Annual Audit Letter

NHS North Tyneside Clinical Commissioning Group

Year ending 31 March 2019

NHS
North Tyneside
Clinical Commissioning Group

MAZARS

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 North Tyneside Clinical Commissioning Group (the CCG) for the year ended 31 March 2019. 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 2019 included our opinion that: • the financial statements give a true and fair view of the CCG's financial position as at 31 March 2019 and of its financial performance for the year then ended; and • income 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 21 April 2019 we reported that the CCG's consolidation schedules were consistent with the audited financial statements.
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 2019 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 23 May 2019, stated that, in our view, the financial statements give a true and fair view of the CCG's financial position as at 31 March 2019 and of its financial performance for the year then ended.

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

2. AUDIT OF THE FINANCIAL STATEMENTS

Our approach to materiality

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

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit 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 2019:

Financial statement materiality	Our financial statement materiality is based on 1.5% of gross operating expenditure	£5.268 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.158 million
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: • Remuneration and staff report	£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 and enhanced risks identified at the planning stage to the Audit 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 and the work we carried out on those risks and our conclusions.

Identified significant and enhanced risks	Our response	Our findings and conclusions
Significant risk - management override of controls 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 there is a risk of material misstatement due to fraud on all audits.	We addressed this risk by: • 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.	Our work provided us with the assurance we sought and did not highlight any material issues to bring to the CCG's attention. We highlighted one low priority internal control recommendation in relation to journals. This issue has been identified at all NHS Shared Business Services (SBS) users and is not isolated to this CCG.
Significant risk - 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.	We addressed this risk by: • 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. This work also informed our conclusion on the regularity element of the audit opinion.	Our work provided us with the assurance sought and did not highlight any material issues to bring to the CCG's attention.

2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant and enhanced risks	Our response	Our findings and conclusions
Enhanced risk – Prescribing Accrual 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. We consider this area of key management judgement to be an enhanced risk. .	We addressed this risk by: • 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).	Our work provided us with the assurance sought and did not highlight any material issues to bring to the CCG's attention.

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.

During the audit, we followed-up the low priority recommendation that we raised last year, as set out below.

Description of deficiency including follow-up for 2018/19	Testing of journals identified a small number of 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 and we obtained assurance there were no other journals prepared and authorised by the same officer.
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 again escalate this control failure to SBS to ensure that journals are not prepared and authorised by the same officer.
2018/19 Update	Testing showed this remains an issue in 2018/19. However the CCG put in place compensating controls during the year and it is hoped that SBS will resolve this control issue in the coming year to avoid the need for compensating controls going forward.

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 a significant value for money risk.

Our auditor's report, issued to the CCG on 23 May 2019, 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	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. Both the Governing Body and the Finance Committee receive regular financial reports outlining the up to date position of the CCG. These reports are clear and easy to interpret. The latest version of the CCG's Risk Management Policy was presented to Governing Body in February 2019 and the Risk Register is regularly scrutinised at Audit Committee as part of ongoing monitoring of risk. Based on our attendance at Audit Committees throughout the year, we have observed robust scrutiny of reports and good practice is adopted where appropriate e.g. regular CFO updates, review of accounting policies ahead of producing the statutory accounts etc. 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.	None

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Matters to report
Sustainable resource deployment	In our Audit Strategy Memorandum, presented to the Audit Committee in January 2019, we identified a significant risk in relation to the CCG failing to achieve the level of QIPP (Quality, Innovation, Productivity and Prevention) required in this and future years. In order to assess the robustness of QIPP, we identified that we would complete sample testing of the achievement of the CCG's 2018/19 QIPP plans. We also undertook testing in relation to the CCG's arrangements for achieving the 2019/20 QIPP plan requirement along with a high level review of the 2020/21 QIPP target. **Achievement of 2018/19 QIPP programme** The CCG's QIPP target was £5.687 million. This target was made up of a number of individual projects, each having an individual savings target. Our work identified that processes were in place to develop, scrutinise and monitor QIPP schemes, overseen by the Finance Committee. Based on the Month 12 tracker, the CCG achieved 2018/19 QIPP savings of £6.497 million, exceeding the planned savings target by £810k. **Arrangements for achievement of 2019/20 QIPP programme** Included in the CCG's 2019/20 budget is a QIPP target of £6.382 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. The CCG will continue with formal arrangements in place for the production and monitoring of QIPP schemes. As in previous year, the monthly QIPP tracker will allow project managers to be aware of financial achievements/issues as the year progresses. **Review of 2020/21 QIPP target** The CCG's medium term financial planning has identified the need to achieve QIPP savings of £6.477 million. Work is ongoing to identify schemes to deliver this saving.	None

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Matters to report
Working with partners and other third parties	Partnership working remains a corporate risk for the CCG i.e. 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. The latest report from AuditOne (dated July 2018) on Strategic Planning which included a review of the arrangements of the work of the CCG and its partners gave 'substantial assurance'. The Commissioning Plan and Strategic Plan continue to appear well-aligned. The CCG have Detailed Financial Policies in place for tendering and contracting supplies and services. In addition the CCG ensures that current plans are aligned with the Health and Wellbeing Board strategic priorities. Governing Body receive an update from the Patient Forum at every meeting and routinely receive a copy of the Patient Forum newsletter. The CCG continues to play an active role in the Northern CCG Joint Committee set up in late 2017. It is also part of the North East and North Cumbria Urgent and Emergency Care Network, which aims to take a 'whole system' approach.	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
Failing to achieve the level of QIPP savings required On-going financial pressures, along with a very challenging QIPP (quality, innovation, productivity and prevention) plan, represent a significant risk to sustainable resource deployment. The CCG is projecting an in year surplus of £6.1 million as at the end of October 2018 (Month 7) which, if achieved, will result in a cumulative deficit of £6.067 million at the end of 2018/19. However this is reliant on the CCG achieving QIPP savings of £5.687 million or making other compensating savings elsewhere within their annual budget.	We reviewed: • the current year QIPP plan and progress being made; • the robustness of the 2019/20 and 2020/21 QIPP plans; and • budget monitoring	We outline in the sub criteria sections above, the financial performance of the CCG along with commentary on the achievement of the 2018/19 QIPP target and details of the robustness of the planned QIPP targets for 2019/20 and 2020/21. The CCG has delivered an in year surplus of £6.224 million, including the delivery of £6.497 million of QIPP savings. The CCG has once again made significant progress in delivering its financial recovery plan. Our overall conclusion was therefore that there are no matters on which we were required to report by exception.

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 as 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 the Audit Committee in January 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018-19 proposed fee	2018-19 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.

We anticipate being engaged by the CCG to carry out work mandated by NHSE in respect of the Mental Health Investment Standard for 2018/19. Whilst the engagement has not yet been formally agreed, this is expected to be a fee of £7,500 (excluding VAT), subject to the outcome of the pilot work nationally.

6. FORWARD LOOK

Financial outlook

The CCG's cumulative deficit now stands at £5.943 million as a result of the achieved 2018/19 in year surplus of £6.224 million. In addition, discussions between the CCG and NHSE has resulted in the CCG's cumulative deficit being reduced by a further £2.6 million, resulting in an agreed cumulative deficit of £3.343 million

The CCG's approved 2019/20 budget identifies an in-year surplus of £3.600 million (including QIPP savings of £6.382 million) which if achieved would return the CCG to a small surplus position. Processes are in place to develop QIPP (Quality, Innovation, Productivity and Prevention) schemes and each is subject to regular monitoring and scrutiny, overseen by the Finance Committee.

The CCG recognises the challenges associated with delivering its 2019/20 budget and considers the risks associated with delivering its QIPP programme to be manageable.

Operational challenges

In addition to financial challenges, the CCG and its partners face a number of operational challenges that have been considered in developing the CCG's 2019/20 Operational Plan, including:

- Referral for Treatment times.
- Cancer Treatment.
- Learning Disabilities and Autism.

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

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. This CCG is part of the North East and North Cumbria (NENC) 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.

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 2018/19 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 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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