

Auditor's Annual Report

NHS North East Lincolnshire Clinical
Commissioning Group year ended 31
March 2022

December 2022



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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 2022. Although this report 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 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 19/12/22. 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 19/12/22 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

Following the completion of our work we will issue our audit certificate which formally closes the audit for the 2021/22 financial year.

02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

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 2022 and of its financial performance for the year then ended. Our audit report, issued on 19/12/22 gave an unqualified opinion on the financial statements for the year ended 31 March 2022.

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 value for money
arrangements**

3. VFM arrangements

Overall Summary



3. VFM arrangements – Overall summary

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 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 functions.



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 functions.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the CCG has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- information from internal and external sources including regulators
- knowledge from previous audits and other audit work undertaken in the year
- interviews and discussions with staff and directors

Although 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 may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risks that we have identified and the work we have done to address those risks on page 11.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the conclusions we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.




We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the CCG. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**
We make these recommendations for improvement where we have identified a significant weakness in the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations**
We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken.

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

3. VFM arrangements – Overall summary

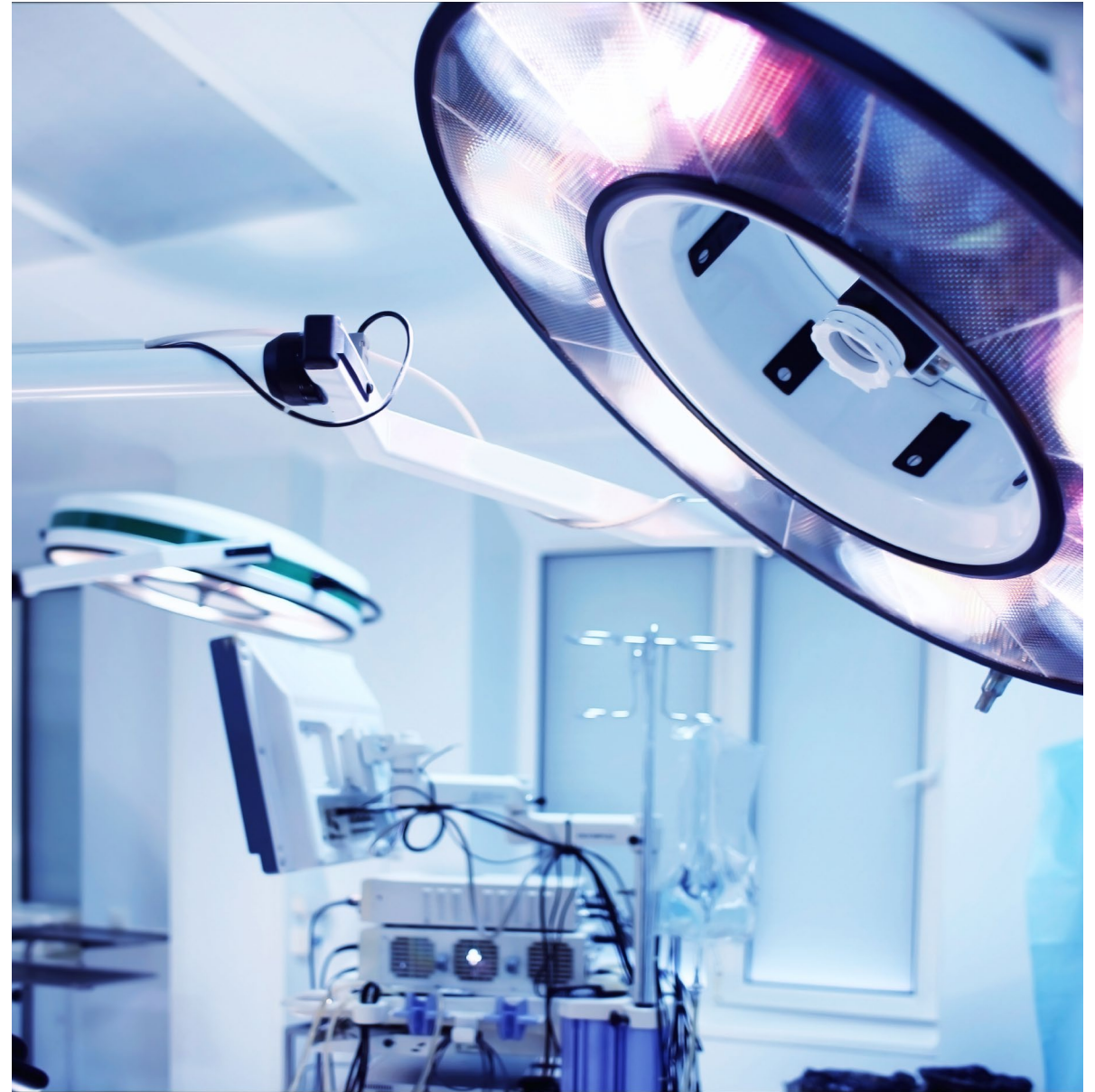
Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	11	No	No	No
 Governance	14	No	No	No
 Improving economy, efficiency and effectiveness	17	No	No	No

3. VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



3. VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements in relation to Financial Sustainability

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 2021/22.

Overall commentary on Financial Sustainability

Background to the NHS financing regime in 2021/22

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 second half of the 2020/21 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 costs of the Covid-19 pandemic. The 2021/22 financial year was also split into two halves, with a different funding regime in each., The regimes were, however, largely a continuation of those introduced in 2020/21, where system envelopes and block payment arrangements remained in place.

The 2021/22 H1 (April 2021 to September 2021) envelopes included adjusted CCG allocations, system top-up and a Covid-19 fixed allocation, based on the H2 2020/21 envelopes, adjusted for known pressures and policy priorities. The 2021/22 H1 NHS guidance also confirmed that block payment arrangements would remain in place for relationships between NHS commissioners and NHS providers. The guidance for H2 (October 2021 to March 2022) confirmed that the arrangements would stay broadly consistent with a continuation of the H1 framework. The 2021/22 H2 “system envelopes” were based on the H1 2021/22 envelopes adjusted for additional known pressures, such as the impact of pay awards, and increased efficiency requirements.

Over the course of the year and into 2022/23, the focus of the funding regime has shifted from responding to the immediate challenges caused by Covid-19, to supporting recovery in the healthcare system. This has emphasised the need for collaborative working between commissioners and providers, as local systems were expected to work together to deliver a balanced position in 2021/22, with additional funding available for those systems exceeding target activity levels through the Elective Recovery Fund. The planning guidance for

2022/23 supports the transition back to local agreement of contracts, and requires systems to achieve a break even position each year. This will necessitate further collaboration through the planning process, as individual organisations work together to achieve system-level outcomes

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 2021/22 was consistent with its budget reported throughout the financial year reporting a balanced position against an allocation of £317.5m. Analysis of finance reports during the financial year shows that there have been no significant fluctuations in reported financial performance and no significant funding gaps or short-term measures implemented to support the financial position.

The CCG developed a balanced financial plan in May 2022 for the first quarter of the 2022/23 financial year in accordance with the national timetable. This plan forms part of the Humber and North Yorkshire Integrated Care Board 2022/23 full year balanced financial plan. The planning guidance confirms CCGs are to receive sufficient allocation to the end of quarter 1 to achieve break-even.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

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

The CCG submitted the draft 2021/22 financial plan for the first half of the year (H1) in May 2021 based on actuals for H2 2020/21 adjusted for known pressures and taking into account funding from the Elective Recovery Fund and Hospital Discharge Scheme. Details of the H2 financial framework and allocations were released in October 2021 with the financial plan for H2 submitted to NHSEI and uploaded to the ledger in November 2021.

The CCG’s financial plan submission for the financial year includes a break-even position against allocation with a number of areas of funding outside of allocation relating to the Hospital Discharge Programme, the Elective Recovery Fund, the Winter Access Fund and the Additional Roles Reimbursement Scheme..

There were no significant over-spending budgets in the 2021/22 financial year and the CCG managed a number of small over-spending budgets with internally generated reserves.

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 councils 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 CCG’s Executive team meeting which aims to align planning across the Humber area and also includes North Lincolnshire CCG, Hull CCG and East Riding of Yorkshire CCG.

During 2021/22 the CCG worked within its allocation and the Humber, Coast and Vale Integrate Care System 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.

3. VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks



3. VFM arrangements – Governance

Risks of significant weaknesses in arrangements in relation to Governance

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 2021/22.

Overall commentary on Governance

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

The CCG’s arrangements to monitor and assess risks and the effectiveness of internal controls include:

- internal audit coverage with findings being reported to each Integrated Governance and Audit Committee meeting covering both audit and counter fraud;
- corporate risk management arrangements that involve regular review of risks and mitigating actions by the Integrated Governance and Audit Committee 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 2021/22 and no significant frauds were reported in the same period.

Through our review of Governing Body papers and attendance at Integrated Governance and Audit Committee, we are aware that Members are briefed on budget setting and receive regular updates on finance, quality and performance. Key Governing Body and committee meetings continued during the year on a remote basis and no changes were made to the governance structure.

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

The normal budgeting process for 2021/22 was superseded by the revised financial regime that was put in place as described earlier. For 2022/23, the revised regime continues to be in place, with a focus on Covid-19 recovery and area system-working. The CCG developed a balanced financial plan for the first quarter of the

2022/23 financial year in accordance with the national timetable.

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

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 sets out the overall governance arrangements including:

- membership matters;
- arrangements for exercise of functions;
- decision making; and
- conflicts of interest.

The CCG’s constitution updated in November 2021 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

The CCG’s Integrated Governance and Audit Committee delivers its terms of reference and has a work programme built around the reporting cycle. The work of the Integrated Governance and Audit Committee includes challenge of the draft accounts in April and approval of the final accounts and annual report in June. 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.

In our work we also noted:

- no significant findings were reported by internal audit during 2021/22 and Audit Yorkshire provided “*High 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 in 2021 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

How the body uses information about its costs and performance to improve the way it manages and delivers its services



3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Risks of significant weaknesses in arrangements in relation to Improving Economy, Efficiency and Effectiveness

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 2021/22.

Overall commentary on Improving Economy, Efficiency and Effectiveness

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

Although services were focused on addressing issues arising as a result of the pandemic, the CCG continued to monitor performance and finance reports which include detailed analysis of trends for key NHS targets and quality risk areas. The finance report includes 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.

These reports were considered by the Governing Body.

The performance reports focus on financial position, poorly performing indicators, including of quality and performance of the CCG’s main providers such as North East Lincolnshire and Goole NHS FT, and plans to address poor performance.

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;
- joint working with North East Lincolnshire Council in social care;

- regular assurance discussions with NHS England and NHS Improvement; and
- regular planning discussions with other CCG commissioners.

As with other CCGs and given the impact of Covid-19, there has been a deterioration in some key NHS performance indicators including:

- the accident and emergency 4 hour performance target and diagnostic waiting times were well below national targets; and
- the Referral to treatment Pathway (RTT) percentage improved compared to 2020/21 but at 73.5% achievement was still significantly below the 92% target.

For 2022/23 and for the Humber and North Yorkshire area there is recognition of the significant waiting lists and additional funding has been allocated to the Elective Recovery Fund to begin to address the back-logs.

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 continued to develop over the past year both as part of the the region's response to the pandemic and in preparation for the transfer of services to the Integrated Care Board on 1 July 2022.

There has been coordination of the Covid-19 response at ICS level and we have seen evidence of:

- joint working with local partners; and
- new ways of working, including reducing face to face interactions, virtual consultations, staff re-deployment and improved collaboration between service providers.

The CCG continues to work jointly with the North East Lincolnshire Council specifically in relation to Adult social work and the commissioning of Adult Social Care as well as commissioning community services to avoid admissions to hospital.

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 including a Procurement Policy last updated in December 2020. The Policy sets out NHS principles, key considerations, value for money, partnerships and procurement thresholds for tendering.

The framework sets out duties under the NHS constitution, sustainability and procurement governance and the requirement to report tender waivers to the Integrated Governance and Audit Committee.

Reports considered by the Governing Body record evidence of consideration of costs, options, benefits and

risks supported by clear recommendations. We also noted a number of contract extensions driven by the impact of the Covid pandemic and the pending reorganisation of CCGs primarily to avoid service disruption or where there were no credible alternatives for some of the specialised services.

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 CCGs; and
- make a written recommendation to the CCG which must be responded to public.

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 Audit Committee in September 2021. Having completed our work for the 2020/21 financial year, we can confirm that our fees are as follows:.

Area of work	2021/22 fees
Planned fee in respect of our work under the Code of Audit Practice	£40,450

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*where permitted under applicable country laws.