

Auditor's Annual Report

NHS North East Lincolnshire Clinical
Commissioning Group – year ended 31
March 2021
August 2021



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01

Section 01:
Introduction

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for NHS North East Lincolnshire CCG ('the CCG') for the year ended 31 March 2021.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit report on 10 June 2021. Our opinion on the financial statements was unqualified.



Opinion on regularity

In our audit report we gave an unqualified opinion on regularity. This means that in our opinion, in all material respects the expenditure recognised in the financial statements has been applied for the purposes intended by Parliament.



Wider reporting responsibilities

In line with group audit instructions issued by the NAO, on 22 June 2021 we reported that the CCG's consolidation schedules were consistent with the audited financial statements.



Value for money arrangements

In our audit report issued we reported that we had completed our work on the CCG's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the CCG's arrangements.

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinions

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

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 2021 and of its financial performance for the year then ended. Our audit report, issued on 10 June 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

We are also required 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 audit report also included an unqualified opinion on regularity.

03

Section 03:

Commentary on VFM arrangements

3. VFM arrangements – Overall summary

Approach to value for money arrangements work

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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the CCG plans and manages its resources to ensure it can continue to deliver its services.
- **Governance** - How the CCG ensures that it makes informed decisions and properly manages its risks.
- **Improving economy, efficiency and effectiveness** - How the CCG uses information about its costs and performance to improve the way it manages and delivers its services.

At the planning stage of the audit we carry out our audit risk assessment. Where we identify significant risks, we design a programme of risk-based procedures to enable us to consider whether significant weaknesses in arrangements exist for the period under review. While we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that could present evidence of significant weaknesses. We outline the risks that we have identified and the work we have done to address those risks on page 9.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. The table below summarises the outcomes of our work against each reporting criteria and on the following page we report the work we have undertaken against each reporting criteria, including the conclusions we have reached.

| Reporting criteria | Commentary page reference | Risks of significant weaknesses in arrangements identified? | Actual significant weaknesses in arrangements identified? |
|---|---------------------------|---|---|
| Financial sustainability | 10 | Yes – see risk 9 | No |
| Governance | 13 | No | No |
| Improving economy, efficiency and effectiveness | 17 | No | No |

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3. VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements

We outline below the risks of significant weaknesses in arrangements that we identified as part of our continuous planning procedures and the work undertaken to respond to each of those risks.

| Risk of significant weakness in arrangements | Work undertaken and the results of our work |
|--|--|
| <p>1</p> <p>Financial pressures</p> <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>The 2020/21 planning round was suspended due to the national emergency with block payments are being made by the CCG to main NHS contractors based on the contracts in place at December 2019. Guidance on the allocations and contractual arrangements from October 2020 had a greater emphasis on system working within the Humber region.</p> <p>The CCG’s projected deficit position for 2020/21 reported at month 6 was £2.2m but mitigations to addressed this deficit were planned. NHS Hull was nominated as the Humber region lead CCG and received additional systems-based allocations. Initial indications in late 2020 were that the funding provided across the Humber system was not sufficient to meet the expected demand. Partners worked together to resolve this and aimed to achieve a balanced control total across the system but there remained a risk that the CCG would nit be able to demonstrate it achieved its statutory duty to ensure expenditure does not exceed income.</p> <p>NHS annual finance and operational planning was delayed until Q1 2021/22 with 2020/21 contracts rolled forward with expected investments in mental health services and contractual commitments in primary care but other national investments to be delayed to focus on Covid-19. There remained a risk that the CCG would be unable to set a realistic and achievable budget in 2021/22.</p> | <p>Work undertaken</p> <p>We reviewed financial reports presented to the Governing Body and the CCG’s draft budget for the first half of 2020/21. The CCG achieved its statutory duties in 2020/21 and reported a balanced position against the allocation of £293.4m. A balanced plan for the first half of the financial year 2021/22 was submitted in accordance with the national timetable in May 2021. This plan was based on actual spending from October 2020 to March 2021 and rolled forward with known adjustments. The CCG is now updating the plan in accordance with the timetable set by NHS England.</p> <p>Conclusions</p> <p>While there is uncertainty about financial sustainability our work has not identified evidence of significant weakness in the CCG’s arrangements.</p> |

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Summary of work undertaken

We have based our assessment on our audit work on the financial statements, reports from regulators, review of internal financial reports and risk registers, and consideration of the CCG's Annual Governance Statement.

Risks or weaknesses in arrangements

We identified a risk of weakness in the arrangements during the planning stage of the audit but concluded that the CCG had arrangements in place. The CCG met its financial statutory duties in 2020/21 and issued a balanced financial plan for the first half of the 2021/22 financial year, submitted in accordance with the national timetable in May 2021.

Background to the NHS financing regime in 2020/21

Following the onset of the Covid-19 pandemic in March 2020, the original NHS Planning Guidance 2020/21 was suspended and a new financial regime was implemented. For the first half of the year (April to September 2020) all contracts with NHS trusts and NHS foundation trusts were moved to block payments 'on account' and the usual Payment by Results national tariff payment process was suspended. The Financial Recovery Fund was also suspended and NHS providers were able to claim for additional costs arising from the response to Covid-19. While commissioner allocations for 2020/21 had already been notified, individual commissioner financial positions were kept under review and top-up payments were issued to CCGs to cover the difference between allocations and expected costs.

For the second half of the year (October 2020 to March 2021) there was a move to "system envelopes" with funding allocations covering most NHS activity made at the system level, including resources to meet the additional Covid-19 costs. There were no further general retrospective top-up payments and all Covid-19 costs from that point were funded through the fixed Covid-19 funding allocation with a few exceptions. Systems were expected to achieve financial balance within this envelope. Individual organisations were able to deliver surplus or deficit positions by mutual agreement within the system, however, NHS trusts are still required to meet statutory break-even duty and CCGs are required to meet their resource limits.

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3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria (continued)

How the CCG ensures that it identifies the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

There is evidence that the CCG continued to manage and plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. The CCG’s final reported financial position in 2020/21 was consistent with its budget reported throughout the financial year, reporting a balanced position against the allocation of £293.4m. Analysis of the finance reports during the financial year show that there have been no significant fluctuations in reported financial performance and no significant funding gaps or short term measures used to support the financial position.

The CCG developed a balanced financial plan for the first half of the 2021/22 financial year in accordance with the national timetable in May 2021. This plan was based on actual spending from October 2020 to March 2021 rolled forward with known adjustments.

How the CCG plans to bridge its funding gaps and identifies achievable savings

The initial budget submitted in December 2019 was on the basis of a break-even with but challenging savings targets for the CCG. At the start of the pandemic the 2020/21 planning round was suspended with block payments made by the CCG to main hospital providers based on the December 2019 plan until September 2021. Guidance on the allocations and contractual arrangements from October 2021 provided a much greater emphasis on system working but the CCG continues to monitor performance against its own budgets. There were no significant over-spending budgets for the remainder of the 2020/21 financial year and the CCG managed a number of small over-spending budgets with internally generated reserves. Additional funding of £7.4m was received to cover the net additional expenditure related to COVID.

How the CCG plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The CCG has aligned its financial plans with the NHS Long Term Plan and the Humber Coast and Vale Integrated Care System (HCV ICS) plans. NHS Hull CCG was nominated as the regional lead CCG for the HCV ICS and received additional system based allocations. These were distributed to partner organisation resulting in financial balance across the HCV ICS area in 2020/21 with system balance achieved. Working as a wider ICS is a key driver in ensuring local health services are sustainable in the long-term.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria (continued)

How the CCG ensures that its financial plan is consistent with other plans working with other local public bodies as part of a wider system

The CCG works with other NHS commissioners and providers and the local Council to ensure plans are consistent and can provide a number of examples of collaborative working which include:

- a pooled budget with North East Lincolnshire Council hosted by the CCG and forms part of the overall integrated health & social care budget for the provision of Adult Social Care and Better Care Fund expenditure within North East Lincolnshire; and
- involvement in the Humber Strategic Commissioning Board which aims to align care across the Humberside area and also includes North Lincolnshire CCG, Hull CCG and East Riding of Yorkshire CCG.

During 2020/21 the CCG worked within its allocation and the HCV ICS achieved financial balance.

How the CCG identifies and manages financial resilience risks, e.g., unplanned changes in demand, including challenge of the assumptions underlying its plans

The CCG sets out risk factors in setting its budget and during in-year monitoring within the Finance Report which includes a detailed financial analysis. No significant over-spending was identified during the financial year and the CCG achieved its financial targets.

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3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Risks or Weaknesses in arrangements

We did not identify risk of weakness in the arrangements as part of our planning processes and no issues were identified in our work carried out for 2020/21.

How the CCG monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Arrangements to monitor and assess risks and the effectiveness of internal controls include:

- internal auditor coverage with findings being reported to each Integrated Governance and Audit Committee (IGAC) meetings covering both audit and counter fraud; and
- corporate risk management arrangements that involve regular review or risks and mitigating actions by the IGAC and Governing body, allowing Members to challenge management on the responses to key risks facing the CCG.

No significant internal control weaknesses have been identified or reported in 2020/21 and no significant frauds were reported in the same period. Through review of Governing Body papers and attendance at IGAC, Members are briefed on budget setting and receive regular updates on finance and performance. Remote IGAC meetings continued throughout the financial year as planned.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria (continued)

How the CCG approaches and carries out its annual budget setting process

The normal budgeting process for 2020/21 was superseded by the pandemic and the revised financial regime that was put in place as described earlier. For 2021/22, the revised regime continues to be in place, with a focus on Covid-19 recovery and HCV area system-working. The CCG developed a balanced financial plan for the first half of the 2021/22 financial year (H1) in accordance with the national timetable in May 2021. This plan was based on actual spending from October 2020 to March 2021 rolled forward with known adjustments.

In June 2021 The CCG updated the Governing Body on the agreed 2021/22 balanced budget showing a £2.9m deficit mitigated by Covid-19 and growth funding which are expected to cover the deficit. The report however sets out a series of key risks which apply to most CCGs including:

- Elective Recovery Funding (ERF) covering all additional costs;
- prescribing risk due to activity / price increase being greater than planning guidance growth;
- no contingency funding built into the plan;
- uncertainty about CCG allocations for the final 6 months of the year;
- activity and demand uncertainty due to Covid-19 and customer behaviours;
- uncertainty around central government funding to support care providers; and
- deliverability.

Detailed planning guidance for the CCG's covering H2 the period from October 2021 to 31 March 2022 has not yet been published by the Department of Health.

How the CCG ensures effective processes and systems are in place to: ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information where appropriate); support its statutory financial reporting requirements; and ensure corrective action is taken where needed

Comprehensive financial monitoring reports are taken to the Governing Body and the Integrated Governance and Audit Committee. These reports include detail on pressure areas, financial risks, performance and progress on achievement of statutory targets.

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3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria (continued)

How the CCG ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency: this includes arrangements for effective challenge from the audit committee

The CCG’s constitution updated in January 2019 sets out the overall governance arrangements and is supported by standing orders, prime financial policies, the scheme of reservation and delegation and code of conduct. The CCG has integrated management arrangements with North East Lincolnshire Council, a joint Chief Executive and a Union Board made up of members of the CCG and Council.

In April 2020 governance arrangements were adapted following the issue of the NHS reducing the burden guidance, suspending a number of committees including the Union Board and Primary Care Commissioning committees during lockdown. A special Emergency Powers oversight meeting (Covid Risk Committee) was established with terms of reference that include:

- reviewing Covid-19 decisions;
- challenging and where required endorsing decisions; and
- safeguarding all including the CCG leaders, the CCG itself and the community.

Membership of the Committee includes the CCG Lay Chair, Governing Body Lay Members, Joint Chief Executive, and Chief Finance Officer. The meeting took place weekly until August when it then started to meet fortnightly before normal governance arrangements were reintroduced in the later summer. Minutes were action focused and considered by the Governing Body when it reformed. Finance and performance reports were considered by the new Committee and the CCG continued to work with partners, for example, in monitoring performance of the main provider, North Lincolnshire and Goole NHS Foundation Trust.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria (continued)

How the CCG ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency: this includes arrangements for effective challenge from the audit committee (continued)

The CCG’s audit committee (the IGAC) delivers its terms reference and has a work programme built around the reporting cycle. The work of the IGAC includes challenge of the draft accounts in April and approval of the final accounts and annual report in May. We have also seen evidence of challenge in respect of the financial position and review of the risk register and audit findings. Key points are summarised during meetings.

The Chief Executive of a Community Interest Company called ‘Focus’ is a member of IGAC and is the Adult Social Care representative on the CCG’s Governing Body. This reflects the local arrangement where the CCG commissions adult social care services in partnership with the Council through the Section 75 agreement. ‘Focus’ are contracted by the CCG to provide social workers to support the micro-commissioning of adult social care services. Note 37 Related Party Transaction of the 2020/21 financial statements reflects the £6.7m payments to the company in the financial year. While this conflict of interest is recorded in the financial statements and the appropriate conflict of interest registers of the CCG, we do not see evidence of specific declarations during IGAC meetings which we would expect, for example, when reports on the CCG’s financial position are considered. We have made a recommendation to improve the arrangements on page 19 of this report.

In our work we also noted:

- no significant findings were reported by internal audit during 2020/21 and Audit Yorkshire provided “*significant assurance that there is a good system of governance, risk management and internal control designed to meet the organisation’s objectives and that controls are generally being applied consistently*”; and
- the CCGs arrangements were assessed as “Good” by NHS England in its annual assessment based on a series of indicators including leadership, finance and performance outcome measures.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

Risks or Weaknesses in arrangements

We did not identify risk of weakness in the arrangements as part of our planning processes and no issues were identified in our work carried out for 2020/21.

How financial and performance information has been used to assess performance to identify areas for improvement

Although officers were focused on addressing issues arising as a result of the pandemic, the CCG continued to monitor performance. Performance reporting was scaled back during the lockdown in early summer 2020 as some performance information was unavailable. Later reports returned to the established format with an exception section followed by a series of key performance indicators covering the full range of commissioned and provided services by the CCG. This format allows members to see trends, but also sets out a detailed analysis of the exceptions and issues and what is being done about it. The CCG has a separate finance report include a summary by allocation and service with a year end projections, risk areas, Humber Integrated Care System position, additional Covid-19 expenditure and Adult Social Care.

How the CCG evaluates the services it provides to assess performance and identify areas for improvement

The CCG's controls for monitoring performance include:

- quality contract and performance groups with the CCG's main acute providers;
- regular assurance discussions with NHS England and NHS Improvement; and
- regular planning discussions with other CCG commissioners within Humber including working closely with North Lincolnshire CCG to support improvement at North Lincolnshire and Goole NHS FT as part of the Transformational Programme Operational Delivery Group.

As with other CCGs, there has been a deterioration in some key NHS performance indicators such as: 4 hours waits in accident and emergency; ambulance response times; cancer 31 days diagnosis to treatment; and estimated diagnosis rate for people with dementia. In overall terms the CCG has seen worsening of achievement of constitutional targets. In the annual report on 2019/20 the CCG reported achievement of 12/24 constitutional targets compared to 10/24 in 2020/21. Of the indicators only 2 were significantly worse than 2019/20 the service performance has not deteriorated to the extent seen elsewhere. For 2021/22 and for the Humber area there is recognition of the significant waiting lists and £23m of funding is to be allocated to the Elective Recovery fund to begin to address the backlog.

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3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria (continued)

How the CCG ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The role of the Integrated Care System (ICS) has developed over the past year in the region's response to the pandemic. There has been coordination of the Covid-19 response at ICS level and we have seen evidence of:

- continued joint working with the Council meant immediate focus on the response to Covid-19 at the start of the lock-down. The CCG with the Council was also able to bring forward planned development of Cambridge Park to provide intermediate care with additional Covid-19 funding of around £0.5m; and
- new ways of working, including reducing face to face interactions, virtual consultations, staff re-deployment and improved collaboration between service providers.

Where the CCG commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The CCG has established procedures that are set up to ensure compliance with relevant legislation and professional standards updated in December 2020:

- the Procurement Strategy sets out how the CCG will develop its procurement activities, meet its legal duties to comply with the relevant Public Procurement and NHS Regulations; and
- the Organisational Scheme of Delegation and Procurement Policies and Procedures set out the detailed thresholds, tendering and decision-making.

Tender waivers are a standing item at IGAC meetings although no tender waivers were reported in 2020/21.

3. VFM arrangements - Governance recommendations

Recommendations for improvement

Identified weakness in arrangements

Recommendation for improvement

| | | |
|---|--|--|
| 1 | <p>IGAC conflicts</p> <p>The Chief Executive of a Community Interest Company called ‘Focus’ is a member of IGAC and is the Adult Social Care representative on the CCG’s Governing Body. This reflects the local arrangement where the CCG commissions adult social care services in partnership with the Council through the Section 75 agreement. ‘Focus’ are contracted by the CCG to provide social workers to support the micro-commissioning of adult social care services.</p> <p>Note 37 Related Party Transaction of the 2020/21 financial statements reflects the £6.7m payments to the company in the financial year. While this conflict of interest is recorded in the financial statements and the appropriate conflict of interest registers of the CCG, we do not see evidence of specific declarations during IGAC meetings which we would expect, for example, when reports on the CCG’s financial position are considered.</p> | <p>Conflicts of interest should be declared within IGAC meetings for relevant items such as finance reports reflecting the contract with ‘Focus’ or other relevant Adult Social Care risks or reports considered by the Committee.</p> |
|---|--|--|

04

Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provide auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make a referral to the Secretary of State; and
- make a written recommendation to the CCG which must be responded to publicly

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 relevant guidance 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.

4. Other reporting responsibilities and our fees

Fees for work as the CCG's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Integrated Governance and Audit Committee. Having completed our work for the 2020/21 financial year, we can confirm that our fees are as follows:

| Area of work | 2020/21 fees (+vat) |
|--|---------------------|
| Planned fee in respect of our work under the Code of Audit Practice | £38,950 |
| Additional work on assurance for assets managed by East Riding Pensions Fund | £1,500 |
| Total | £40,450 |

Fees for other work

In March 2021 we completed work on the assurance statement for the CCG's Mental Health Investment Standard spending for 2019/20. The fee was £7,500 + vat.

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