

Annual Audit Letter

NHS North Tyneside Clinical Commissioning
Group

Year ending 31 March 2018



North Tyneside

Clinical Commissioning Group





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Reports and letters prepared by the auditor and addressed to NHS North Tyneside CCG are prepared for the sole use of NHS North Tyneside 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 Tyneside CCG (the CCG) for the year ended 31 March 2018. Although this letter is addressed to the CCG, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 23 May 2018 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 2018 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.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 23 May 2018 we reported that the CCG's were consistent with the audited financial statements.
Statutory reporting	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.

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 2018 and of its financial performance for the year then ended.

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

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

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

Our approach to materiality

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

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. 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 Governing Body. 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 2018:

Financial statement materiality	Our financial statement materiality is based on 1.0% of gross operating expenditure	£3.428 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£103,000
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - related party transactions; and - senior officers' remuneration	25% of value disclosed £5k 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 risks identified at the planning stage to the Governing Body within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls 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. 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 through performing audit work over:</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 vary 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 your attention. We did, however, highlight one low priority internal control recommendation in relation to journals.</p>
<p>Expenditure recognition 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 through performing audit work over:</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 your attention</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Identified risk	Our response	Our findings and conclusions
<p>Enhanced risk and area of key management judgement: prescribing accrual</p> <p>The CCG's accounts contain estimates. A material estimate is in respect of prescribing expenditure, which is based on NHS Business Services Authority (BSA) profiling and two months in arrears. 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 year-end 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 and did not highlight any material issues to bring to your attention</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 did not identify any significant deficiencies in internal control and one, low priority recommendation in relation to journals, as set out below.

Description of deficiency	Testing of journals identified three journals which had been prepared and authorised by the same officers within NHS Shared Business Services (SBS) on behalf of the CCG. These were all of a clearly trivial value.
Potential effects	Journal controls are key controls for the prevention of misstatement due to fraud or error. The lack of segregation of duties could result in fraud or error.
Recommendation	The CCG should escalate this control failure to SBS to ensure that journals are not prepared and authorised by the same officer.
Management response	<p>SBS have controls in place to separate preparer and authoriser for standard journals. This issue has again been escalated to SBS who have extended the controls in place for all journals including reversals.</p> <p>One of the journals was a reversal journal. SBS have advised that reversal journals are posted less frequently and they have updated their documentation/controls to dictate that a reversal journal requires a separate preparer and authoriser.</p> <p>Additional checks have been implemented in NECS to check this on a monthly basis in 2018/19.</p>

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
- Working with partners and other third parties

Our auditor's report, issued to the CCG on 23 May 2018, 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 CCG has an up-to-date Constitution that sets out the arrangements to meet its responsibilities.</p> <p>The Governing Body maintains a good understanding of the challenges facing the CCG and the wider health economy. They receive and scrutinise regular performance update reports. These summarise performance against key constitutional indicators and outline reasons for areas of underperformance and required actions.</p> <p>Regular finance reports are also received by the Governing Body along with updates to the Finance Committee. These reports are clear and easy to interpret.</p> <p>Based upon attendance at the Audit Committee, there is robust scrutiny of relevant reports and good practice is adopted where appropriate e.g. regular CFO updates, review of accounting policies ahead of producing the statutory accounts etc.</p> <p>An up to date Risk Management Policy is in place and a revised Risk Assurance Framework was presented to Governing Body in September 2017.</p> <p>A 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. .</p> <p>Recognising progress made during 2017/18, the CCG was removed from legal directions in January 2018.</p>	None

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Matters to report
Sustainable resource deployment	<p>In our Audit Strategy Memorandum we identified a Significant Risk in relation to the CCG failing to achieve the level of QIPP required in this and future years.</p> <p>In order to assess the robustness of the QIPP plans, we identified that we would complete sample testing of the achievement of the CCG’s 2017/18 QIPP. We also undertook testing in relation to the CCG’s arrangements for achieving the 2018/19 QIPP plan requirement along with a high level review of the 2019/20 QIPP target.</p> <p>Achievement of 2017/18 QIPP programme</p> <p>The CCG’s 2017/18 QIPP target was £12.181 million. This target was made up of a number of individual projects, each having an individual savings target.</p> <p>Based on the Month 12 QIPP tracker, the CCG achieved £12.256 million of QIPP savings during 2017/18, exceeding the planned savings target by £75k. Total in year QIPP delivery of almost 3.58% of total operating expenditure, which in addition to the c5% 16/17 saving, compares favourably with others.</p> <p>Arrangements for achievement of 2018/19 QIPP programme</p> <p>Included in the CCG’s 2018/19 budget is a QIPP target of £5.687 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, the monthly QIPP tracker will allow project managers to be aware of financial achievements/issues as the year progresses.</p> <p>Review of 2019/20 QIPP target</p> <p>The CCG’s medium term financial planning has identified a QIPP £1.6 million. Work is ongoing to identify schemes to deliver this saving.</p>	None



3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Matters to report
<p>Working with partners and other third parties</p>	<p>Partnership Working has been identified as a Corporate Risk at the CCG, Corporate Risk Objective 3 is to work collaboratively with partners and stakeholders to develop health and social care fit for the future in North Tyneside.</p> <p>Governing Body receive an update from Patient Forum at every meeting and in addition also receive a copy of the Patient Forum newsletter.</p> <p>The Commissioning Plan and Strategic Plan appear well-aligned. The CCG have Detailed Financial Policies in place for tendering and contracting supplies and services.</p> <p>In addition the CCG ensure that current plans are aligned with the Health and Wellbeing Board strategic priorities.</p> <p>As part of the ongoing development of the Sustainability and Transformation Plan (STP) the CCG is working closely with key partners on shared plans to bring people and organisations together to develop a shared plan for better health and care for local areas.</p> <p>As outlined in the CCG’s annual report, discussions are on-going about the possibility of an even larger STP footprint that crosses existing boundaries in the North East and Cumbria. We understand that should these discussions reach a successful conclusion and with the appropriate approval from the relevant national bodies, the current STPs in Cumbria and the North East will come together under a single governance arrangement.</p>	None



3. 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, represent a significant risk to sustainable resource deployment.</p> <p>The CCG is projecting an in year surplus of £2.0 million as at the end of November 2017 (Month 8) which, if achieved, will result in a cumulative deficit of £14.2 million at the end of 2017/18. However this is reliant on the CCG achieving challenging QIPP savings of £12.2m 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 2018/19 and 2019/20 QIPP plans; and budget monitoring 	<p>The CCG has once again made significant progress in the delivery of its financial recovery.</p> <p>This is demonstrated by the delivery of £12.3 million of QIPP savings, being 3.58% of Total Operating Expenditure, along with the achievement of an in year surplus of £4.024 million. In addition, NHSE also removed the CCG from legal directions in January 2018.</p> <p>We outline in the sub criteria sections above, the financial performance of the CCG along with commentary on the achievement of the 2017/18 QIPP target and details of the robustness of the planned QIPP targets for 2018/19 and 2019/20.</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 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 audit committee in January 2018.

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

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice	£34,020	£34,020

Fees for other work

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

6. FORWARD LOOK

Financial outlook

The removal of Legal Directions in January 2018 highlights the progress that the CCG has made in during 2017/18. This progress needs to be maintained in future years in order to eliminate the cumulative financial deficit, which currently stands at £12.167 million.

The CCG's Financial Recovery Plan identifies that the CCG aim to achieve an in year surplus of £3.5m in 2018/19 thereby reducing the cumulative deficit to £8.7 million by March 2019.

To achieve this the CCG will have to make QIPP savings of £5.687 million. This will require ongoing careful management and monitoring to ensure that all required savings are achieved. Officers have carried out detailed work in this area and have identified savings plans for a number of individual projects to achieve this target.

Operational challenges

In addition to financial challenges, the CCG and its partners face several operational challenges that have been considered including:

- The Accident and Emergency (A&E) 4 hour standard, where the CCG did not achieve the target of 95% of patients attending A&E are admitted or discharged within four hours. The CCG's 2017/18 performance was 93.5% which was a slight reduction from their 2016/17 performance; and
- Improving ambulance response times in order to achieve NHS constitutional standards.

The CCG recognises the need to work collaboratively with its partners to deliver plans developed to address these issues.

Legislative / environmental changes

The North East and North Cumbria are working towards the development of an Integrated Care System (ICS) with several local Integrated Care Partnerships (ICPs) to succeed the existing STP approach. The Five Year Forward View brings this together agreement in an overall vision for the NHS, highlighting the challenges and where the CCG need to be in 2020/21.

The challenges and risks associated with these changes reinforce the need for the implementation of robust governance arrangements at both an ICS and ICP level.

How we will work with the CCG

We are grateful to the CCG, its Members, officers and 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 2017/18 audit and will continue to share our insights from across the NHS and relevant knowledge from the wider public and private sector.

Our added value offer

In the coming year we will continue to support the CCG by:

- continued liaison with AuditOne (the CCG's Internal Auditors) to minimise duplication of work;
- attending Audit and Risk Committee meetings, presenting Progress Reports that include updates on regional and national developments; and
- hosting events for staff, such as our CCG Accounts Workshop.

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