

Annual Audit Letter

NHS North Lincolnshire Clinical Commissioning
Group

Year ending 31 March 2018





CONTENTS

1. Executive summary
2. Audit of the financial statements
3. Value for Money conclusion
4. Other reporting responsibilities
5. Our fees
6. Forward look

Reports and letters prepared by the auditor and addressed to NHS North Lincolnshire CCG are prepared for the sole use of the CCG and we take no responsibility to any member or officer in their individual capacity or to any third party.

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for NHS North Lincolnshire Clinical Commissioning Group (the CCG) for the year ended 31 March 2018. Although this letter is addressed to the CCG, 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 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 25 May 2018 included our opinion that:</p> <ul style="list-style-type: none">• the financial statements give a true and fair view of the CCG's financial position as at 31 March 2018 and of its financial performance for the year then ended; and• income and expenditure has, in all material respects, been applied for the purposes intended by Parliament except for the failure to meet the statutory duty for expenditure not to exceed income in year.
Value for Money conclusion	<p>Our auditor's report stated that we had matters to report in respect of the CCG's arrangements to secure economy, efficiency and effectiveness in its use of resources in relation to:</p> <ul style="list-style-type: none">• understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management,• managing risks effectively and maintaining a sound system of internal control and planning finances effectively to support the sustainable delivery of strategic priorities; and• working with third parties effectively to deliver strategic priorities.
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 29 May 2018 we reported that the CCG's consolidation schedules were consistent with the audited financial statements.</p>
Statutory reporting	<p>The report also outlined that we made a referral to the Secretary of State under s30 of the 2014 Act, in relation to the breach of financial duties.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified
Opinion on regularity	Modified

The scope of our audit and the results of our work

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 CCG and whether they give a true and fair view of the CCG's financial position as at 31 March 2018 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the CCG's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

The Code of Audit Practice also requires us to form and express an opinion on whether the CCG's expenditure has been, in all material respects, applied for the purposes intended by Parliament (our regularity opinion).

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. We set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) either because of the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Integrated Audit and Governance Committee. We call this our trivial threshold.

The table below provides details of the levels applied in the audit of the financial statements for the year ended 31 March 2018:

Financial statement materiality	Our financial statement materiality is based on 1.5% of Gross Operating Expenditure.	£3.2 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£96,000
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - exit packages - senior officer remuneration	£10,000 £150,000

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the CCG's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Integrated Audit and Governance Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls</p> <p>In all entities, 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. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates impacting on 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>Our work provided us with the assurance we sought and did not highlight any material issues to bring to your attention.</p>
<p>Revenue recognition</p> <p>In all entities, there is a risk of fraud in financial reporting relating to revenue recognition as there is potential to inappropriately record income in the wrong period. This is not to imply we suspect actual fraud, but that we approach our audit maintaining due professional scepticism.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> • undertaking cut-off testing of receipts around the year-end; • reviewing inter-NHS reconciliations and data matches provided by the NHSE (income and receivables); and • if necessary, seeking direct confirmation from third parties or their external auditors. <p>This work also informed our conclusion on the regulatory element of our audit opinion.</p>	<p>Our work provided us with the assurance we sought and did not highlight any material issues to bring to your attention.</p>
<p>Related party transactions</p> <p>GPs are members of the Governing Body and also potential service providers.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> • reviewing the CCG's arrangements for identifying and recording potential related party transactions; • reviewing a range of documents including minutes of meetings and declarations of interest for evidence of potential related party transactions; and • testing disclosures in the financial statements. 	<p>Our work provided us with the assurance we sought and did not highlight any material issues to bring to your attention.</p>

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Adverse

Our approach to the value for money conclusion

We are required to consider whether the CCG 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 in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider. We are only required to report if we conclude that the CCG has not made proper arrangements. The overall criterion is that, 'in all significant respects, the CCG had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor's report, issued to the CCG on 25 May 2018 outlined our qualified conclusion on the CCG's arrangements to secure economy, efficiency and effectiveness in its use of resources.

Sub-criteria	Commentary	Matters to report
Informed decision making	The CCG has governance arrangements in place and takes regular reports to members. The governance review completed in November 2017, however, concluded that not all arrangements were in place for a significant proportion of the financial year. The detailed Improvement Plan covers Capability, Capacity, Leadership as well as Financial Recovery. The Improvement Plan was accepted by NHS England but the legal directions remain in place.	Yes - Although the CCG has taken action to address deficiencies in capacity, capability and leadership arrangements identified in the governance review, those arrangements were not in place for a significant proportion of the financial year.
Sustainable resource deployment	In August 2017 the CCG was brought under NHS Commissioning Board Legal Directions requiring the CCG to produce an improvement a financial recovery plan and complete a review of governance arrangements. The CCG has made progress in all areas, producing a detailed Improvement Plan in January 2018. In February 2018, however, the CCG reported an forecast deficit of £6.3m by the end of the 2017/18. At the end of the financial year the CCG reported a slightly smaller deficit of £6.0m as a result of savings in drug costs.	Yes - Actual and planned deficits are evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
Working with partners and other third parties	Our audit work has confirmed there is evidence the CCG works with third parties to deliver strategic priorities, however, the arrangements were not in place over the full year. The CCG's Improvement Plan highlights the CCG's intention to work more closely with its partners and the CCG is making progress with this.	Yes – The CCG has improved arrangements during the year, but not all were in place for the full 2017/18 financial year.

1. Executive summary

2. Audit of the financial statements

3. Value for Money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

3. VALUE FOR MONEY CONCLUSION

Significant value for money audit risks

The NAO’s guidance requires us to carry out work to identify whether or not a risk to our value for money conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the CCG being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant audit risk. The work we carried out is outlined below.

Audit risk	Work undertaken	Conclusion
<p>Financial position</p> <p>Clinical commissioning groups have a statutory duty to ensure expenditure in a financial year does not exceed income. At the end of 2016/17 the CCG had a cumulative deficit of £4.1m and the CCG continued to face several financial challenges in 2017/18 including the need to achieve significant savings in-year.</p> <p>Our initial view, reflected in the Audit strategy Memorandum, was that the following proper arrangements are relevant to our audit risk:</p> <ul style="list-style-type: none"> • reliable and timely financial reporting that supports the delivery of strategic priorities; • planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions; and • working with third parties effectively to deliver strategic priorities. 	<p>We addressed this risk by monitoring the progress the CCG made in delivering its financial plan as the year progressed as well as the response to the NHS Commissioning Board Legal Directions issued in August 2017</p>	<p>The CCG was, unable to keep healthcare spend within its resources and achieve its statutory target and reported a £6.0m deficit for the year.</p> <p>In February 2018, when the CCG reported its expectation of not achieving its statutory financial targets to NHS England, we made a referral to the Secretary of State.</p> <p>Actual and planned deficits are evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p>



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	Matters to report
Governance Statement	No matters to report
Consistency of consolidation data with the audited financial statements	Consistent
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the CCG's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest
- make a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- make written recommendations to the CCG which must be responded to publically.

We have a duty under the Local Audit and Accountability Act 2014 to refer the matter to the Secretary of State if we have a reason to believe that the CCG, or an officer of the CCG, is about to make, or has made, a decision involving unlawful expenditure, or is about to take, or has taken, unlawful action likely to cause a loss or deficiency.

On 26 February 2018, we issued a report to the Secretary of State for Health under section 30(b) of the Local Audit and Accountability Act 2014, for the breach of financial duties under:

- section 223H(1) of the NHS Act 2006 (as amended) to ensure expenditure did not exceed income in 2015/16; and
- section 223I(3) of the NHS Act 2006 (as amended) to ensure revenue resource use does not exceed the amount specified in the Direction.

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

Reporting to the NAO in respect of consolidation data

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

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the CCG. In our opinion, the information in the Annual Report is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the CCG's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Panel in November 2017.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice	£35,725 + vat	£35,725 + vat

Fees for other work

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

6. FORWARD LOOK

Financial outlook

The medium term financial plan indicates that for 2018/19 the CCG is forecast to make a deficit of £4m, but should break-even with additional funding of £4m from the Commissioner Sustainability Fund. The plan includes a Quality, Innovation, Productivity and Prevention (QIPP) savings target of £4.7m compared to £16.2m in 2017/18 and is therefore more realistic than the prior year. In subsequent financial years, the CCG plans to achieve in-year surplus. The current medium term plan shows the CCG still with an accumulated deficit of £5.4m at the end of 2020/21.

In responding to the financial pressure we have noted that the new interim management is seeking to drive improvements and promote joined up working so that patient care is improved whilst continuing to meet financial responsibilities. External scrutiny by NHS England is supportive of the approach adopted by the CCG in response to the legal directions.

Improvement Plan

In response to the Legal Directions, the CCG undertook a governance review and an action plan to improve arrangements has been adopted. The CCG has:

- appointed a transformation director;
- revised the governance structure, setting out a clearer working programme for the governing body and more meetings;
- created committees and sub-committees with clearer objectives;
- developed six strategic priorities to inform commissioning; and
- introduced integrated performance finance and quality reporting.

The CCG continues to monitor progress on the delivery of the Improvement Plan and is seeking to move out of legal directions during 2018. The Plan highlights the intention to work more closely with partners and we have already seen evidence of this which includes:

- the CCG is now commissioning services from North Lincolnshire and Goole Hospitals NHS Foundation Trust (NLAG) jointly with North East Lincolnshire CCG;
- the CCG has planned agreed contract values in place for most of the main contracted activities in 2018/19. There are risks around the service level agreement with NLAG including a £7.4m variation between the CCG and NLAG over the cost of the expected service level. There is, however, an agreed process to resolve the differences between which was agreed as part of a mediation process involving NHS regulators; and
- the introduction of weekly senior manager meetings with key stakeholders including North Lincolnshire Council and NLAG.

To ensure sufficient activity is commissioned to meet population needs while providers have sufficient resources to meet demand, commissioners and providers all need to agree affordable demand and capacity solutions. While overseeing the collaboration needed and setting the direction for financial recovery, the Governing Body will require assurance on the basis and progress of the changes to activity plans and pathways that need to be made to achieve financial sustainability.

How we will work with the CCG

We are grateful to the CCG and officers for the cooperation and open dialogue during the year and look forward to continuing to work closely with the CCG in delivering our Code of Audit Practice responsibilities.

CONTACT

Mark Kirkham

Partner

Phone: 0113 387 8850

Mobile: 07747 764529

Email: mark.kirkham@mazars.co.uk

Rob Walker

Senior Manager

Mobile: 07387 242059

Email: rob.walker@mazars.co.uk