



# Annual Audit Letter

North East Lincolnshire Clinical Commissioning Group

Year ending 31 March 2019





- 1. Executive summary**
- 2. Audit of the financial statements**
- 3. Value for money conclusion**
- 4. Other reporting responsibilities**
- 5. Our fees**
- 6. Forward look**

*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 North East Lincolnshire CCG (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	<p>Our auditor's report issued on 24 May 2019 included our opinion that:</p> <ul style="list-style-type: none"><li>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</li><li>income and expenditure has, in all material respects, been applied for the purposes intended by Parliament.</li></ul>
Value for money conclusion	<p>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.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 24 May 2019 we also reported that the CCG's consolidation schedules were consistent with the audited financial statements.</p>

# 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 24 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) if necessary. We also set a threshold for reporting identified misstatements to the Integrated Governance and Audit Committee and 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 2% of Gross Operating Expenditure	£6.4m
Trivial threshold	Our trivial threshold is based on 1% of financial statement materiality.	£64,000

# 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 Integrated Governance and 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 risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<b>Management override of controls</b> 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. Because of 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	We addressed this risk by performing audit work in the following areas: <ul style="list-style-type: none"><li>• accounting estimates impacting on amounts included in the financial statements;</li><li>• consideration of identified significant transactions outside the normal course of business; and</li><li>• journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li></ul>	Our work has provided us with the assurance we sought.
<b>Revenue Recognition</b> In all entities, there is a risk of fraud in financial reporting relating to revenue recognition due to the potential to inappropriately record income 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: <ul style="list-style-type: none"><li>• undertaking cut-off testing of receipts around the year-end; and</li><li>• reviewing inter-NHS reconciliations and data matches provided by the NHSE (income and receivables).</li></ul>	Our work has provided us with the assurance we sought.
<b>Related Parties</b> GPs are members of the Governing Body and also potential service providers.	We addressed this risk by: <ul style="list-style-type: none"><li>• reviewing the CCG's arrangements for identifying and recording potential related party transactions;</li><li>• reviewing a range of documents including minutes of meetings and declarations of interest for evidence of potential related party transactions; and</li><li>• testing disclosures in the financial statements.</li></ul>	Our work has provided us with the assurance we sought.

# 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

## Our audit approach

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.

Our auditor’s report, issued to the CCG on 24 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	Our audit work has confirmed there is evidence that the CCG acts in the public interest, demonstrating and applying the principles and values of sound governance. The CCG has in place Constitution setting out delegation of responsibilities to the formal Committees and officers. The Constitution was updated in February 2019 to reflect the creation of the ‘Union’ with North East Lincolnshire Council (the Council) replacing the Partnership Board. We have seen evidence that the CCG understands and uses appropriate and reliable financial and performance information to support informed decision making and performance management.	None
Sustainable resource deployment	There is evidence that the CCG has planned finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. For 2018/19, the CCG achieved a break-even position and financial targets have been met. The financial position is reported to the Governing Body and the Integrated Governance and Audit Committee (IGAC) during the year, these reports accurately predicted the closing financial position.	None
Working with partners and other third parties	Our audit work has confirmed there is evidence the CCG works with third parties to deliver strategic priorities. The CCG works closely with North East Lincolnshire Council (The Council) and is the only CCG in the country responsible all adult social care services for the local population as well as commissioning care for health needs. The Council and CCG operate a Partnership Agreement. The CCG Constitution sets out the governance arrangements for the arrangement (the Union) which includes the creation of a Committee in Common (Union Board) which has Councillors as well as GPs. During 2017/18 the Chief Executive of the Council was also appointed the Chief Executive of the CCG to further enhance joint working.	None



# 3. VALUE FOR MONEY CONCLUSION

## Significant audit risks

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

Risk	Work undertaken	Conclusion
Risk heading		
<p>Clinical commissioning groups have a number of financial duties under the NHS Act 2006 (as amended). In particular, section 223H (1) states that CCGs have a statutory duty to ensure expenditure in a financial year does not exceed income.</p> <p>In 2017/18 the CCG achieved its financial targets and is on track to do so again in 2018/19. During our planning processes we noted the need to achieve significant savings in-year Quality, Innovation, Productivity and Prevention (QIPP) savings of £5.6m for Health Services and £1.7m for Adult Social Care.</p>	<p>We addressed this risk by undertaking the following work:</p> <ul style="list-style-type: none"><li>identifying and reviewing arrangements for managing the contract; and</li><li>monitoring the progress the CCG makes in meeting contractual obligations during the year to consider whether there is evidence of any weakness in arrangements.</li></ul>	<p>The CCG:</p> <ul style="list-style-type: none"><li>achieved a break-even position in 2018/19 and has the expected arrangements to monitor financial performance; and</li><li>is planning to meet financial targets in 2019/20 based on a realistic plan.</li></ul> <p>Our work provided us with the assurance we sought and has not highlighted any issues to bring to your attention.</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 NHS England 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 Integrated Governance and Audit Committee in September 2018. 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	£35,725 + vat	£35,725 + vat

## 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. The review will be conducted according to a standard scope agreed by NHSE. While the engagement has not yet been formally agreed, the fee is expected to be £7,500 (excluding VAT). The final fee will be dependent on any potential changes to the scope of the work following national consideration of the outcomes from pilot sites.

# 6. FORWARD LOOK

## Financial outlook

The CCG has finalised its budget for 2019/20 with contracts in place for its main providers. The CCG has set a challenging efficiency target of £8m (£6.2m Health and £1.8m Adult Social Care) and has plans in place to deliver £6.2m (£5.4m Health and £0.8m Adult Social Care) and is working on addressing the balance of £1.8m. The CCG has scope to use contingency funding and earmarked reserves to mitigate the impact of unmet savings. The CCG takes the lead locally to drive improvements and promote joined up working so that patient care is improved whilst continuing to meet financial responsibilities.

## Future actions

The CCG continues to face financial pressures and is well aware of the challenges and risks involved in delivering its future plans. It is continuing to work more closely with the local authority across all areas of work but significant difficulties remain around finance and operational performance at NLAG - the main provider of acute hospital services.

## How we will work with the CCG

We continue to be grateful to the CCG and its officers for the cooperation and open dialogue during the year and look forward to continuing to work closely with the CCG in delivering our Code of Audit Practice responsibilities.

