/04/22)			17,585	
	Cr: Expenditure		63		
	Cr: Right of Use Assets (01/04/22)				17,522
<p>Following initial audit challenge, Management have identified errors in the lease calculations arising from a range of issues which totals £17.5m.</p>					
Total unadjusted misstatements		5,717	5,780	23,335	23,272

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