Dear Governing Body Members

Annual Audit Letter 2014/2015

I am delighted to present to you our Annual Audit Letter for the 2014/15 audit year. The purpose of this document is to summarise the outcome of the audit of NHS North Tyneside Clinical Commissioning Group (CCG)’s 2014/15 annual accounts and our work on the value for money conclusion.

We carried out our audit in accordance with the Code of Audit Practice for NHS bodies as issued by the Audit Commission, and delivered all expected outputs in line with the timetable established by the Department of Health and NHS England.

I would like to express my thanks for the assistance of all the finance team in both the CCG and in North of England Commissioning Support (NECS) as well as management and the Audit Committee.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6314.

Yours faithfully

Cameron Waddell
Mazars LLP
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Key messages

This Annual Audit Letter summarises the findings from our 2014/15 audit of NHS North Tyneside Clinical Commissioning Group (the CCG).
Key messages

In 2014/15 our audit of North Tyneside Clinical Commissioning Group (the CCG) was made up of two elements:

- auditing your financial statements (including a review of the Annual Governance Statement) and Annual Report (including auditing certain sections of the Remuneration report); and
- assessing arrangements for achieving value for money (VfM) in your use of resources.

We reported the detailed findings from our audit work to those charged with governance (members of the Governing Body) in the Audit Completion Report, on 26 May 2015.

The key conclusions for each element are summarised below.

Audit of the financial statements

We issued an audit report including an unqualified opinion on the CCG’s financial statements on 27 May 2015. The audit progressed smoothly and identified only a small number of errors, with no significant issues or material errors. The draft financial statements were of a good quality as was the standard of supporting working papers.

Value for money

We carried out sufficient, relevant work, in line with the Audit Commission’s guidance, so that we could conclude on whether you had in place, for 2014/15, proper arrangements to secure economy, efficiency and effectiveness in your use of the CCG’s resources.

We were required to consider two specified criteria:

- the CCG has proper arrangements in place for securing financial resilience; and
- the CCG has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In light of the significant financial deficit at 31 March 2015 and weaknesses in the CCG’s arrangements we issued an adverse value for money conclusion on 27 May 2015.
The CCG produced good quality accounts. This supported an efficient audit and we issued an unqualified opinion before the deadline.
02 Financial statements

Audit of the financial statements

We audited the CCG’s financial statements in line with auditing standards and we reported the detailed findings of the audit to the Governing Body on 26 May 2015 in our Audit Completion Report.

We issued an audit report including an unqualified opinion on the CCG’s financial statements and the remuneration report on 27 May 2015. This enabled the CCG to submit its audited annual report and accounts to NHS England (NHSE) before the 29 May 2015 deadline.

Preparation of the accounts

The CCG presented us with draft accounts in accordance with the national deadline which were of good quality, as were supporting working papers which were made available from the start of the audit fieldwork. Other supporting evidence was produced on a timely basis throughout the audit.

Issues arising from the audit of the accounts

The audit progressed smoothly, and identified only a small number of errors, with no significant issues and no material errors. The Chief Finance Officer amended the draft accounts for the small number of disclosure changes identified during the audit. These were primarily to improve the presentation of the accounts and were not a reflection of poor processes by the CCG.

Annual report

We reviewed the CCG’s draft annual report, which includes the remuneration report, and found very few amendments necessary before this was finalised.

Annual Governance Statement (‘AGS’)

The aim of the AGS is to give a sense of how successfully the CCG has coped with the challenges it faces and of how vulnerable the organisation’s performance is or might be.

We reviewed the AGS to see whether it complied with relevant guidance and whether it was misleading or inconsistent with what we know about the CCG. We found no areas of concern to report in this context. Both the annual governance statement and the annual report were consistent with our understanding of the CCG.

Regularity opinion

We give our opinion on whether, in all material respects, you used the money allocated by Parliament in the way intended and in accordance with the various authorities governing the transactions. Our work identified the incurring of expenditure in excess of the specified targets and we therefore issued a modified regularity opinion on 27 May 2015.

Weaknesses in internal control

Our work on the CCG’s financial systems identified no significant deficiencies in internal control. Issues arising and reported in 2013/14 were found to have been acted upon by management and properly dealt with.
Assurance to the National Audit Office

Although the CCG is a stand-alone entity, along with the other 210 CCGs in England it forms part of the NHS England group. NHSE consolidates all 211 CCG accounts to prepare its own accounts. The NAO, as the auditor of NHS England, instructs the auditors of CCGs to carry out specified procedures to inform an assurance statement that reports whether the consolidation information submitted by the CCG to NHS England is consistent with the audited accounts of the CCG. For 2014/15, this was done on a sample basis, and we were not required to report directly to the NAO as we had been in 2013/14.

On 27 May 2015 we reported that the CCG’s accounts consolidation template was consistent with the audited Annual Report and Accounts. The CCG submitted this report to NHSE to meet the deadline of 29 May 2015, enabling consolidation of the accounts of the NHS accounting group.
Securing economy, efficiency and effectiveness

Our work shows that the CCG did not maintain proper arrangements for securing VfM in its use of resources throughout 2014/15.
03 Economy, efficiency and effectiveness

For 2014/15, we are required to give a statutory conclusion on the CCG’s arrangements to secure Value for Money in its use of resources, based on the following two specified reporting criteria:

<table>
<thead>
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<th>Focus of each criterion</th>
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<tr>
<td><strong>The CCG has proper arrangements in place for securing financial resilience.</strong></td>
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<tr>
<td><strong>The CCG has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</strong></td>
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As part of our work, we also:

- reviewed your annual governance statement;
- reviewed the work of other relevant regulatory bodies or inspectorates to the extent the results of the work had an impact on our responsibilities; and
- carried out any risk-based work we determined to be appropriate.

Like other public sector bodies, the CCG faces a number of challenges and in light of these we reviewed the CCG’s arrangements for managing financial risks and securing a stable financial position.

The table overleaf shows commentary alongside each aspect of the two criteria along with a conclusion for each criteria. This is followed by a reality check section.
## The VfM conclusion – financial resilience

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Aspect</th>
<th>Commentary</th>
<th>Conclusion</th>
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<tbody>
<tr>
<td>Arrangements for securing financial resilience</td>
<td>Financial Governance</td>
<td>The CCG reported a deficit of £6.429 million for 2014/15. In addition they are reporting a planned deficit of £14 million in 2015/16. The Governing Body was aware of the financial challenges from very early in 2014/15 and it scrutinised financial reports and challenged officers on the achievability of the projected financial outturn for 2014/15. However the arrangements relating to forecasting, Quality, Innovation, Productivity and Prevention (QIPP) oversight and an overall lack of accuracy and quality in financial reporting did not assist the Governing Body to take timely action to ensure that the CCG could secure a stable financial position. Due to staff absence and consequent lack of clear financial leadership at key points, and its financial challenges, the CCG strengthened with the appointment of an Interim Turnaround Director (from March 2015) and new Interim Chief Finance Officer. The CCG has an effective audit committee providing robust challenge and assurance to the Governing Body on arrangements for risk management, maintaining effective internal control, and reporting performance. However, the absence of clear, transparent and timely reporting on the CCG’s financial position has undermined the audit committee’s ability to effectively challenge the CCG’s financial performance in all areas throughout the year.</td>
<td>Arrangements not fully in place and embedded throughout the year</td>
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| Financial Planning | An external review of the 2014/15 recovery plan identified that the main cause of the CCG’s difficulty in delivering its QIPP and activity reduction programmes has been weaknesses in its QIPP development and implementation and inadequate reporting. While the recommendations were being addressed towards the end of the financial year, it was too late to have any substantial impact on the CCG’s financial position in 2014/15. The CCG developed an initial 2015/16 Financial Recovery Plan (FRP), which was shared with the relevant NHS England Area Team for comment. The final draft FRP was sent to NHS England for comment and approval on 14 May 2015. The draft FRP included the:  
- objectives of the CCG;  
- measures for the resources and governance to deliver the plan;  
- how the CCGs know and understands the scale of the challenge; and  
- a comprehensive plan to address those challenges.  
An updated risk assurance framework was also approved by the Governing Body, which included contract activity levels, QIPP and delivering financial balance as high risk areas. The CCG recognised that the steps taken over the first 6 months of the year were insufficient in scale, scope and urgency to address its financial position and has taken rigorous action in quarters 3 and 4. | Arrangements not fully in place and embedded throughout the year |
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<tr>
<td>Arrangements for securing financial resilience</td>
<td>Financial Control</td>
<td>The CCG has a statutory duty to ensure that expenditure in a financial year does not exceed income. As the CCG formally declared a 2014/15 deficit in early 2015, we issued a letter (under Section 19 of the Audit Commission Act 1998) to the Secretary of State and NHS England on 13 February 2015. Our work identified issues in relation to the CCG's arrangements for forecasting, QIPP oversight and ensuring the accuracy, quality and timeliness of financial reporting to Governing Body members. This is highlighted by the fact that the CCG reported a £0.5 million surplus until Month 7, amended to a £6.6 million deficit by Month 9. Inconsistent application of controls put the achievement of the CCG's objectives at risk, particularly in relation to the reporting of expenditure on contracts. This resulted in over activity levels in 2014/15, including a £4.1 million overspend due to Acute over-activity (after agreed contract reductions). To help strengthen governance arrangements, a formal Finance Committee was introduced at the CCG in January 2015 which started to discuss corrective action to address deficit, however given the above this has not been taken on a timely basis. The CCG has undertaken an independent review of its financial position to establish its underlying baseline budget and drivers behind its performance. This has led to the production of the 2015/16 Financial Recovery Plan which has been shared with NHS England for comment and approval. The CCG now faces a potential cumulative deficit and is predicting a year end deficit position for 2015/16. The CCG is planning for financial surplus in 2018/19. Given it is extremely unlikely that the CCG will achieve financial balance, and therefore breach its statutory financial duties, in 2015/16, we are required to issue a further referral to Secretary of State and NHS England under section 30 of the Local Audit and Accountability Act 2014.</td>
<td>Arrangements not fully in place and embedded throughout the year</td>
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The VfM conclusion – the 3Es

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<th>Criterion</th>
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<th>Commentary</th>
<th>Conclusion</th>
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| **Arrangements for challenging economy, efficiency and effectiveness** | Prioritising resources | The CCG has a good record of engaging with the local population that they serve requesting/receiving input from a number of groups. This enables the CCG obtain their views as part of the process of developing their strategic and operational plans. The CCG has clear priorities published on their website however it does not appear that it always fully costed these. The CCG recognises that the steps taken over the first 6 months of 2014/15 were insufficient in scale, scope and urgency to redress the financial downturn. However the CCG is making progress to address these issues. For example:  
- The CCG has worked towards implementing New Models of Care with the aim being to deliver high quality, cost effective care for the residents of North Tyneside. The focus will be on the top 4 per cent of service users with complex needs who account for a significant proportion of the CCG’s total spend.  
- The arrangements in place at the CCG to challenge the way services are currently commissioned, including consideration of how services are best delivered have been strengthened towards the end of 2014/15 by the introduction of a Interim Turnaround Director. One of the key areas of this role is to lead on the implementation and achievement of the Financial Recovery Plan and also to challenge relationships with Foundation Trust providers and North Tyneside Council to order to gain better value for money from their services. | Arrangements not fully in place and embedded throughout the year |
Improving efficiency and productivity

External reviews have identified issues in relation to arrangements relating to forecasting, QIPP oversight and accuracy, quality and timeliness of financial reporting to Governing Body members. The CCG developed an initial 2015/16 Financial Recovery Plan (FRP), which has been shared with the relevant NHS England Area Team for comment.

Since his appointment in March 2015, the Interim Turnaround Director has helped strengthen the CCG’s approach to benchmarking against similar organisations which will help improve self-awareness and improve efficiency compared to other similar CCGs.

Our work has identified that the CCG has in place:

- effective arrangements to ensure independence in tendering, evaluating and awarding contracts; and
- arrangements in place to ensure that it holds data securely, shares it only when appropriate, and destroys it properly when it is no longer needed.

Arrangements not fully in place and embedded throughout the year

Overall assessment (‘Reality check’)

Having gathered evidence of the CCG’s arrangements for each criterion we conducted a ‘reality check’ summarised below, building upon our existing knowledge of the CCG, which indicated that the CCG did not have adequate arrangements in place for each criterion throughout the year.

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<th>Evidence</th>
<th>Auditor Assessment</th>
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| Achievement of performance and other targets | In the draft Annual Report the CCG reported that it had met the majority of the performance targets as indicated in the NHS England Planning Guidance for 2014/15 onwards, published in December 2013, which required the CCG to:
- continue to meet the rights and pledges set out in the NHS Constitution;
- deliver the NHS Mandate requirements by improving performance against 7 nationally selected outcome measures across the 5 domains of the NHS Outcome Framework; and
- deliver the five national and one local measures of the Quality Premium. |
Performance against budgets and other financial targets

The CCG did not meet its statutory duty to ensure that expenditure in a financial year does not exceed income. The 2015/16 budget was approved by the Governing Body in March 2015. However given that the CCG now faces a significant potential cumulative deficit, it is extremely unlikely that financial balance will be achieved and that the CCG will breach its statutory financial duties in 2015/16. We are, therefore, required to issue a further referral to Secretary of State and NHS England under section 30 of the Local Audit and Accountability Act 2014.

QIPP programme
The CCG were required to deliver an £8 million QIPP savings programme to help them achieve financial balance. An external review, commissioned by the CCG, indicated that a significant proportion of the CCG QIPP planned savings were at risk of non-delivery.

Annual Governance Statement

We reviewed the Annual Governance Statement (AGS) to identify if there are any further issues disclosed by the CCG that would lead us to consider that it does not have proper arrangements for securing economy, efficiency and effectiveness. The annual governance statement and the annual report were consistent with our understanding of the CCG.

Overall conclusion

Our overall conclusion, having carried out a ‘reality check’, was that the CCG did not have adequate arrangements in place for each criterion and an adverse VfM conclusion was issued.
Future challenges

The CCG continues to face significant financial and other operational challenges in 2015/16 and beyond. In particular, the CCG faces ongoing significant challenges in achieving its statutory financial duties in light of its 2014/15 deficit.
Future challenges

Whilst 2015/16 will inevitably be a challenging period, the CCG have begun to embed a number of key changes which will hopefully provide stability for future years. The biggest challenge remains the provision of sound financial management to help achieve financial balance over the medium term.

Since the end of 2014/15, the CCG has:

- reviewed staffing requirements internally whilst also introducing a new support structure with the North of England Commissioning Support Unit (NECS)
- presented a Financial Recovery Plan (FRP) to the NHS England Area Team to identify the financial challenges
- ensured that the Finance Committee, introduced in early 2015, has continued to be provided with clear, transparent and timely reporting on the CCG’s ongoing financial position. This will allow the committee to effectively challenge the CCG’s financial performance in all areas throughout the year.
- continued to liaise with the Clinical Executive to ensure that they drive the requirements of the FRP
- the Interim Chief Finance Officer has negotiated contract reductions with Foundation Trust providers. These savings have been included in the FRP.

Nationally, a new Government following the General Election is likely to mean continuing change and political turbulence. Pre-election commitments to substantial extra funding for health services in the new Parliament are unlikely to be provided without a compensating requirement for increased efficiency, collaboration and productivity in return.

The CCG must still respond to a range of evolving challenges in 2015/16 and the years ahead.

Financial challenges

As outlined previously, the CCG reported a deficit of £6.4 million at the end of 2014/15. This deficit and the ongoing challenging financial position at the CCG has resulted in the FRP identifying a projected deficit for the next three financial years before showing a breakeven position in 2018/19.

The financial challenges will require careful management to ensure that all key savings are achieved. In order for this to be best achieved a number of key stakeholders, for example Clinical Executive, Council of Practice and the Governing Body, will need to work closely together.

One of the greatest areas of risk to the overall FRP comes from increasing demand for health services in North Tyneside. Such increases are compounded by the ageing local population and the underlying comparative prevalence of disease linked to deprivation in a post-industrial urban environment. Recognising this as a key area of risk, the CCG works closely with its local partners to ensure that:

- efficiency in NHS service providers continually improves, to offset the growth in workload in the acute sector; and
- continuing health care provided jointly with the local authority is properly managed so the CCG funds only the care for which it is statutorily responsible.

Another area of continued financial risk is in the cost of medicines prescribed by local GPs and community and mental health teams. New and costlier medicines combine with general price inflation to present a significant and growing area of expenditure. The CCG will need to explore the opportunities to deliver...
significant savings from prescribing practice to help manage the significant prescribing budget, whilst maintaining and improving clinical effectiveness for patients.

**Better Care Fund (BCF)**

A major change in 2015/16 is the commencement of the Better Care Fund (BCF), on which the CCG has been working since 2013. Nationally, the Government is introducing a £3.8 billion budget, which will be shared between the NHS and local authorities to encourage them to work in a more integrated way to:

- improve outcomes for the public;
- provide better value for money; and
- be more sustainable.

Arrangements have been put in place by the CCG and North Tyneside Metropolitan Borough Council to administer a pooled budget for BCF. The CCG is contributing a maximum of £15.2 million into the 2015/16 fund of £16.6 million, which is overseen by the North Tyneside Health and Wellbeing Board.

Key services funded by the North Tyneside BCF plan include:

- end of care life;
- bed-based intermediate care;
- proactive care to avoid admissions; and
- mental health.

The success of these initiatives will contribute significantly to the delivery of quality health care services and the financial sustainability of the local health economy.
Fees and closing remarks

The 2014/15 audit was delivered within the scale fee set by the Audit Commission.
05 Fees and closing remarks

Despite the additional work we have undertaken in light of the CCG’s financial position, we can confirm the final audit fee for 2014/15 was in line with the scale fee i.e. £70,000 plus VAT. We have discussed and agreed this letter with officers and will present it to the Governing Body on 22 September 2015.

During the audit year we have continued to support the CCG in other ways, including:

- Attendance at Audit Committees where we inform the Committee about progress on the audit, report our key findings and update it about developments in the NHS, CCGs, and the wider environment.
- Hosting events for staff, such as our NHS Accounts workshops.

Further detailed findings, conclusions and recommendations in the areas covered by the audit are included in the reports issued to the CCG during the year, which are summarised below.

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<td>Audit Strategy Memorandum</td>
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<td>Progress reports to Audit Committee</td>
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<td>Audit Completion report</td>
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<td>Auditors Report</td>
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<td>Annual Audit Letter</td>
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The CCG has taken a positive and constructive approach to our audit and I wish to thank the Governing Body and Audit Committee for their support and co-operation throughout. We would also like to record our appreciation for the assistance and co-operation provided to us during our audit by staff from both the CCG and NECS.

We are committed to supporting the CCG move forward with clarity of purpose and strong governance and accountability arrangements. Mazars currently provides an external audit service to a further ten CCGs. We also provide internal audit and advisory services to many other NHS bodies across the country. We will meet with the CCG and NECS to learn lessons from the 2014/15 audit and will continue to share our insights from other CCGs, across the NHS and relevant knowledge from the wider public and private sector.

Cameron Waddell

Director

July 2015
Please get in touch…
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We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.

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