



# The Annual Audit Letter for Pennine Acute Hospitals NHS Trust

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Year ended 31 March 2020

21 July 2020



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Pennine Acute Hospitals NHS Trust (the Trust) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Trust and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Trust's Audit Committee as those charged with governance in our draft Audit Findings Report on 22 June 2020.

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Trust's financial statements (section two)
- assess the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Trust's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

<b>Materiality</b>	We determined materiality for the audit of the Trust's financial statements to be £9,816,000, which was 1.35% of the Trust's forecast gross revenue expenditure.
<b>Financial Statements opinion</b>	<p>We gave an unqualified opinion on the Trust's financial statements on 1 July 2020.</p> <p>We included a going concern material uncertainty paragraph in our report on the Trust's financial statements to draw attention to the note which explains the basis on which the Trust has determined that it remains a going concern.</p> <p>We included an emphasis of matter paragraph in our report on the uncertainty over asset valuations as at 31 March 2020 given the market uncertainties arising from the Covid-19 pandemic. This does not affect our opinion that the statements give a true and fair view of the Trust's financial position and its income and expenditure for the year.</p>
<b>NHS Group consolidation template (WGA)</b>	We also reported on the consistency of the financial statements consolidation template provided to the National Audit Office with the audited financial statements. We concluded that these were consistent.
<b>Use of statutory powers</b>	We referred a matter to the Secretary of State, as required by section 30 of the Act, on 27 November 2019. This was in relation to Pennine Acute Hospitals NHS Trust's breach of its breakeven duty in the four years to 31 March 2019 and planned beach for the year ending 31 March 2020

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# Executive Summary

<b>Value for Money arrangements</b>	We were satisfied that the Trust put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources, except for the matter we identified in respect of sustainable resource. We therefore qualified our value for money conclusion in our audit report to the Directors of the Trust on 1 July 2020.
<b>Quality Accounts</b>	Due to the Covid-19 pandemic, the Department of Health and Social Care suspended the requirement for the Trust's Quality Accounts to be certified.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of Pennine Acute Hospitals NHS Trust in accordance with the requirements of the Code of Audit Practice on 1 July 2020.

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## Working with the Trust

The impact of Covid-19 resulted in challenges to the smooth running of the audit. The audit was conducted remotely with all contact between audit and finance team being made either by virtual meeting or telephone, including the Audit Committee to approve the accounts. Whilst there was no noticeable impact on the audit due to staff sickness within the audit or finance teams, it did take longer to raise, monitor and respond to audit queries which was a contributory factor in not submitting draft accounts by the NHS deadline of 25 June 2020. The audit opinion was issued on 1 July 2020.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Trust's staff during these extraordinary times.

**Grant Thornton UK LLP**  
**August 2020**

# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Trust's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Trust's financial statements to be £9,816,000, which was 1.35% of the Trust's forecast gross revenue expenditure for 2019/20. We used this benchmark as, in our view, users of the Trust's financial statements are most interested in where the Trust has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration. We consider the disclosures of senior managers' remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts. For this area we set a threshold of £5,000, above which we report errors to the Audit Committee in our Audit Findings Report.

## The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Annual Report to check it is consistent with our understanding of the Trust and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Trust's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Going concern material uncertainty disclosures</b></p> <p>As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).</p> <p>Throughout 2019/20 the Trust faced significant financial challenges partly due to increased demand for services and has reported a deficit position for 2019/20, with further budget deficits expected in 2020/21 prior to the Trust’s planned transfer of remaining services in April 2021. The Trust will therefore require further cash support to pay its expenses in 2020/21. The source and value of this support is unconfirmed.</p>	<p>As part of our audit work we reviewed:</p> <ul style="list-style-type: none"> <li>• Managements own assessment of going concern which was presented to the Audit Committee on 30 April 2020</li> <li>• DHSC going concern guidance in the Treasury FREM and IAS 1</li> <li>• Commissioning arrangements and the impact of Covid-19</li> <li>• Financial outturn at 31 March 2020</li> <li>• Cash balances and cash flow forecast</li> <li>• Capital plans</li> </ul>	<p>We have reviewed management’s assessment of going concern based upon the financial statements for 2019/20 and our understanding of the 2020/21 financial regime, including communications from NHS to provider trusts.</p> <p>Management identified a material uncertainty regarding going concern and their assessment of the risk.</p> <p>We do not disagree with management’s assessment of going concern as it addresses the areas we would expect to see and is consistent with our knowledge and understanding of the Trust and the environment it operates in.</p> <p>Management agreed to elaborate on their Going Concern note in the draft accounts to add more detail for the user of the accounts.</p>

# Audit of the Financial Statements

## Significant Audit Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>The Trust holds a significant amount of land and buildings. Management update these revaluations on an annual basis to ensure the carrying value is not materially different from its current value in use at the year end date.</p> <p>Management have determined, in valuing the Trust's estate, that the main hospital sites, if needed to be replaced, would be rebuilt to modern conditions on an alternative site.</p> <p>The valuation of land and buildings represents a significant accounting estimate which is sensitive to changes in assumptions and market conditions. These valuations represent significant estimates by management in the financial statements.</p> <p>Management engage the services of a qualified valuer, who is a Regulated Member of the Royal Institute of Chartered Surveyors (RICS), to estimate the current value of its land and buildings. The last full valuation was as at 31 March 2020.</p> <p>The effects of the COVID-19 virus will affect the work carried out by the Trust's valuer in a variety of ways. Inspecting properties could prove difficult and access to evidential data, such as values of comparable assets may be less freely available. RICS Regulated Members have therefore been considering whether a material uncertainty declaration is now appropriate in their reports. Its purpose is to ensure that any client relying upon the valuation report understands that it has been prepared under extraordinary circumstances.</p> <p>We therefore identified valuation of land and buildings as a significant risk.</p>	<p>Our audit work included:</p> <ul style="list-style-type: none"> <li>evaluating management's assessment of the valuation of land and buildings and gaining an understanding of the valuation process, including the key controls and assumptions used by management</li> <li>critically assessing how key assumptions, such as the location of alternative site and the useful economic lives of the assets are determined by the Trust</li> <li>evaluating the competence, capabilities and objectivity of management's valuation expert</li> <li>challenging the information used by the valuer to assess its completeness and consistency with our understanding</li> <li>engaging our own valuer to assess the instructions issued to the Trust's valuer by management, the valuer's report and the assumptions that underpin the valuation</li> <li>testing, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Trust's asset register and financial statements</li> </ul>	<p>As disclosed in note 1.4 to the financial statements, the outbreak of Covid-19 has caused uncertainties in markets. As a result, the Trust's valuer has declared a 'material valuation uncertainty' in their valuation report. Management agreed to our recommendation to disclose the valuer's Covid-19 related material estimation uncertainty in note 1.4 to the financial statements.</p> <p>The Trust's valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates.</p> <p>The following disclosure adjustments were also made to note 16 of the accounts:</p> <ul style="list-style-type: none"> <li>restatement of the Land column to remove depreciation</li> <li>removal of the £10.5m accumulated depreciation of buildings as a full revaluation at 31 March 2020 removes such depreciation</li> </ul> <p>Management had not updated and reconciled the Trust's Fixed Asset Register to the general ledger which we consider is a key control in preparing draft accounts. The Register was reconciled and made available on 18 June 2020 which is a late stage and delayed the audit process.</p> <p>We obtained sufficient audit assurance to conclude that:</p> <ul style="list-style-type: none"> <li>the basis of the valuation of land and buildings was appropriate</li> <li>the assumptions and processes used by management in determining the estimate of valuation of property were reasonable</li> <li>the valuation of land and buildings disclosed in the financial statements is reasonable</li> </ul>

# Audit of the Financial Statements

## Significant Audit Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Covid-19</b></p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:</p> <ul style="list-style-type: none"> <li>• Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>• Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties have arisen; and</li> <li>• Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1.</li> </ul>	<p>We worked with management to understand their response and the implications that the Covid-19 pandemic has on the organisation's ability to prepare the financial statements, update financial forecasts and to assess the implications for our materiality calculations.</p> <p>We liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise.</p> <p>We evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic.</p> <p>We evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology.</p> <p>We evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances.</p> <p>We evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.</p>	<p>The results of our work concluded that the Trust had put in place appropriate and sufficient arrangements to manage the Covid-19 situation which includes the Trust's Gold and Silver Command tiers to manage Covid-19 issues with daily reports back to Directorate meetings.</p> <p>Additional governance processes have been put in place to support and approve Covid-19 expenditure both revenue and capital.</p> <p>Our audit report includes an Emphasis of Matter relating to the valuation of the Trust's land and buildings related to Covid-19 market uncertainties.</p>

# Audit of the Financial Statements

## Significant Audit Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Revenue Recognition</b></p> <p>Trusts are facing significant external pressure to restrain budget overspends and meet externally set financial targets, coupled with increasing patient demand and cost pressures. In this environment, we have considered the risk that revenue may be misstated due to the improper recognition.</p> <p>We have rebutted this presumed risk for the revenue streams of the Trust that are principally derived from contracts that are agreed in advance at a fixed price. We have determined these to be income for:</p> <ul style="list-style-type: none"> <li>Block contract income element of patient care revenues</li> <li>Education &amp; Training income from Health Education England</li> </ul> <p>We have not deemed it appropriate to rebut this presumed risk for all other material streams of patient care income and other operating revenue.</p> <p>We therefore identified the occurrence and accuracy of these income streams of the Trust and the existence of associated receivable balances as a significant risk.</p>	<p>In response to the risk we:</p> <ul style="list-style-type: none"> <li>evaluated the Trust's accounting policy for recognition of income from patient care activities and other operating revenue for appropriateness and compliance with the DHSC Group Accounting Manual 2019/20</li> <li>updated our understanding of the Trust's system for accounting for income from patient care activities and other operating revenue, and evaluated the design of the associated controls</li> </ul> <p>Patient Care Income</p> <ul style="list-style-type: none"> <li>using the DHSC mismatch report, we investigated unmatched revenue and receivable balances over the NAO £300,000 threshold, corroborating the unmatched balances used by the Trust to supporting evidence</li> <li>we agreed, on a sample basis, income from contract variations and year end receivables to signed contract variations, invoices or other supporting evidence such as correspondence from the Trust's commissioners.</li> </ul> <p>Other Operating Revenue</p> <ul style="list-style-type: none"> <li>we agreed, on a sample basis, income and year end receivables from other operating income to invoices and cash payment or other supporting evidence</li> <li>agreed additional funding from NHS Improvement (PSF/FSF/MRET) to NHS Improvement notifications.</li> </ul>	<p>Our audit work has not identified any significant matters in respect of revenue recognition.</p> <p>Management agreed to re-state both receivables and payables by £1,329k due to a matching understatement with Heywood Middleton and Rochdale CCG.</p> <p>Management agreed to expand the revenue recognition accounting policy to include education and training income as this is a material revenue stream.</p>

# Audit of the Financial Statements

## Significant Audit Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Trust faces external pressures to meet agreed targets, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>In response to the risk we:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals</li> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>tested unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness</li> </ul>	<p>Our audit work did not identified any issues in respect of management override of controls.</p>

# Audit of the Financial Statements

## Significant Audit Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Expenditure Recognition</b></p> <p>Practice Note 10, The Audit of Public Sector Financial Statements, issued by the Public Audit Forum, suggests that the risk that material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition needs to be considered, especially where targets are required to be met.</p> <p>The Trust is under financial pressure due to a forecast deficit. This risks the Trust not receiving its full PSF/FRF allocation.</p> <p>We have determined that this risk applies to all non-pay expenditure excluding depreciation, amortisation, clinical negligence, audit fees and impairments. This is because these costs are tested in total and are incurred on a relatively predictable pattern based on other factors such as assets' useful economic lives.</p>	<p>In response to the risk we:</p> <ul style="list-style-type: none"> <li>evaluated the Trust's accounting policy for recognition of non-pay expenditure excluding depreciation, amortisation, clinical negligence, audit fees and impairments for appropriateness and compliance with the DHSC Group Accounting Manual 2019/20</li> <li>updated our understanding of the Trust's system for accounting for non-pay expenditure depreciation, amortisation, clinical negligence, audit fees and impairments, and evaluated the design of the associated controls</li> <li>documented the goods received not invoiced accrual process and the processes management have put in place, challenging any key assumptions, the appropriateness of the source data used and the basis for calculations</li> <li>tested substantively a sample of expenditure and agreed to supporting documentation to confirm correct accounting treatment</li> <li>obtained a listing from the bank statements of non-pay payments made in April and May to ensure they have been charged to the appropriate year</li> <li>tested substantively a sample of year end creditor and accrual balances</li> </ul>	<p>Our audit work has not identified any issues in respect of expenditure recognition.</p>

# Audit of the Financial Statements

## Audit opinion

We gave an unqualified opinion on the Trust's financial statements on 1 July 2020. This was later than the NHS Improvement deadline of 25 June 2020 to enable the audit team to complete essential audit enquiries.

## Preparation of the financial statements

The Trust presented us with draft financial statements in accordance with the national deadline, and provided a working papers to support the majority of balances. We experienced some delays in receiving requests to audit queries, largely arising from the operational difficulties of lockdown. The fixed asset register was not available to support our audit testing of the land and buildings valuation until 18 June 2020 which delayed audit testing in this key area.

## Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Trust's Audit Committee on 22 June 2020. The audit matters arising after the Audit Committee were reported in the Audit Findings Report which was shared with the Audit Committee prior to the audit opinion being signed.

Management agreed to adjust all of the errors requested during the audit and the audited accounts contain no unadjusted errors. The majority of amendments arising from the audit related to presentation and disclosure matters.

## Annual Report, including the Annual Governance Statement

We are also required to review the Trust's Annual Report, including the Annual Governance Statement. These documents were provided on a timely basis with only minor recommendations to improve disclosure.

The Remuneration Report within the Annual Report was updated to properly reflect senior manager salary bandings and pension entitlements where required.

## Whole of Government Accounts (WGA)

We issued a group return to the National Audit Office in respect of Whole of Government Accounts, which did not identify any issues for the group auditor to consider in respect of compliance with the NHS Agreement of Balances process.

## Other statutory powers

We are also required to refer certain matters to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014. We referred a matter to the Secretary of State, as required by section 30 of the Act, on 27 November 2019. This was in relation to Pennine Acute Hospitals NHS Trust's breach of its breakeven duty in the four years to 31 March 2019 and planned beach for the year ending 31 March 2020

## Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Pennine Acute Hospitals NHS Trust in accordance with the requirements of the Code of Audit Practice on 1 July 2020.

# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

## Overall Value for Money conclusion

Based on the work we performed to address the significant risks, we were satisfied that except for the matter we identified in respect of sustainable resource deployment, the Trust had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore gave a qualified 'except for' conclusion.

In our VFM conclusion we reported that:

- The Trust incurred a deficit of £32.1 million in 2019/20 which was £7.5 million worse than planned. The deficit was worse than planned because pay costs were higher than expected, cost improvement plans under delivered and some income for non-elective activity is not expected to be paid due to the block contract income arrangements.

## Overall Value for Money conclusion (continued)

- The Trust received £42.9 million of revenue support loans and £14.95 million of emergency capital loans from the Department of Health and Social Care (DHSC) in 2019/20 to help it pay staff and suppliers. By 31 March 2020, the Trust's borrowings from the Department of Health and Social Care totalled £209.7 million and its cumulative deficit was £143.4 million. The Trust will not be in a position to recover its cumulative deficit prior to the planned transfer of its services to Manchester University NHS Foundation Trust and Salford Royal NHS Foundation Trust.

These matters identify weaknesses in the Trust's arrangements for setting a sustainable budget with sufficient capacity to absorb emerging cost pressures. They are evidence of weaknesses in proper arrangements for sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

NHS Improvement recognise these weaknesses and are overseeing arrangements to transfer the Trust's services to Manchester University NHS Foundation Trust and Salford Royal NHS Foundation Trust by 1 April 2021.

# Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Risk 1 Financial sustainability</b></p> <p>The Trust was forecasting a year end deficit of £24.5m after FRF/PSF which has been agreed as a control total, however as at M8 the Trust was £4.5m adverse from the plan.</p> <p>There was a significant risk that the Trust would not meet its agreed year end position, and this may impact on the sustainable delivery of strategic priorities.</p> <p>The Trust's capital programme is also heavily reliant on loans, and if these loans are not approved this may start to impact service provision.</p>	<p>We have reviewed the Trust's arrangements for budgeting and monitoring of the ongoing financial position to assess whether the basis for assumptions and ongoing forecasts are realistic and appropriately managed. We also reviewed monthly financial reports prepared by management as well as the 2020/21 draft Financial Plan submitted to NHSI, and the subsequent impact of Covid-19 on the Trust's planning. We have identified the following:</p> <ul style="list-style-type: none"> <li>• The Trust delivered a deficit for the year of £32.1m (2018/19: £65.63m) increasing its cumulative deficits to £143.37m. The Trust's planned deficit for 2018/19 was £68.9 million;</li> <li>• The 2019/20 deficit is after receiving £33.3m in the form of Provider Sustainability Funding, Financial Recovery Funding and Marginal Rate Efficiency Tariff;</li> <li>• The 2019/20 deficit is £7.5m worse than the agreed control total;</li> <li>• Interim and revenue support loans of £160.6m are due to convert to PDC during 2020/21 as part of a wider Department of Health and Social Care (DHSC) initiative;</li> <li>• The Trust submitted a 2020/21 financial plan forecasting a deficit of £84.1m and requiring accompanying revenue support loans to enable payment of staff salaries and suppliers. These loans were not formally approved by NHSI;</li> <li>• The 2020/21 financial plan and planning cycle was paused by NHSI due to the Covid-19 pandemic;</li> <li>• Irrespective of the temporary pause to 2020 financial planning, the Trust's reliance on revenue support loans from DHSC to support payment of staff and suppliers is expected to continue into 2020/21;</li> <li>• The Trust is unable to plan to repay its historic debt and deliver surpluses, hence the plan for the Trust to demise in April 2021 and transfer services to MFT and SRFT.</li> </ul>	<p>Our review of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources identified the following matters which were reported in our VFM conclusion, resulting in a qualified "except for" VFM conclusion based upon the sustainable resource deployment NAO criteria:</p> <ul style="list-style-type: none"> <li>• The Trust incurred a deficit of £32.1 million in 2019/20 which was £7.5 million worse than planned. The deficit was worse than planned because pay costs were higher than expected, cost improvement plans under delivered and some income for non-elective activity is not expected to be paid due to the block contract income arrangements.</li> <li>• The Trust received £42.9 million of revenue support loans and £14.95 million of emergency capital loans from the Department of Health and Social Care (DHSC) in 2019/20 to help it pay staff and suppliers. By 31 March 2020, the Trust's borrowings from the Department of Health and Social Care totalled £209.7 million and its cumulative deficit was £143.4 million. The Trust will not be in a position to recover its cumulative deficit prior to the planned transfer of its services to Manchester University NHS Foundation Trust and Salford Royal NHS Foundation Trust.</li> </ul> <p>These matters identify weaknesses in the Trust's arrangements for setting a sustainable budget with sufficient capacity to absorb emerging cost pressures. They are evidence of weaknesses in proper arrangements for sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p>

# Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Risk 2 Management of the transaction for take-over of North Manchester General Hospital by Manchester University NHS Foundation Trust and the remaining Pennine Acute Hospitals NHS Trust by Salford Royal FT.</b></p> <p>Plans have progressed with the Transaction, and the current expectation is that the Royal Oldham, Rochdale Infirmary and Fairfield General Hospital will transfer to Salford Royal NHS FT and North Manchester General Hospital will transfer to Manchester University FT no later than April 2021. This represents a significant transaction across multiple stakeholders.</p>	<p>We reviewed the Trust's arrangements for planning the transfer, ensuring adequate controls are in place, and ensuring cooperation with NHS Improvement (NHSI), Manchester University Foundation Trust (MFT), Salford Royal NHS Foundation Trust (SRFT) and Pennine Acute Hospitals NHS Trust (PAHT) throughout. We held discussions with senior officers and reviewed supporting documentary evidence where appropriate. This included a review of the Full Business Case, the Post Transaction Implementation Plan and the costs incurred to date.</p> <p>Our observations are:</p> <ul style="list-style-type: none"> <li>• The NCA has appointed an independent Director to oversee the transaction;</li> <li>• There is a Transaction Oversight Board which is an external committee comprising NHSI, MFT, PAHT &amp; SRFT.</li> <li>• Below the Transaction Board sits a SRFT Acquisition Committee where PAHT is represented, chaired by the Chair of the Trust Board. The Board is mainly for development of strategic plans and reported directly to Committees in Common during 2019/20;</li> <li>• The Transaction is being carried out jointly in a transparent manner between all stakeholder entities (NHSI, MFT, SRFT and PAHT);</li> <li>• The Salford Team and Manchester FT teams have each set up a Project Management Office;</li> <li>• New interim arrangements came into effect on 1 April 2020 for SRFT and MFT to oversee their prospective services to be taken on.</li> </ul>	<p>Despite the inevitable disruption caused by Covid-19, plans remain on track for the Transaction to take place no later than 1 April 2021.</p> <p>The Full Business Case is developing although some of the financial sections have been delayed by Covid-19 pressures.</p> <p>We consider that the arrangements put in place adequately mitigate the risk identified.</p>

# Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Risk 3 - IT failures</b></p> <p>The IT system suffered a failure in September 2018 which led to the cancellation of over 600 appointments and operations. It was reported that this was a result of ageing equipment. At the planning stage of the audit there had been no significant upgrades to the equipment since this failure, and we understand that there are still frequent outages, including one in June 2019 that lasted four days and during which a third of the Trust's staff were unable to access any system.</p> <p>This represents a significant risk to the Trust that may have a significant impact on service provision at any given time.</p>	<p>We reviewed the Trust's arrangements for responding to system failures, and for planning to mitigate the risks of such instances in the future.</p> <p>We have:</p> <ul style="list-style-type: none"> <li>• Met with senior officers and reviewed papers and minutes from relevant committees to identify progress made in addressing the historic IT weaknesses;</li> <li>• Reviewed the Trust's arrangements for assessing the adequacy of IT hardware and software to meet the operational requirements of the Trust, and the Trust's ability to respond to such system failures, including the financial investment required and source of funds.</li> <li>• Reviewed the Digital Stabilisation Project investment including key projects and milestones. Overall the capital investment is substantial and amounts to £23.4m.</li> </ul> <p>Our observations are:</p> <ul style="list-style-type: none"> <li>• A Chief Information Officer and NCA Digital Director were appointed in March 2019 to provide leadership and oversee the required actions through a targeted Stabilisation Plan;</li> <li>• The actions being taken following the failures are being followed up by Group Risk and Assurance Committee and the Audit Committee; and</li> <li>• There is increased funding available to invest in improvements over and above the initial network replacement project. This includes an additional £8m agreed in November 2019.</li> </ul>	<p>The principal cause of the IT failure was the old age of infrastructure equipment. The Trust had been aware of the issues for some time and has invested heavily to address the issues.</p> <p>Arrangements have been put in place in response to the IT failure to mitigate the risk and with appropriate governance and oversight arrangements.</p> <p>Although the NIS Enforcement notice remains in place relating to digital risks, we are satisfied that management are responding appropriately to address the risk and progress is being made.</p>

## A. Reports issued and fees

We confirm below our final reports issued and fees charged for the 2019/20 audit and confirm there were no fees for the provision of non audit services.

### Reports issued

Report	Date issued
Audit Plan	January 2020
Audit Findings Report	June 2020
Annual Audit Letter	August 2020

### Fees

	Planned fees £	Actual fees £	2018/19 fees £
Statutory audit	69,125	73,625	71,975
Charitable fund	4,250	4,250*	4,250
<b>Total fees</b>	<b>73,375</b>	<b>77,875*</b>	<b>76,225</b>

\* The final fee is to be confirmed – the Charitable Fund Audit is scheduled to take place in October 2020.

The statutory audit fee was £4,500 higher than planned due to the additional fee incurred for the auditor's valuation expert. The planned audit of the Trust's Quality Report was withdrawn due to the impact of the Covid-19 pandemic. The planned fee for this service of £6,700 was not therefore incurred.



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