



Annual Audit Letter

NHS Newcastle Gateshead Clinical
Commissioning Group
Year ending 31 March 2019



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 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 21 May 2019 included our opinion that:</p> <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 2019 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	<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 21 April 2019 we reported that the CCG's consolidation schedules were consistent with the audited financial statements.</p>
Statutory reporting	<p>Not applicable.</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 21 May 2019, stated that, in our view, the financial statements give a true and fair view of the Trust's financial position as at 31 March 2019 and of its financial performance for the year then ended.

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



2. AUDIT OF THE FINANCIAL STATEMENTS

Our approach to materiality

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

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

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 1.5% of gross operating expenditure	£12.348 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.299 million
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: <ul style="list-style-type: none">Exit packagesSpecial losses and payments (none in 2018/19)Remuneration and staff report	25% of value disclosed 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 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 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 the CCG's attention. We highlighted one low priority internal control recommendation in relation to journals.</p>
<p>Enhanced risk – Prescribing Accrual The CCG's accounts contain estimates. A material estimate is made in respect of prescribing expenditure, which is based on NHS Business Services Authority (BSA) profiling and two months in arrears. We consider this area of key management judgement to be an enhanced risk.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> • testing the prescribing accrual included in the accounts, including comparing the reasonableness of the estimate to the outturn for the prior year; • reviewing the basis upon which the estimate has been made; • agreement to the BSA notification; and • reviewing and considering the assurance we receive from BSA (Type II Service Auditor Report). 	<p>Our work has provided us with the assurance sought and has not highlighted any material issues to bring to the CCG's attention. Prescribing for 2018/19 totalled £76.994 million. We note the actual for February was £0.467 million lower than the estimate, however we are satisfied the basis for the estimate is not unreasonable.</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.

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

Description of deficiency including follow-up for 2018/19	Testing of journals identified five journals which had been prepared and authorised by the same officers within NHS Shared Business Services (SBS) on behalf of the CCG. These were all of a clearly trivial value and we obtained assurance there were no other journals prepared and authorised by the same officer.
Potential effects	Journal controls are key controls for the prevention of misstatement due to fraud or error. The lack of segregation of duties could result in fraud or error.
Recommendation	The CCG should again escalate this control failure to SBS to ensure that journals are not prepared and authorised by the same officer.
Management response	We put in place compensating controls for the year in recognition of the prior year issue and not also that SBS put in place manual controls from January 2019 to address this issue.

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Our approach to value for money

We are required to consider whether the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider. We are only required to report if we conclude that the CCG has not made proper arrangements..

The overall criterion is that, 'in all significant respects, the CCG had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision-making;
- sustainable resource deployment; and
- working with partners and other third parties.

The NAO's guidance also requires us to carry out work to identify whether or not a risk to the value for money conclusion exists. Risk, in the context of our value for money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the CCG being inadequate. In our Audit Strategy Memorandum, we reported that we had identified no significant value for money risks.

Our auditor's report, issued to the CCG on 21 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	<p><i>Financial and performance information</i></p> <p>NHSE, in its letter of July 2018, assessed the CCG as 'outstanding' highlighting key examples of successes, as well as areas of challenge and improvement. In its formal letter, NHSE highlighted the importance of continuing to build strong relationships, including the development of system wide working to improve health and care outcomes, drive improvements in quality, ensure the sustainability of services and demonstrate increased efficiency and productivity.</p> <p>The 2018/19 NHSE annual assessment will not be available until summer 2019, however for 2018/19, the CCG has met its control total, delivering an in-year surplus of £0.214 million and a resulting carried forward surplus of £14.768 million.</p> <p>We note the on-going pressures within acute commissioning, with the main contract with The Newcastle upon Tyne Hospitals NHS Foundation Trust 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 2018/19. 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>The CCG achieved its challenging Quality, Innovation, Productivity, Prevention (QIPP) programme target of £22.2 million in 2018/19, delivering £23.4million, 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 recognises its workforce is its most valuable asset. Its focus remains on developing capacity and capability to balance the challenges of providing high quality, safe services with the efficiencies necessary for re-investment in order to achieve financial plans. The CCG produces quarterly HR and organisational development update reports which are taken to the Governing Body.</p> <p>The CCG achieved a bronze ‘Better Health at Work’ award in November 2018. It has also recently updated its Organisational Development Strategy.</p> <p>More widely, the CCG recognises continuing workforce pressures as a significant strategic risk and is part of a regional workforce scoping group.</p>	None
Working with partners and other third parties	<p><i>Working with third parties effectively to deliver strategic priorities</i></p> <p>The CCG recognises the importance of its partnership working to address poor health outcomes and variation in care. It has continued to develop its new care models in 2018/19, linked to the NHSE Five Year Forward View.</p> <p><i>Integrated Care Partnerships and Integrated Care System</i></p> <p>North East and North Cumbria NHS organisations are currently working towards becoming a single Integrated Care System (ICS), supported by four Integrated Care Partnerships (ICPs).</p> <p>The North East and North Cumbria (NENC) ICS aims to bring together local organisations to redesign care and improve population health, creating shared leadership and action, integrating primary and specialist care, physical and mental health services, and health with social care. NHS Newcastle Gateshead CCG is one of the NHS partners in the NENC ICS who have agreed to work together at scale where it makes most sense to do so, and to protect and emphasise the importance of ‘place’ -local accountability to local populations and the ability to respond to local needs.</p> <p><i>Integrated Care Partnerships and Integrated Care System (continued)</i></p> <p>The CCG will be working across three levels of scale:</p> <ul style="list-style-type: none"> • Place – populations of circa 150,000 to 500,000 people will be the main focus for partnership working between the NHS and local authorities. In these areas, primary care networks (providing services to populations of circa 30,000-50,000 people) will support collaboration between GP practices, social care, other community based care providers and voluntary sector organisations. • Integrated care partnerships –populations of around one million (with the exception of North Cumbria, which has unique geographical and demographic features), focused on collaboration across NHS hospital trusts, to ensure safe and sustainable services. • Integrated care system –a population of circa 3.1 million people, focussed on ‘at scale’ activity that achieves efficiencies. <p><i>Commissioning services effectively to support the delivery of strategic priorities</i></p> <p>The CCG continues to play an active role in the Northern CCG Joint Committee set up in late 2017.</p> <p>It is also part of the North East and North Cumbria Urgent and Emergency Care Network, which aims to take a ‘whole system’ approach.</p>	None

4. OTHER REPORTING RESPONSIBILITIES

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

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

Matters which we report by exception

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

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

We have not exercised any of these statutory reporting powers.

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

Reporting to the NAO in respect of consolidation data

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

Other information published alongside the financial statements

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

5. OUR FEES

Fees for work as the CCG's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in January 2019.

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

Area of work	2018-19 proposed fee	2018-19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£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.

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 completed following on from this year-end accounts and audit process and will be conducted according to a standard scope that has been agreed by NHSE. Whilst the engagement has not yet been formally agreed, the fee is expected to be £7,500 (excluding VAT). The final fee is 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's carried forward surplus to 2019/20 is £14.8 million and it is required to deliver a 1% in-year surplus for 2019/20. To achieve this it has developed an indicative QIPP programme designed to achieve £13.3 million of savings. Processes have been established to develop QIPP (Quality, Innovation, Productivity and Prevention) 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 2019/20 budget and considers the risks associated with delivering its QIPP programme to be manageable.

Operational challenges

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

- the Accident and Emergency (A&E) 4 hour standard;
- the need to improve the management of Continuing Healthcare given increased, and comparatively high, expenditure in this area; and
- managing acute contract pressures.

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. This CCG is part of the North East and North Cumbria (NENC) ICS which aims to bring together local organisations to redesign care and improve population health, creating shared leadership and action, integrating primary and specialist care, physical and mental health services, and health with social care.

The challenges and risks associated with these changes reinforce the need for the implementation of robust governance arrangements at both an ICS and ICP level.

How we will work with the CCG

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

We are committed to supporting the CCG as its external auditor. We will meet with the CCG and NECS staff to identify any learning from the 2018/19 audit and will continue to share our insights from across the NHS and relevant knowledge from the wider public and private sector.

Our added value offer

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

- continued liaison with AuditOne (the CCG's Internal Auditors) to minimise duplication of work;
- attending Audit Committee meetings, presenting Progress Reports that include updates on regional and national developments; and
- hosting events for staff, such as our CCG Accounts Workshop.

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