



Annual Audit Letter

NHS Northumberland Clinical Commissioning
Group

Year ending 31 March 2020





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Reports and letters prepared by the auditor and addressed to the 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 Northumberland 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.

In considering this letter we believe it is important to highlight the context of an unprecedented period when the NHS, including the CCG, experienced the impact of the COVID-19 pandemic. In that context, it is important to recognise the significant efforts that CCG staff and our team have made in working together to hit revised NHS deadlines despite the challenges posed by the 'national lockdown'. Throughout this period, the CCG and ourselves have effectively used available technology to communicate, including the use of video conferencing.

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	Our auditor's report issued on 8 June 2020 included our opinion that: <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 2020 and of its financial performance for the year then ended; andincome and expenditure has, in all material respects, been applied for the purposes intended by Parliament.
Value for Money conclusion	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.
Certificate	We issued our certificate on 24 June 2020, following completion of work on the consolidation schedules, which is reported to the group auditor.
Reporting to the group auditor	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, other than in respect of the financial instruments note, where two lines in the consolidation schedules were mapped to the incorrect lines (no overall impact).
Statutory reporting	Not applicable.

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 8 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 had, 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 Audit and Risk Committee. We call this our trivial threshold.

The table below provides details of the 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 1.5% of gross operating expenditure	£8.387 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.252 million
Specific materiality	We have applied a lower level of materiality to the following area of the accounts: <ul style="list-style-type: none">senior officers' remuneration	£5,000 banding

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 and enhanced risks identified at the planning stage to the Audit and Risk 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 and enhanced risks, the work we carried out on those risks and our conclusions.

Identified significant and enhanced risks	Our response	Our findings and conclusions
<p>Significant risk - management override of controls</p> <p>In all entities, management at various levels within an organisation is 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.</p> <p>Due to 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:</p> <ul style="list-style-type: none"> • reviewing the key areas within the financial statements where management has used judgement and estimation techniques and consider whether there is evidence of unfair bias; • examining any accounting policies that varied from the Government Accounting Manual; • testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements; and • undertaking cut-off testing around the year-end on receipts and payments. 	<p>Our work provided us with the assurance we sought and did not highlight any material issues to bring to the CCG's attention.</p> <p>We highlighted one low priority internal control recommendation in relation to journals.</p>
<p>Significant risk – expenditure recognition</p> <p>There is a risk of fraud in financial reporting relating to expenditure recognition due to the potential to Inappropriately record expenditure 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 around the year-end on payments; • sample testing expenditure transactions throughout the year; • sample testing material year-end payables and provisions; and • reviewing inter-NHS reconciliations and data matches provided by the Department of Health. <p>This work also informed our conclusion on the regularity element of the audit opinion.</p>	<p>Our work provided us with the assurance we sought and did not highlight any material issues to bring to the CCG's attention.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant and enhanced risks	Our response	Our findings and conclusions
<p>Enhanced risk - prescribing accrual</p> <p>The CCG's accounts contain estimates. A material estimate is made in respect of prescribing expenditure, which is based on NHS Business Services Authority (BSA) profiling and two months in arrears.</p> <p>We consider this area of key management judgement to be an enhanced risk.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> • testing the prescribing accrual included in the accounts, including comparing the reasonableness of the estimate to the outturn for the prior year; • reviewing the basis upon which the estimate has been made; • agreement to the BSA notification; and • reviewing and considering the assurance we receive from BSA (Type II Service Auditor Report). 	<p>Our work provided us with the assurance we sought.</p> <p>We reported the factual difference between the CCG's estimate and the actual. The actual was £0.729 million lower than the estimate.</p> <p>Whilst we consider this estimate to be reasonable, it is higher than our trivial threshold and, as management did not wish to amend, it was reported in our Audit Completion Report as an unadjusted misstatement.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

We identified the following internal control recommendation in respect of 2019/20.

Description of deficiency – Unsigned Better Care Fund partnership agreement

During the course of our audit work we identified that neither the CCG nor Northumberland County Council had signed and dated the Better Care Fund partnership agreement.

An unsigned partnership agreement may not constitute a legally binding contract. This leaves the CCG with no legal recourse if the terms of the agreement are not honoured.

Recommendation

The Better Care Fund partnership agreement should be dated and signed by both parties as soon as possible.

We also followed-up the low priority recommendation we raised last year, as set out below.

Description of deficiency – NHS SBS journals

Testing of journals identified several which had been prepared and authorised by the same officers within NHS Shared Business Services (SBS) on behalf of the CCG. We obtained assurance there were no other journals prepared and authorised by the same officer.

Our testing in 2017/18 and 2018/19 identified this issue, however the CCG had in place compensating controls and NHS SBS also put in place manual controls from January 2019 to address this issue.

2019/20 follow-up

Testing showed that this remains an issue – i.e. that the same officers can prepare and authorise journals within NHS SBS.

Whilst mitigating controls are in place both at the CCG and the Commissioning Support Unit, the underlying control weakness should, ultimately, be addressed.

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Our approach to value for money

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.

The NAO's guidance also requires us to carry out work to identify whether or not a risk to the value for money conclusion exists. Risk, in the context of our value for money 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 value for money risk.

Our auditor's report, issued to the CCG on 4 June 2020, confirmed 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.

Sub-criteria	Commentary	Matters to report
Informed decision-making	<p>The Governing Body maintained a good understanding of the challenges facing the CCG and the wider health economy.</p> <p>The Governing Body and Finance Committee received and scrutinised regular performance update reports. These summarised performance against key constitutional indicators and outlined reasons for areas of underperformance and required actions.</p> <p>The CCG produce regular risk management reports, including an updated Risk Management Policy, which are presented to the Audit Committee for scrutiny before being reported to the Governing Body.</p> <p>An agreed up to date comprehensive Internal Audit plan, linked to the CCG's strategic objectives and an analysis of the principal risks to achieving those objectives, is in place. This plan is presented to Audit Committee where there is appropriate challenge over coverage and risk areas. Internal Audit awarded the CCG an overall 'Substantial Assurance' opinion for 2018/19.</p> <p>Based upon attendance at the Audit Committee, there is robust scrutiny of relevant reports and good practice is adopted where appropriate.</p> <p>An up to date Constitution is in place and is available on the CCG's website, along with relevant information governance strategies.</p>	None

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3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Matters to report
Sustainable Resource Deployment	<p>The CCG has reported an in year surplus of £206k when taking into account the £4 million of non-recurrent Commissioner Sustainability Fund (CSF) support they have received during the year. The above has resulted in small reduction in the cumulative deficit to £57.404 million at 31 March 2020.</p> <p>In our Audit Strategy Memorandum, presented to the Audit Committee in January 2020, we identified a significant risk in relation to the CCG failing to achieve the level of QIPP required in this and future years. In order to assess the robustness of QIPP we undertook testing:</p> <ul style="list-style-type: none"> on the achievement of the CCG's 2019/20 QIPP plans; in relation to the CCG's arrangements for achieving the 2020/21 QIPP plan requirement; and carried out a high level review of the development of 2021/22 QIPP plans. <p>Achievement of 2019/20 QIPP programme</p> <p>The CCG's QIPP target was £10.394 million. This target was made up of a number of individual projects, each having an individual savings target.</p> <p>Based on the latest tracker, the CCG achieved 2019/20 QIPP savings of £9.555 million i.e. 92% achievement of targeted savings opportunities. Slippage was offset by other mitigations together with favourable performance across the CCG's commissioning and running cost budgets.</p> <p>Arrangements for achievement of 2020/21 QIPP programme</p> <p>The CCG's 2020/21 budget identifies a small £11,000 projected surplus, without the assistance of any additional external funding.</p> <p>Included in the CCG's 2020/21 budget is a QIPP target of £8.307 million. Officers have carried out detailed work in this area and have identified savings plans for a number of individual projects to achieve this target.</p> <p>The CCG will continue with formal arrangements in place for the production and monitoring of QIPP schemes through the implementation of the Plan on a Page (PoAP). As in previous years, a monthly QIPP tracker will allow project managers to be aware of financial achievements/issues as the year progresses.</p> <p>The CCG has recently implemented a Portfolio Management approach which will provide a system of Programme and Project Governance & Assurance with oversight of the whole Operational Plan. This will standardise the CCG's project management and ensure that all initiatives, not just the QIPP programme, are subject to a robust management framework.</p> <p>In addition, the CCG have further strengthen arrangements their arrangements with the addition of a 'QIPP pipeline' system which allows additional projects to be brought on board in-year to supplement the QIPP programme and address any shortfall as a result of slippage.</p> <p>Review of 2021/22 financial plan and QIPP target</p> <p>Due to the COVID-19 pandemic, NHSE/I instructed that detailed 2021/22 financial planning be suspended in order that resources were freed up to concentrate on COVID-19 readiness.</p> <p>The CCG had therefore, as yet, been unable to produce a QIPP target or detailed projects to support the achievement of the target.</p>	None

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Matters to report
Working with partners and other third parties	<p>Partnership working remained a corporate risk for the CCG i.e. Corporate Risk Objective 3 is to Create joined up pathways within and across organisations to deliver seamless care.</p> <p>As part of the 2019/20 internal audit plan, AuditOne carried out a Compliance Review of Primary Medical Care Commissioning. This review was given 'Substantial Assurance'.</p> <p>The CCG continued to play an active role in the Northern CCG Joint Committee set up in late 2017.</p> <p>It is also part of the North East and North Cumbria Urgent and Emergency Care Network, which aims to take a 'whole system' approach.</p> <p>Our audit work confirmed evidence that the CCG works with third parties to deliver strategic priorities. A number of policies and frameworks for partnership working are on the publications section of the external website.</p> <p>The CCG is an NHS partner and plays an active part in the North East and North Cumbria (NENC) Integrated Care System (ICS) which aims 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.</p> <p>The NENC NHS organisations received confirmation of its ICS, supported by four Integrated Care Partnerships (ICPs), in June 2019. The formal approval letter acknowledged the track record of delivery on operational performance and sets out that NHSE expects to see efforts continuing to address the variation in standards across the system.</p>	None

5. VALUE FOR MONEY CONCLUSION

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money 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 Value for Money risk. The work we carried out in relation to significant risks is outlined below.

Risk	Work undertaken	Conclusion
<p>Failing to achieve the level of QIPP savings required</p> <p>On-going financial pressures, along with a very challenging QIPP (quality, innovation, productivity and prevention) plan, represented a significant risk to sustainable resource deployment.</p> <p>The CCG was projecting an in year surplus of £3.5 million as at the end of October 2019 (Month 7) which, if achieved, would return the CCG to a small surplus position of £157k at the end of 2019/20. However this was reliant on the CCG achieving QIPP savings of £1.502 million or making other compensating savings elsewhere within their annual budget.</p>	<p>We reviewed</p> <ul style="list-style-type: none"> the current year QIPP plan and progress being made; the robustness of the 2020/21 and 2021/22 QIPP plans; and budget monitoring. 	<p>We outline in the sub criteria sections above, the financial performance of the CCG along with commentary on the achievement of the 2019/20 QIPP target and details of the robustness of the planned QIPP targets for 2020/21. We also explain the position in relation to the 2021/22 financial year.</p> <p>The CCG reported an in year surplus of £206k when taking into account the £4 million of non-recurrent Commissioner Sustainability Fund (CSF) support they have received during the year. The above has resulted in small reduction in the cumulative deficit to £57.404 million at 31 March 2020.</p> <p>As a result of these continued improvements, the CCG were assessed by NHSE as 'Good' in Summer 2019.</p> <p>Our overall conclusion is therefore that there are no matters on which we are required to report by exception.</p>

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No 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 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 the NHSE 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 than in respect of the financial instruments note, where two lines in the consolidation schedules were mapped to the incorrect lines (no overall impact).

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 and Risk Committee in January 2020.

Having completed our work for the 2019/20 financial year, we can confirm our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£43,900	£43,900

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 £9,500.

6. FORWARD LOOK

Environmental challenges

COVID-19 has presented and continues to present the NHS with arguably the greatest challenge it has faced since its creation. The CCG has moved rapidly to change how it works, both internally and with partners and this has resulted in transformation of working practices presenting challenges, but also opportunities to build on for the future.

The CCG will continue to play an active part in the North Integrated Care Partnership (ICP) and will seek to ensure that all initiatives consider sustainability and the impact on environment.

The strategic ICP priorities agreed by the North ICP Forum are as follows:

- Climate change and sustainability.
- Workforce, Employment and skills.
- Healthcare Prevention.

Operational challenges

Over and above the challenges presented by the pandemic, the CCG and its partners continue to face operational pressures in a number of areas, including:

- improving performance against NHSEs constitutional target that no more than 1% of patients should breach the six weeks threshold waiting time for a diagnostic test;
- improving ambulance response times in order to achieve NHS constitutional standards; and
- addressing the significant fall in Improving Access to Psychological Therapies (IAPT) referrals which implies that people were not seeking help when needed.

Progress made against the challenges included in the operational plan will be monitored via the Clinical Management Board. The CCG recognises the need to work collaboratively with its partners to deliver plans developed to address these issues.

Financial outlook

The CCG has continued to operate robust budget management, as well as monitoring the costs arising from COVID-19.

In 2019/20, the CCG achieved an in year surplus of £206,000 when taking into account the £4 million of non-recurrent Commissioner Sustainability Fund (CSF) support they have received during the year. This has resulted in a small reduction in the cumulative deficit to £57.404 million at 31 March 2020.

Guidance received from NHS England has outlined that the CCG is required to break-even against its 2020/21 allocation of resources. To help achieve this target the CCG has again developed a QIPP (Quality, Innovation, Productivity and Prevention) programme for delivery of savings. Processes have been established to develop QIPP schemes and each is subject to regular monitoring and scrutiny, overseen by the CCG's Corporate Finance Committee.

Approval of 2021/22 financial plans by NHSE was delayed as a result of the pandemic and the exceptional measures required at the time.

How we will work with the CCG

We are grateful to the CCG, its Members, officers and North East Commissioning Support (NECS) colleagues for the cooperation and open dialogue during the year. We look forward to continuing to work closely with the CCG in delivering our Code of Audit Practice responsibilities in future years.

We are committed to supporting the CCG as its external auditor. We will meet with the CCG and NECS staff to identify any learning from the audit and will continue to share our insights from across the NHS and relevant knowledge from the wider public and private sector.

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