



Auditor's Annual Report 2021/22

Mid Cheshire Hospitals NHS FT

21 June 2022

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

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

Summary

Introduction

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

Our responsibilities

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

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

Findings

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

Accounts	<p>We issued an unqualified opinion on the Trust’s accounts on 21 June 2022. This means that we believe the accounts give a true and fair view of the financial performance and position of the Trust.</p> <p>We have provided further details of the key risks we identified and our response on page 4.</p>
Annual report	<p>We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust.</p> <p>We confirmed that the Governance Statement had been prepared in line with the DHSC requirements.</p>
Value for money	<p>We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money.</p> <p>We have nothing to report in this regard.</p>
Other reporting	<p>We did not consider it necessary to issue any other reports in the public interest.</p>

Accounts audit

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

Risk	Findings
<p>Valuation of Land and Buildings</p> <p>Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'. There is a risk the assumptions used to determine the valuation are not accurate.</p>	<p>We did not identify any material misstatements relating to this risk.</p> <p>We considered the estimate to be balanced based on the procedures performed.</p>
<p>Fraudulent expenditure recognition</p> <p>The Trust is required to support the achievement of spend within the Integrated Care System (ICS) funding envelope for Cheshire and Merseyside Health and Care Partnership. There is therefore a risk that non-pay expenditure may be manipulated in order to achieve a breakeven position at the ICS level.</p> <p>We consider this would be most likely to occur through manipulating accruals at the end of the year.</p>	<p>We did not identify any material misstatements relating to this risk.</p>
<p>Management override of controls</p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<p>We did not identify any material misstatements relating to this risk.</p>

Value for money

Introduction

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

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

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

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

Matters that informed our risk assessment

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

Care Quality Commission rating	Good (April 2020)
Single Oversight Framework rating	Segment 2 (Targeted support: Support needs identified in Finance & use of resources and Operational performance)
Governance statement	There were no significant control deficiencies identified in the governance statement.
Head of Internal Audit opinion	Substantial Assurance

Commentary on arrangements

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

Summary of findings

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

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

Financial sustainability	
Description	Commentary on arrangements
<p>This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> How the Trust sets its financial plans to ensure services can continue to be delivered; How financial performance is monitored and actions identified where it is behind plan; and How financial risks are identified and actions to manage risks implemented. 	<p>As in 2020/21, the 2021/22 financial year has been split into two halves, with a different funding regime in place for each. The regimes are largely a continuation of those introduced in response to Covid-19, and set out in two lots of operational planning and implementation guidance, issued in March and September 2021.</p> <p>The funding arrangements are broadly consistent in both H1 and H2 with system funding envelopes containing adjusted CCG allocations, system top-up and Covid-19 fixed allocations remaining in place with Cheshire and Mersey Healthcare Partnership (HCP), as well as block payments between NHS commissioners and NHS providers.</p> <p>As guidance for the 2021/22 financial year was not received until 25 March 2021, the interim 2021/22 Financial Plan was presented and approved by the Performance and Finance Committee (PAF) and Board to ensure there were budgets in place until the financial framework was released and the final plan approved.</p> <p>The financial plan submitted included a planned deficit of £7.6m for H1. Following a review by the HCP the plan was revised to a breakeven position for H1 with this initial £7.6m deficit being reduced by capital spend phasing, additional system funding, Elective Recovery Fund (ERF) income and an increase to the Cost Improvement Programme (CIP) required. At M6, the Trust achieved a breakeven position for H1 as a result of the Trust receiving £0.9m of support from the Cheshire and Mersey HCP system.</p> <p>The official planning guidance for H2 was not to be received until 30 September 2021 and the Trust submitted a planned full year deficit of £9.4m. This was revised to a breakeven position following the HCP review through additional system funding, a successful critical care bid and expected support from the HCP system in M12 of £7.9m.</p> <p>The Trust recognised a deficit for the year of £6,466k.</p> <p>We found that the budget monitoring and control processes were able to identify and incorporate significant pressures into the financial plan to ensure it was achievable and realistic. The budgets for H1 and H2 were constructed based on appropriate local and national planning assumptions and we saw evidence of appropriate review and sign off. Emerging cost pressures are identified through monthly review of budget statements and the budget is monitored by PAF.</p> <p>The sustained financial pressure on the sector means that the Trust must continue to identify and achieve challenging savings goals to continue to meet its targets. At each year end, the risk therefore increases that the Trust will not be able to identify the required level of savings to meet further savings targets. We have considered whether there were sufficient controls allowing the Trust to effectively manage resources and ensure continuity in the delivery of its services.</p>

Financial sustainability	
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<p>This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> How the Trust sets its financial plans to ensure services can continue to be delivered; How financial performance is monitored and actions identified where it is behind plan; and How financial risks are identified and actions to manage risks implemented. 	<p>Following the suspension of efficiency schemes in 20/21, the Trust were set a Cost Improvement Programme (CIP) target of £0.4m for H1, with an additional requirement to deliver an additional £1.9m of savings as part of the Cheshire and Mersey HCP in order to deliver a balanced system position, totalling a H1 target of £2.3m. This target was met, with the largest savings relating to the procurement of laundry services and additional non recurrent savings on recruitment delays and the phasing difference in expected cost pressures.</p> <p>The Trust achieved their set CIP target of £4m for H2. The Trust therefore delivered their £6.3m full year target for 2021/22.</p> <p>A large proportion of the H2 efficiency achievement is based on non-recurrent schemes which therefore leads to the risk of slippage if expenditure pressures continue. The Trust are focusing on identifying additional recurrent efficiencies for 2022/23 in order to make these efficiencies more sustainable and meet the inevitably increasing CIP targets that will be set in future years.</p> <p>We confirmed that CIP schemes were monitored through divisional finance meetings and PAF, with further escalation to the Trust Board where necessary. We have confirmed that the Trust has also developed a quality assessment impact template to ensure that schemes put forward do not have an impact elsewhere within the hospital.</p> <p>The draft financial plan for 2022/23 submitted on 17 March 2022 included a significant planned deficit of £28.2m. This has since been revised to a deficit of £24.4m, as approved by the Board on 19 May 2022, due to reduction in system funding being offset by Restoration funding. This deficit requires the Trust to deliver significant cost reductions of 3.7% (£11.2m) during the financial year. Given that the Trust is unlikely to achieve such significant cost savings, with only £4.1m currently identified, there is a risk to the delivery of the planned deficit. This is communicated within the financial plan, along with a number of other key risks associated within the current plan. As well as identifying further efficiencies for 2022/23 that are currently in the 'idea' or 'planning' stages, the Trust are also in the process of identifying recurrent efficiencies for future years. Progress on efficiencies is discussed within divisional meetings and regularly monitored through PAF updates.</p> <p>The Trust commissioned external support to review its Efficiency and Value Programme proposal who completed their review in March 2022. The report concluded that the programme provides a comprehensive governance structure to support operational divisions in identifying opportunities for savings.</p> <p>Conclusion</p> <p>Based on the risk assessment procedures performed we have not identified a significant weakness in relation to financial sustainability arrangements in place to oversee and monitor value for money achievement.</p>

Governance	
Description	Commentary on arrangements
<p>This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> Processes for the identification and management of strategic risks; Decision making framework for assessing strategic decisions; Processes for ensuring compliance with laws and regulations; How controls in key areas are monitored to ensure they are working effectively. 	<p>There is an overarching committee structure in place which is part of the internal governance arrangements, in which policies and procedures are continually validated and ratified. All relevant policies and procedures, including those for gifts and hospitality and the recording of interests, are communicated and made available to staff via the intranet. The Trust has a Corporate Governance Framework Manual which sets out the code of conduct for the Trust Board and staff, in addition to the standing financial instructions and scheme of delegation.</p> <p>Compliance with the Care Quality Commission (CQC) standards of Quality and Safety are monitored through the Quality & Safety Committee (QSC) at the Trust. The QSC is responsible for monitoring all legal, regulatory and other obligations of the Trust. The Trust is currently rated as 'Good' by the CQC following the most recent report in April 2020.</p> <p>The Board and Performance and Finance Committee (PAF) have been kept informed of the funding arrangements in place for 2021/22 and the monthly finance reports provide commentary on risks and uncertainties that may exist.</p> <p>Management have established financial controls to prevent and detect fraud – this includes segregation of duties across core systems, approval and authorisation limits linked to purchases and payments. Our testing of the design and implementation of these controls has not identified any issues in relation to the effectiveness of these controls.</p> <p>The Trust operates a risk monitoring and reporting system to ensure that there is clear ownership of risk at the appropriate hierarchical levels and robust scrutiny and oversight of how risks are managed. Reporting on the Board Assurance Framework (BAF) and Risk Register has continued, with issues being escalated as necessary and appropriate detail as to the risk, cause and consequence, and controls and actions identified to mitigate these risks included against each risk.</p> <p>The BAF shows that the Trust has carefully considered the likelihood and impact of each risk with sufficient and appropriate rationale and how the Trust intends to reduce each risk to an achievable target risk score. Our review has demonstrated that these documents included sufficient detail and display strong and robust arrangements in place to help identify, assess and monitor financial risk.</p> <p>The Trust produce an Integrated Performance Report which incorporates, financial, performance, quality and workforce metrics into a single report. The report includes an overview of financial performance against budget, as well as a more detailed review on both a current and forward view of income, pay, non-pay, cost improvement programmes (CIP), bank and agency, cash and capital.</p> <p>The Trust has recently reviewed the business case process and agreed new templates and guidance. These are reviewed by divisional boards prior to submission to the Operational Finance Group (OFG) and then the Executive Delivery and Performance Group (EDPG). Business cases are presented to the Board where required due to their size.</p>

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<p>This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> ▪ Processes for the identification and management of strategic risks; ▪ Decision making framework for assessing strategic decisions; ▪ Processes for ensuring compliance with laws and regulations; ▪ How controls in key areas are monitored to ensure they are working effectively. 	<p>The required details to be included within the business case document would enable appropriate decision making. For each business case, the preparer of the template must outline their proposed business case and explain the background of the proposal and how it links to the Trust's strategy, any operational changes that would be required and the opportunities/mitigations the proposal offers. The signatories page included within the template ensures that all decision makers are involved in the process through their review and sign off of the business case.</p> <p>In the 2021/22 financial year there have been no breaches of legislation or regulatory standards that has led to an investigation by any legal or regulatory body.</p> <p>Conclusion</p> <p>Based on the risk assessment procedures performed we have not identified a significant weakness in relation to governance arrangements in place to oversee and monitor their value for money achievement.</p>

Improving economy, efficiency and effectiveness

Description	Commentary on arrangements
<p>This relates to how the Trust seeks to improve its systems so that it can deliver more for the resources that are available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> ▪ The planning and delivery of efficiency plans to achieve savings in how services are delivered; ▪ The use of benchmarking information to identify areas where services could be delivered more effectively; ▪ Monitoring of non-financial performance to assess whether objectives are being achieved; and ▪ Management of partners and subcontractors. 	<p>The Trust produce an integrated performance report which incorporates, financial, performance, quality and workforce metrics into a single report. The Trust governance structure has each of these areas set up as a separate board sub-committee to ensure the consideration of value for money and key strategic decisions.</p> <p>Non-financial key performance indicators are monitored by the Trust through the Integrated Performance Report on a monthly basis at the Performance and Finance Committee (PAF), Quality and Safety Committee (QSC) and Workforce and Digital Transformation Committee. Summary information is shared through Executive Team Reports, Divisional and Directorate Reports and Committee Group reports for monitoring and scrutiny.</p> <p>The Trust manage and monitors cost performance through regular reporting to the Executive team and the PAF. Costs are benchmarked against the Model Hospital data with referenced cost data then reviewed through the PAF in accordance with the Trust annual workplan. Outlying areas identified through the review are explained by the relevant Head of Service and patient level costing is used to highlight specific areas of variation. The Trust also makes use of NHS Benchmarking information and National Cost Collection information to assess cost performance during the year.</p> <p>The Trust is the lead Trust for the Cheshire East Integrated Care Partnership (CEICP) and also an active member of the Integrated Care System in Cheshire and Merseyside and Central Cheshire Integrated Partnership (CCICP). Updates on activities and performance of these partnerships is provided to the Trust Board, the Executive team and relevant sub committees of the Board.</p> <p>The Trust has developed other regional partnerships to develop services, including a partnership with the GP Alliance and Cheshire & Wirral Partnership NHS Foundation Trust to support the on-going development of community services to provide integrated services and support functions. The Trust has an approved business case to work across the system to deliver additional capacity through a Community Diagnostics Hub. This will also involve the integration of workflows for all Trusts within the Cheshire and Mersey Integrated Care System.</p> <p>The Trust is also a member of the Cheshire and Wirral Collaboration at Scale Partnership which allows the Trust to participate in cost improvement schemes on a system-wide level as well as the local schemes in place.</p> <p>Management of contracts with partners and subcontractors is undertaken by the relevant service managers awarding the contract.</p>

Improving economy, efficiency and effectiveness

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<p>This relates to how the Trust seeks to improve its systems so that it can deliver more for the resources that are available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> ▪ The planning and delivery of efficiency plans to achieve savings in how services are delivered; ▪ The use of benchmarking information to identify areas where services could be delivered more effectively; ▪ Monitoring of non-financial performance to assess whether objectives are being achieved; and ▪ Management of partners and subcontractors. 	<p>The Trust appointed a new Head of Contracts during the year and following their initial review of current contract activity within the Trust identified several service level agreements being in place that often didn't align to the NHS Terms and Conditions. In addition to this, it was identified that there are no robust contract monitoring processes in place for higher risk agreements. Recommendations have been made by the Head of Contracts for the Trust's solicitors to develop, and review annually, a Service Level Agreement when NHS contract templates are not applicable. The recommendation was approved by the Contract, Procurement and Partnership Group in September 2021. Additionally, regular monitoring meetings have now been put in place for the Trust's most significant contracts which review performance via the Monthly Monitoring Reports, updates on actions identified and any additional matters such as KPIs and chasing outstanding payments on invoices, as confirmed through our review of meeting agendas and minutes.</p> <p>The Head of Contracts has also been working with Procurement to create a Contracts Repository. This will help to inform the quantum of arrangements in place and identify any opportunities at scale, as well as encouraging a greater focus on contract management and ensuring there are robust contracts in place for all significant awards.</p> <p>Conclusion</p> <p>Based on the risk assessment procedures performed we have not identified a significant weakness in relation to arrangements in place for improving economy, efficiency and effectiveness.</p>



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