

# Auditor's Annual Report

NHS North Lincolnshire Clinical  
Commissioning Group – year ended 31  
March 2021  
August 2021



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# 01

## Section 01: **Introduction**

# 1. Introduction

## Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for NHS North Lincolnshire CCG ('the CCG') for the year ended 31 March 2021.

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



### Opinion on the financial statements

We issued our audit report on 11 June 2021. Our opinion on the financial statements was unqualified.



### Opinion on regularity

In our audit report we gave an unqualified opinion on regularity. This means that in our opinion, in all material respects the expenditure recognised in the financial statements has been applied for the purposes intended by Parliament.



### Wider reporting responsibilities

In line with group audit instructions issued by the NAO, on 22 June 2021 we reported that the CCG's consolidation schedules were consistent with the audited financial statements.



### Value for money arrangements

In our audit report issued we reported that we had completed our work on the CCG's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the CCG's arrangements.

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# 02

Section 02:

**Audit of the financial statements**

# 2. Audit of the financial statements

## The scope of our audit and the results of our opinions

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the CCG and whether they give a true and fair view of the CCG's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 11 June 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

We are also required 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 audit report also included an unqualified opinion on regularity.

# 03

Section 03:

**Commentary on VFM arrangements**

# 3. VFM arrangements – Overall summary

## Approach to value for money arrangements work

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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the CCG plans and manages its resources to ensure it can continue to deliver its services.
- **Governance** - How the CCG ensures that it makes informed decisions and properly manages its risks.
- **Improving economy, efficiency and effectiveness** - How the CCG uses information about its costs and performance to improve the way it manages and delivers its services.

At the planning stage of the audit we carry out our audit risk assessment. Where we identify significant audit risks, we design a programme of risk-based procedures to enable us to consider whether significant weaknesses in arrangements exist for the period under review. While we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that could present evidence of significant weaknesses. We outline the risks that we have identified and the work we have done to address those risks on page 9.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. The table below summarises the outcomes of our work against each reporting criteria and on the following page we report the work we have undertaken against each reporting criteria, including the conclusions we have reached.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	10	Yes – see risk 9	No
Governance	13	No	No
Improving economy, efficiency and effectiveness	16	No	No

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# 3. VFM arrangements – Financial Sustainability

## Risks of significant weaknesses in arrangements

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>1 <b>Financial pressures</b>            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.</p> <p>The 2020/21 planning round was suspended in response to the national emergency with block payments being made by the CCG to main NHS contractors based on the contracts in place at December 2019 plan. This arrangement applied to the first half of the year and guidance on the allocations and contractual arrangements from October 2020 has a much greater emphasis on system working within the Humber region.</p> <p>The CCG’s forecast deficit position for 2020/21 was £3.4m, with the month 8 forecast showing an improved position (£3.2m deficit). NHS Hull was nominated as the Humber region lead CCG and received additional systems based allocations. Initial indications in late 2020 were that the funding provided across the Humber system was not sufficient to meet the expected demand. There was, therefore, a risk that NHS North Lincolnshire CCG would not be able to demonstrate it achieved its statutory duty to ensure expenditure does not exceed income.</p> <p>NHS annual finance and operational planning was delayed until Q1 2021/22 with 2020/21 budgets rolled forward with expected investments in mental health services and contractual commitments in primary care but other national investments to be delayed to focus on Covid-19. There remained a risk that the CCG may have been unable to set a realistic and achievable budget in 2021/22.</p>	<p><b>Work undertaken</b>            We reviewed financial reports presented to the Governing Body and the CCG’s draft budget for the first half of 2020/21.</p> <p>The CCG achieved its statutory duties in 2020/21 and reported a £31k underspending against the allocation of £297.8m. A balanced plan for the first half of the financial year 2021/22 was submitted in accordance with the national timetable in May 2021. This plan was based on actual spending from October 2020 to March 2021 and rolled forward with known adjustments. The CCG is now updating the plan in accordance with the timetable set by NHS England.</p> <p><b>Conclusions</b>            While there is uncertainty about financial sustainability our work has not identified evidence of significant weakness in the CCG’s arrangements.</p>

# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### Summary of work undertaken

We have based our assessment on our audit work on the financial statements, reports from regulators, review of internal financial reports and risk registers, and consideration of the CCG's Annual Governance Statement.

### Risks or Weaknesses in arrangements

We identified a risk of weakness in the arrangements during the planning stage of the audit but concluded that the CCG had arrangements in place. The CCG met its financial statutory duties in 2020/21 and issued a balanced financial plan for the first half of the 2021/22 financial year, submitted in accordance with the national timetable in May 2021.

### Background to the NHS financing regime in 2020/21

Following the onset of the Covid-19 pandemic in March 2020, the original NHS Planning Guidance 2020/21 was suspended and a new financial regime was implemented. For the first half of the year (April to September 2020) all contract with NHS trusts and NHS foundation trusts were moved to block contract payments 'on account' and the usual Payment by Results national tariff payment process was suspended. The Financial Recovery Fund was also suspended and NHS providers were able to claim for additional costs due to Covid-19. While commissioner allocations for 2020/21 had already been notified, individual commissioner financial positions were kept under review and top-up payments were issued to CCGs to cover the difference between allocations and expected costs.

For the second half of the year (October 2020 to March 2021) there was a move to "system envelopes" with funding allocations covering most NHS activity made at the system level, including resources to meet the additional costs of the Covid-19 pandemic. There were no further general retrospective top-up payments and all Covid-19 costs from that point were funded through the fixed Covid-19 funding allocation with a few exceptions. Systems were expected to achieve financial balance within this envelope. Individual organisations were able to deliver surplus or deficit positions by mutual agreement within the system, however, NHS trusts are still required to meet statutory break-even duty and CCGs are required to meet their resource limits.

# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria (continued)

### How the CCG ensures that it identifies all significant financial pressures that are relevant to its short and medium-term plans and builds these into them

There is evidence that the CCG continued to manage and plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. The CCG’s final reported financial position in 2020/21 was consistent with its budget reported throughout the financial year and a £31k underspend against the allocation of £297.8m was reported. Analysis of the finance reports during the financial year show that there have been no significant fluctuations in reported financial performance and no significant funding gaps or short term measures used to support the financial position.

The CCG developed has balanced financial plan for the first half of the 2021/22 financial year in accordance with the national timetable in May 2021. This plan was based on actual spending from October 2020 to March 2021 rolled forward with known adjustments.

### How the CCG plans to bridge its funding gaps and identifies achievable savings

The CCG initial budget was submitted in December 2019 on the basis of a break-even but with challenging savings targets. At the start of the pandemic the 2020/21 planning round was suspended with block payments made by the CCG to main hospital providers based on the December 2019 plan until September 2021. Guidance on the allocations and contractual arrangements from October 2021 provided a much greater emphasis on system working and the CCG continues to monitor performance against its own budgets. There were no significant over-spending budgets for the remainder of the 2020/21 financial year and the CCG managed a number of small over-spending budgets with internally generated reserves. Additional funding of £6.5m was also received.

### How the CCG plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The CCG has aligned its financial plans with the NHS Long Term Plan and the Humber Coast and Vale Integrated Care System (HCV ICS) plans. NHS Hull CCG was nominated as the regional lead CCG for the HCV ICS and received additional system based allocations. These were distributed to partner organisations including NHS North Lincolnshire CCG resulting in financial balance across the HCV ICS area in 2020/21 with system balance achieved. Working as a wider ICS is very much a key driver in ensuring local health services are sustainable in the long-term.

# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria (continued)

### How the CCG ensures that its financial plan is consistent with other plans working with other local public bodies as part of a wider system

The CCG works with other NHS commissioners and providers and the local Council to ensure plans are consistent and can provide a number of examples of collaborative working that include:

- a Better Care Fund pooled budget arrangement with North Lincolnshire Council to promote integrated health and social care; and
- involvement in the Humber Strategic Commissioning Board which aims to align care across the Humber area and includes North Lincolnshire CCG, North East Lincolnshire CCG and East Riding of Yorkshire CCG).

During 2020/21 the CCG worked within its allocation and HCV ICS achieved financial balance.

### How the CCG identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

The CCG sets out risk factors in setting its budget and during in-year monitoring through the Integrated Quality Performance and Finance Report with a detailed financial analysis. No significant over-spending was identified during the financial year and the CCG achieved its financial targets.

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# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### Risks or Weaknesses in arrangements

We did not identify risk of weakness in the arrangements as part of our planning processes and no issues were identified in our work carried out in 2020/21.

### How the CCG monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The CCG arrangements to monitor and assess risks and the effectiveness of internal controls include:

- internal audit coverage with findings being reported to each Integrated Audit and Governance Committee (IAGC) meeting covering both audit and counter fraud; and
- corporate risk management arrangements that involve regular review of risks and mitigating actions by the IAGC and Governing body, allowing Members to challenge management on the responses to key risks facing the CCG.

No significant internal control weaknesses have been identified or reported in 2020/21 and no significant frauds were reported in the same period.

Through review of Governing Body papers and attendance at IAGC, members are briefed on budget setting and receive regular updates on finance, quality and performance. All key Governing Body and committee meetings continued during the national lockdown on a remote basis, no changes were made to the governance structure.

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria (continued)

### How the CCG approaches and carries out its annual budget setting process

The normal budgeting process for 2020/21 was superseded by the pandemic and the revised financial regime that was put in place as described earlier. For 2021/22, a revised financial regime continues to be in place, with a focus on Covid-19 recovery and HCV area system-working. The CCG developed a balanced financial plan for the first half of the 2021/22 financial year (H1) in accordance with the national timetable in May 2021. This plan was based on actual spending from October 2020 to March 2021 rolled forward with known adjustments.

The CCG is reporting a £1.1m over-spend to month 2 of 2021/22 which is in accordance with the agreed plan. Over-spending budgets in Acute, Community Health Services and Continuing Healthcare are expected to be addressed by additional funding through the Hospital Discharge Scheme and the Elective Recover Fund. Detailed planning guidance for CCGs covering H2 the period from October 2021 to 31 March 2022 has not yet been published by the Department of Health.

### How the CCG ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

Comprehensive financial monitoring reports are taken to the Governing Body and the Integrated Audit and Governance Committee. These reports include detail on pressure areas, financial risks, quality and performance and progress on achievement of statutory targets.

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria (continued)

**How the CCG ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency: this includes arrangements for effective challenge from the audit committee**

The CCG’s constitution sets out the overall governance arrangements including:

- membership matters;
- arrangements for exercise of functions;
- decision making; and
- conflicts of interest.

The Constitution is supported by a series of detailed documents including Standing Orders, Standing financial Instructions and Codes of Conduct.

The CCG’s audit committee delivers its terms of reference and has a work programme built around the reporting cycle. This work of the IAGC includes challenge of the draft accounts in April, approval of the final accounts and annual report in May. We have also seen evidence of challenge in respect of the financial position and review of the risk register and audit findings. Key points are summarised during meetings.

In our work we also noted:

- no significant findings were reported by Internal audit during 2020/21 and Audit Yorkshire provided “*significant assurance that there is a good system of governance, risk management and internal control designed to meet the organisation’s objectives and that controls are generally being applied consistently*”; and
- the CCG’s arrangements were assessed as ‘Good’ by NHS England in its annual assessment based on a series of indicators including leadership, finance and performance outcome measures. This is an improvement on the 2019/20 assessment of “Requires Improvement” .

# 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

### Risks or Weaknesses in arrangements

We did not identify risk of weakness in the arrangements as part of our planning processes and no issues were identified in our work carried out in 2020/21.

### How financial and performance information has been used to assess performance to identify areas for improvement

Although services were focused on addressing issues arising as a result of the pandemic, the CCG continued to monitor performance in its monthly Integrated Quality Performance and Finance Reports which include detailed analysis of trends for key NHS targets and quality risk areas. These reports were considered by the Governing Body with detailed evaluation through the CCG's Quality and Performance Committee. The reports focus on financial position, poorly performing indicators, including of quality and performance of the CCG's main providers such as North Lincolnshire and Goole NHS FT, and plans to address poor performance.

### How the CCG evaluates the services it provides to assess performance and identify areas for improvement

The CCG's controls for monitoring performance include:

- quality contract and performance groups with the CCG's main acute providers;
- regular assurance discussions with NHS England and NHS Improvement; and
- regular planning discussions with other CCG commissioners.

As with all CCGs, this CCG has experienced a deterioration in some key NHS performance indicators including:

- 18 week referral to treatment times;
- diagnostic waiting times;
- 52 week waits;
- cancer waiting times and treatment times; and
- improving access to psychological therapies (IAPT) services.

Compared to September 2020 which reported 16 key constitutional targets not meeting targets, by January 2021 this has worsened to 17, and performance in 12 of these targets was not improving. For 2021/22 and within the Humber area including North Lincolnshire CCG there is recognition of significant waiting lists and £23m of funding is to be allocated to the Elective Recovery fund across the area to begin to address the backlog.

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# 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria (continued)

### **How the CCG ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve**

The role of the integrated care system (ICS) has developed over the past year, in the region's response to the pandemic. There has been Humber-level coordination of the Covid-19 response. We have also seen evidence of new ways of working, including reducing face to face interactions, virtual consultations, staff re-deployment and improved collaboration between service providers based on the Humber Coast and Vale insight Report produced by the Yorkshire and Humber Academic Health Science Network.

During the pandemic the CCG continued to work with the North Lincolnshire Council through the Integrated Commissioning & Quality Executive (ICQEX) which continued to meet regularly during 2020/21. The CCG has a Section 75 agreement with the Council including a pooled budget of £12.6m. Through review of the minutes we saw evidence of review and challenge of finance, quality and performance of relevant services focussed on social care for the Council and health for the CCG.

### **Where the CCG commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits**

The CCG has established procedures that are set up to ensure compliance with relevant legislation and professional standards including a Procurement Policy last updated in September 2018. It was due for review in 2020 but was delayed due to the Covid-19 pandemic, however the document remains relevant. The Policy sets out NHS principles, key considerations, value for money, partnerships and procurement thresholds for tendering. Through attendance at IAGC meetings we noted that any tender waivers are reported and considered by the Committee. An assurance report was also produced in March 2021 for the IAGC committee summarising procurement decision in 2020/21, procurement type, process of decision making body, value and contract periods.

We also noted a small number of contract extensions driven by the impact of the Covid-19 pandemic and the pending reorganisation of CCGs primarily to avoid service disruption or where there were no credible alternatives for some of the specialised services.

# 04

Section 04:

**Other reporting responsibilities and  
our fees**

## 4. Other reporting responsibilities and our fees

### Matters we report by exception

The Local Audit and Accountability Act 2014 provide auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make a referral to the Secretary of State; and
- Make a written recommendation 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 relevant guidance 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.

# 4. Other reporting responsibilities and our fees

## Fees for work as the CCG's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Integrated Audit and Governance Committee. Having completed our work for the 2020/21 financial year, we can confirm that our fees are as follows:

Area of work	2020/21 fees (+vat)
Planned fee in respect of our work under the Code of Audit Practice	£38,950

## Fees for other work

In March 2021 we completed work on the assurance statement for the CCG's Mental Health Investment Standard spending for 2019/20. The Fee was £7,500 + vat.

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