

Annual Audit Letter

NHS Newcastle Gateshead Clinical Commissioning
Group

Year ending 31 March 2018



Newcastle Gateshead
Clinical Commissioning Group





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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 Newcastle Gateshead Clinical Commissioning Group (the CCG) for the year ended 31 March 2018. Although this letter is addressed to the CCG, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 24 May 2018 included our opinion that: <ul style="list-style-type: none">the financial statements give a true and fair view of the CCG's financial position as at 31 March 2018 and of its financial performance for the year then ended; andIncome and expenditure has, in all material respects, been applied for the purposes intended by Parliament.
Value for Money conclusion	Our auditor's report stated that we had no matters to report in respect of the CCG's arrangements to secure economy, efficiency and effectiveness in its use of resources.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 24 May 2018 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 2018 and of its financial performance for the year then ended.

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

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

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

Our approach to materiality

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

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the 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 2018:

Financial statement materiality	Our financial statement materiality is based on 1.5% of gross operating expenditure	£11.931 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£296,000
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - related party transactions; and - senior officers' remuneration	£25% of value disclosed £5k banding

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the CCG's financial statements that required special audit consideration. We reported significant 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 (continued overleaf) 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
<p>Significant risk - management override of controls</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> • reviewing the key areas within the financial statements where management has used judgement and estimation techniques and consider whether there is evidence of unfair bias; • examining any accounting policies that varied from the Government Accounting Manual; • testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements; and • undertaking cut-off testing around the year-end on receipts and payments. 	<p>Our work provided us with the assurance we sought and did not highlight any material issues to bring to your attention. We highlighted one low priority internal control recommendation in relation to journals.</p>
<p>Significant risk – expenditure recognition</p> <p>There is a risk of fraud in financial reporting relating to revenue recognition due to the potential to inappropriately record expenditure in the wrong period. This is not to imply we suspect actual fraud, but that we approach our audit maintaining due professional scepticism.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> • undertaking cut-off testing of payments around the year-end; • sample testing expenditure transactions during the year; • sample testing material year-end payables and provisions; and • reviewing inter-NHS reconciliations and data matches provided by the Department for Health and Social Care. <p>This work also informed our conclusion on the regulatory element of our audit opinion.</p>	<p>Our work provided us with the assurance we sought and did not highlighted any material issues to bring to your attention.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Significant and enhanced risks continued

Identified significant and enhanced risks	Our response	Our findings and conclusions
<p>Enhanced risk and area of key management judgement – prescribing</p> <p>The CCG’s financial statements contain estimates. A material estimate is in respect of prescribing expenditure, which is based on NHS Business Services Authority (BSA) profiling and two months in arrears. We consider this area of key management judgement to be an enhanced risk.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> • testing the prescribing accrual included in the financial statements, 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 post year-end notification; and • reviewing and considering the assurance we receive from BSA (Type II service auditor report). 	<p>Our work provided us with the assurance we sought and did not highlight any material issues to bring to your attention.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

We did not identify any significant deficiencies in internal control and one, low priority recommendation in relation to journals, as set out below.

Description of deficiency	Testing of journals identified two journals which had been prepared and authorised by the same officers within NHS Shared Business Services (SBS) on behalf of the CCG. These were all of a clearly trivial value.
Potential effects	Journal controls are key controls for the prevention of misstatement due to fraud or error. The lack of segregation of duties could result in fraud or error.
Recommendation	The CCG should again escalate this control failure to SBS to ensure that journals are not prepared and authorised by the same officer.
Management response	This issue has been escalated to SBS by the CCG's Commissioning Support Unit, NECS who have stated that controls have been put in place to address this both in SBS and the CCG.

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.

Our auditor's report, issued to the CCG on 24 May 2018, confirmed that we had no matters to report in respect of the CCG's arrangements to secure economy, efficiency and effectiveness in its use of resources.

Sub-criteria	Commentary	Matters to report
Informed decision-making	<p><i>Financial and performance information</i></p> <p>NHSE, in its letter of July 2017, assessed the CCG as 'requires improvement' compared to 'outstanding' the previous year. This was primarily as a result of the financial position of the CCG returning a surplus of £10.4 million against an expected surplus of £15 million for the financial year. Addressing this issue was a key priority for the CCG in 2017/18 per the NHSE assessment.</p> <p>The 2017/18 NHSE annual assessment will not be available until summer 2018, however for 2017/18, the CCG has met its control total, delivering an in-year surplus of £4.711 million and a resulting carried forward surplus of £14.864 million.</p> <p>We note the on-going pressures within acute commissioning, with the main contracts with Newcastle and Gateshead hospitals again overspending, as well as the continued pressure area of continuing healthcare.</p> <p><i>Management of risks and a sound system of internal control</i></p> <p>The CCG has a comprehensive internal audit programme in place and received an overall 'substantial' rating again for 2017/18. Significant risks facing the CCG are summarised in its Governance Statement contained within its Annual Report.</p>	None
Sustainable resource deployment	<p><i>Effective planning of finances</i></p> <p>As set out further in this report, we identified a significant risk to our VfM work in respect of the level of QIPP savings required in 2017/18; this is considered further later in the report. However in summary, the CCG achieved 82% of its challenging QIPP programme target of £34 million, with the balance achieved via mitigating actions and it continues to embed governance arrangements for the programme, recognising QIPP targets remain a key challenge for the organisation.</p>	None

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3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Matters to report
Sustainable resource deployment - continued	<p><i>Planning, organising and developing the workforce effectively to deliver strategic priorities</i></p> <p>The CCG is part of a regional workforce scoping group, recognising the many challenges in this area, including that of the GP workforce and other areas. Working with the Senior Responsible Officer for workforce, the CCG organised a North East regional workforce summit with one hundred delegates from across health, social care, public health and voluntary sectors to identify regional challenges and to consider principles, priorities and approach for developing a collective health and care workforce. Findings from the summit will be articulated within a North East workforce framework.</p> <p>The CCG is also involved at a national and regional level in developing a North East approach to workforce recruitment programmes such as international GP recruitment.</p>	None
Working with partners and other third parties	<p><i>Working with third parties effectively to deliver strategic priorities</i></p> <p>Delivery of the three core elements or 'triple aim' of the Sustainability and Transformation Plan (STP) i.e. to improve health and wellbeing and maintain care and quality, underpinned by financial sustainability remains a key focus of the CCG in 2017/18 and in the coming years. NHSE assessed the Northumberland, Tyne and Wear STP as Category 2 'advanced' in 2017.</p> <p>As described in the CCG's annual report, the CC is engaging in much closer working with the three STP footprints of Northumberland Tyne and Wear, North Cumbria and Durham, Darlington, Tees, Hambleton, Richmond and Whitby together under a single governance arrangement. We understand STPs will become integrated care systems (ICSs), in which NHS providers and commissioners choose to take on collective responsibility for resources and population health, often in partnership with local authorities.</p> <p>CCG Governing Body members are also members of the Health and Wellbeing Board in Gateshead and the Wellbeing for Life Board in Newcastle and have brought specific issues for the consideration of the Boards in the year, including progress on the STP.</p> <p><i>Commissioning services effectively to support the delivery of strategic priorities</i></p> <p>In October 2017, a Northern CCG Joint Committee was set up, as a committee of the Governing Body to make decisions on a specified range subjects recommended to it by the Northern Clinical Commissioning Group Forum. Membership of both the Forum and the Joint Committee is made up of representatives from the twelve CCGs from across Cumbria and the North East. To date it has focused on specialist acute services and the NHS 111 service.</p>	None



3. VALUE FOR MONEY CONCLUSION

Significant value for money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the value for money conclusion exists. Risk, in the context of our value for money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the CCG being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant value for money risk. The work we carried out in relation to this significant risk is outlined below.

We also identified one area in our Audit Strategy Memorandum where we needed to carry out further work in order to conclude on our risk assessment. We updated our assessment and reported this in our March Audit Progress Report, as summarised overleaf.

Risk – scale of QIPP savings required in 2017/18

Description of risk

The CCG is overall projecting a breakeven position for 2017/18, with a carried forward surplus of £10.153 million. 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 2017/18 QIPP target is £34 million. As of November 2017, a shortfall of £6.1 million is being projected, which the CCG plans to address by other mitigating actions.

Work undertaken

We reviewed:

- the current year QIPP plan and progress being made;
- the robustness of the 2018/19 and 2019/20 QIPP plans; and
- budget monitoring.

Conclusion

Delivery of its QIPP programme for 2017/18 was one of the key risks facing the CCG.

The CCG achieved total QIPP savings of £28 million against a challenging target of £34 million (being 4% of the allocation), with the balance being achieved via mitigating actions and an in-year surplus for the year of £4.7 million being delivered. The CCG has robust arrangements in place for its QIPP programme, overseen by the Financial and Sustainability Group, underpinned by the Project Management Office set up in April 2017. A recent external review of CCG's QIPP programmes highlighted that there was a strong clinical presence throughout the QIPP programme, the QIPP governance framework was still being embedded and there were some areas which could be further developed such as risk assessments and there was good engagement throughout the whole organisation.

Some of the QIPP initiatives have already showed positive outcomes during 2017/18, including action on managing demand for hospital services that can be met in more appropriate settings. Looking forward, the CCG has already begun work to identify how the savings in 2018/19 and 2019/20 will be delivered. The 2018/19 QIPP target is £22.2 million (approximately 3% of the allocation) and will be delivered via a range of specific schemes, including initiatives to reduce costs in primary and secondary care prescribing, implementing the Right Care programme and plans focused on managing growth in acute planned and urgent care. Work is already underway to consider future year savings. Inevitably this will remain a challenging area, in particular given the savings already delivered in recent years.

Our overall conclusion is therefore that there are no matters on which we are required to report by exception.



VALUE FOR MONEY CONCLUSION

Area where further work was required to conclude our risk assessment

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. We identified one area in our Audit Strategy Memorandum where we needed to carry out further work in order to conclude on our risk assessment. We updated our assessment and reported this in our March Audit Progress Report, as summarised below.

Area where further work required to conclude our risk assessment	Work undertaken	Conclusion
<p>Sustainability and Transformation Plan (STP)</p> <p>As set out in its planning guidance, NHSE intends STPs, to deliver significant transformation. The NHSE guidance also stressed the centrality of leadership arrangements as part of delivering that transformation.</p> <p>2016/17 was the first year of the new STPs. As they have evolved, the footprint has changed. In 2017/18, the Northumberland, Tyne and Wear and North Durham STP is engaging with much closer collaborative working with the other two nearest STPs, to underpin a new single way of working. We understand governance arrangements are being developed.</p>	<p>We gained an understanding of how the CCG is working with others across the revised STP footprint and the adequacy of arrangements in place for delivering the new STP plan.</p>	<p>Upon completion of our risk assessment work, we concluded that the revised STP does not present a significant risk relevant to our 2017/18 VfM responsibilities.</p>



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Governance Statement	No matters to report
Consistency of consolidation data with the audited financial statements	Consistent
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the CCG's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest
- make a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- make written recommendations to the CCG which must be responded to publically.

We have not exercised any of these statutory reporting powers.

We are also required to report if, in our opinion, the governance statement does not comply with the guidance issued by the NHSE or is inconsistent with our knowledge and understanding of the CCG. We did not identify any matters to report in this regard.

Reporting to the NAO in respect of consolidation data

The NAO, as group auditor, requires us to report to them whether consolidation data that the CCG has submitted is consistent with the audited financial statements. We have concluded and reported that the consolidation data is consistent with the audited financial statements.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the CCG. In our opinion, the information in the Annual Report is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the CCG's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in January 2018.

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

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice	£43,000	£43,000

Fees for other work

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

6. FORWARD LOOK

Financial outlook

The CCG is required to deliver a 1% in-year surplus for 2018/19. To achieve this it has developed an indicative QIPP programme designed to achieve £22.18 million of savings. Processes have been established to develop QIPP schemes and each is subject to regular monitoring and scrutiny, overseen by the CCG's Financial Sustainability Group.

The CCG recognises the challenges associated with delivering its 2018/19 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 several operational challenges that have been considered in developing the CCG's Operational Plan for 2018/19 onwards, including:

- sustaining the significant improvement and performance during 2017/18 on the Accident and Emergency (A&E) 4 hour standard, where challenges were experienced over the winter period; and
- the need to improve the management of Continuing Healthcare given increased, and comparatively high, expenditure in this area.

Each of these areas are subject to ongoing focus via groups including the Local A&E Delivery Board. The CCG recognises the need to work collaboratively with its partners to deliver plans developed to address these issues.

Legislative / environmental changes

The North East and North Cumbria are working towards the development of an Integrated Care System (ICS) with several local Integrated Care Partnerships (ICPs) to succeed the existing STP approach. The challenges and risks associated with these changes reinforce the need for the implementation of robust governance arrangements at both an ICS and ICP level.

How we will work with the CCG

We are grateful to the CCG, its Members, officers and NECS colleagues for the cooperation and open dialogue during the year. We look forward to continuing to work closely with the CCG in delivering our Code of Audit Practice responsibilities in future years.

We are committed to supporting the CCG as its external auditor. We will meet with the CCG and NECS staff to identify any learning from the 2017/18 audit and will continue to share our insights from across the NHS and relevant knowledge from the wider public and private sector.

Our added value offer

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

- continued liaison with AuditOne (the CCG's Internal Auditors) to minimise duplication of work;
- attending Audit 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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CONTACT

Partner: Cameron Waddell

Phone: 0191 383 6300

Mobile: 0781 375 2053

Email: cameron.waddell@mazars.co.uk

Senior Manager: Diane Harold

Phone: 0191 383 6322

Mobile: 07971 513 174

Email: diane.harold@mazars.co.uk