



# Annual Audit Letter

NHS North Lincolnshire Clinical Commissioning  
Group

Year ending 31 March 2020



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*Reports and letters prepared by the auditor and addressed to the 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 2020. 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.

It is important to note the context of an unprecedented period during which the NHS has experienced the impact of the COVID-19 pandemic. We recognise the significant efforts that CCG officers have made in working together with our audit team to deliver against revised NHS deadlines despite the challenges posed by the national emergency. Throughout this period, we have used available technology, including the use of video conferencing, to communicate effectively and allow the CCG to focus on its essential roles.

Throughout this period our responsibilities, as 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), did not change. 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 24 June 2020 included our opinion that:</p> <ul style="list-style-type: none"><li>the financial statements give a true and fair view of the CCG's financial position as at 31 March 2020 and of its financial performance for the year then ended; and</li><li>Income and expenditure has, in all material respects, been applied for the purposes intended by Parliament.</li></ul>
Value for money conclusion	<p>Our auditor's report stated that we had no matters to report in respect of the CCG's arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 24 June 2020 we reported that the CCG's consolidation schedules were consistent with the audited financial statements.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the CCG.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified
Opinion on regularity	Unqualified

### 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 2020 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.

Our auditor's report, issued to the CCG on 24 June 2020, stated that, in our view, the financial statements give a true and fair view of the CCG's financial position as at 31 March 2020 and of its financial performance for the year then ended.

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 auditor's report also confirmed that, in our view, income and expenditure has, in all material respects, been applied for the purposes intended by Parliament.

# 2. AUDIT OF THE FINANCIAL STATEMENTS

## 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. As a result we have 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) due to 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 overall materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of gross operating expenditure.	£5.6m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.168m



# 2. AUDIT OF THE FINANCIAL STATEMENTS

## Our response to significant audit 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><b>Management override of controls</b> 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 through performing audit work in the following areas:</p> <ul style="list-style-type: none"> <li>• accounting estimates impacting on amounts included in the financial statements;</li> <li>• consideration of identified significant transactions outside the normal course of business; and</li> <li>• journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>	<p>Our work provided us with the assurance we sought and has not highlighted any material issues to bring to your attention.</p>
<p><b>Related Parties</b> GPs are members of the Governing Body and also potential service providers.</p>	<p>We addressed this area by:</p> <ul style="list-style-type: none"> <li>• reviewing the CCG's arrangements for identifying and recording potential related party transactions;</li> <li>• reviewing a range of documents including minutes of meetings and declarations of interest for evidence of potential related party transactions; and</li> <li>• testing disclosures in the financial statements</li> </ul>	<p>The CCG enhanced the financial statements by adding details of, payments to GP practices given their membership of the CCG's Council.</p>

# 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

## Our audit approach

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

Sub-criteria	Commentary	Matters to report
Informed decision making	<p>Our audit work has confirmed the CCG continues to act in the public interest, demonstrating and applying the principles and values of sound governance. The CCG has in place an Integrated Audit and Governance Committee (IAGC) and the Constitution sets out delegation of responsibilities to the formal Committees and Officers.</p> <p>Based on our review of minutes and attendance at IAGC, we are aware that the impact and purpose of proposals are scrutinised and that there is consideration of strategic objectives and their delivery. The CCG reports key risks to the Governing Body and the IAGC through the board assurance framework. No significant internal control issues have been identified as part of our work or have been reported to the IAGC through internal audit work or as part of the Annual Governance Statement.</p>	None
Working with partners and other third parties	<p>Audit work has confirmed there is evidence the CCG works with third parties to deliver strategic priorities. The CCG continues to work closely with its partners and we have seen evidence of this which includes:</p> <ul style="list-style-type: none"> <li>• the CCG is now commissioning services from North Lincolnshire and Goole Hospitals NHS Foundation Trust (NLAG) jointly with North East Lincolnshire CCG; and</li> <li>• continuing regular senior manager meetings with key stakeholders including North Lincolnshire Council and NLAG.</li> </ul> <p>The CCG has a number of policies and frameworks for partnership working. There are joint arrangements for the delivery of the Better Care Fund with North Lincolnshire Council which were implemented in 2018/19. The CCG recognises that joint working and better partnership arrangements are vital to the delivery of its objectives going forward.</p>	None

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# 3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Matters to report
Sustainable resource deployment	<p>There is evidence that the CCG has planned finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. For 2019/20, the CCG achieved its target deficit of £1.0m (compared to a target deficit of £4m in 18/19) which, when supported by the Commissioner Sustainability Fund, means that the CCG met its statutory duty under Section 223h (1) of the NHS Act 2006. The financial position is reported to the Governing Body and IAGC during the year, these reports accurately predicted the closing financial position.</p> <p>Analysis of the finance reports during 2019/20 show that there have been no significant fluctuations in reported financial performance. The CCG achieved around £6.4m (78%) of its £8.2m QIPP target having budget reserves available to address the shortfall. In March 2020, planning assumptions were withdrawn as the NHS responded to the Covid-19 emergency. CCGs were directed to make payments to main providers on an emergency basis. For the April-July 2021 period and are required to keep a clear record of COVID-19 related costs to allow for these costs to be reimbursed. The CCG is maintaining separate ledger codes for costs directly associated with COVID-19 and will need to continue to respond to future guidance as the NHS moves into the second phase of the response to the virus.</p> <p>The CCG has a good grasp of the issues facing it and the financial pressures. Senior management take the lead locally to drive improvements and promote joined up working so that patient care is improved while continuing to meet financial responsibilities.</p>	None

## Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our 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 VFM audit risk. The work we carried out in relation to the risk is outlined below.

Risk	Work undertaken	Conclusion
<p><b>Financial position</b></p> <p>Clinical commissioning groups have a number of financial duties under the NHS Act 2006 (as amended). In particular, section 223H (1) states that CCGs have a statutory duty to ensure expenditure in a financial year does not exceed income. In 2018/19 the CCG achieved its financial targets with support from the commissioning support fund and is on track to do so again in 2019/20 although there are risks to achieving the target.</p> <p>The CCG has set a challenging efficiency target of £8.2m and expects to deliver £7.4m and managing Acute activity with Independent Sector providers remains a risk to the CCG's financial position</p>	<p>We addressed this risk by undertaking the following work:</p> <ul style="list-style-type: none"> <li>identifying and reviewing arrangements for managing the contract; and</li> <li>monitoring the progress the CCG makes in meeting contractual obligations during the year to consider whether there is evidence of any weakness in arrangements.</li> </ul>	<p>For 2019/20, the CCG achieved its target deficit of £1.0m (compared to a target deficit of £4m in 18/19) which, when supported by the Commissioner Sustainability Fund, means that the CCG met its statutory duty under Section 223h (1) of the NHS Act 2006.</p>

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# 4. OTHER REPORTING RESPONSIBILITIES

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

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 publicly.

We have not exercised any of these statutory reporting powers

We are also required to report if, in our opinion, the governance statement does not comply with 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 Integrated audit and Governance Committee in November 2019.

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£35,725 + VAT	£35,725 + VAT

## Fees for other work

We also expect to carry out work on the Mental Health Investment Standard spending by the CCG although the fee has yet to be agreed. In 2018/19 the fee for this work was £10,000.

# 6. FORWARD LOOK

## Financial outlook

The CCG's achieved its target deficit of £1.0m and after receipt of £1.0m Commissioner Sustainability Fund the CCG carried forward a deficit to 2020/21 of £10.1million. As a result of the pandemic, planning assumptions were withdrawn as the NHS responded to the Covid-19 emergency and CCGs were directed to make payments to main providers on an emergency basis for the April-July 2021 period. All CCGs are required to keep a clear record of COVID-19 related costs to allow for reimbursement. The CCG is now starting the next stage of the process by determining commissioning priorities within available allocations and what extra resource would be needed to go further in improving health outcomes.

The CCG is expecting to receive clarification of the financial envelopes for the rest of the financial year from August 2020 to March 2021 covering the CCG and the local Humber system. It is anticipated that system efficiencies will be required and the CCG is to use its existing QIPP (Quality Innovation Productivity and Prevention) arrangements to monitor progress in delivering the necessary savings.

## Operational challenges

In addition to financial challenges and the need to maintain resilience through each stage of the pandemic, the CCG and its partners face a number of ongoing operational challenges, compounded by Covid19-related demand for the remainder of 20/21, that include:

- the impact of productivity reductions estimated at 10% due to social distancing measures and infection protection interventions;
- the supply of medicines and Personal Protective Equipment (PPE) in the necessary quantities; and
- the availability of independent sector bed and diagnostic capacity, and nightingale hospitals until 31 March 2021.

Despite the withdrawal of the planning guidance, the CCG is continuing to monitor progress on the indicators in the NHS Oversight Framework. Local waiting times for Accident and Emergency and Referral to Treatment for Cancer continue to be monitored and scrutinised by the Quality Performance and Finance Committee.

The CCG recognises the need to work collaboratively with its partners to deliver plans that have been developed to address local priorities and the response to Covid-19. The CCG is part of the Humber, Coast and Vale Integrated Health and Care Partnership which is now recognised as an Integrated Care System (ICS). The aim is to bring together local organisations to redesign care and improve population health, creating shared leadership and action, integrating primary and specialist care, physical and mental health services, and health with social care. The risks associated with delivering the shared goals mean robust governance arrangements at each level of partnership working are needed so that collective effort is aimed at agreed priorities and accountabilities are clear.

GP practices are now working together in collaborative arrangements with community, pharmacy, hospital and voluntary services in Primary care Networks (PCNs). The CCG has 4 PCNs that each share a vision on local health improvement needs and which aim to provide more personal, proactive and coordinated care. Strong partnership governance arrangements will also be needed at this local level if the joint working arrangements are to be successful.

## How we will work with the CCG

CCG officers provided excellent support to the 2019/20 audit process during lock-down which enabled us to complete our work before the revised deadline of 25<sup>th</sup> June 2020. We look forward to working closely with the CCG in delivering our Code of Audit Practice responsibilities on 20/21.

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