

Annual Audit Letter

NHS Harrogate and Rural District Clinical
Commissioning Group
Year ending 31 March 2018





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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 Harrogate and Rural District 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 | <p>Our auditor's report issued on 24 May 2018 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 2018 and of its financial performance for the year then ended.Income and expenditure has, in all material respects, been applied for the purposes intended by Parliament except for the failure to meet the statutory duty for expenditure not to exceed income in the year. |
| Value for Money conclusion | <p>Our auditor's report stated we had matters to report in respect of the CCG's arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>This is detailed further in section 3 of this report.</p> |
| Reporting to the group auditor | <p>In line with group audit instructions issued by the NAO, on 25 May 2018 we reported that there were no inconsistencies between the CCG's consolidation schedules and the audited financial statements.</p> |
| Statutory reporting | <p>The auditor's report outlined that we made a referral to the Secretary of State under s30 of the 2014 Act, in relation to the CCGs breach of financial duties.</p> |

2. AUDIT OF THE FINANCIAL STATEMENTS

| | |
|-------------------------------------|-------------|
| Opinion on the financial statements | Unqualified |
| Opinion on regularity | Modified |

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 and Governance 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 2% of Gross Operating Expenditure. | £4.68 million |
| Trivial threshold | Our trivial threshold is based on 3% of financial statement materiality. | £0.140 million |
| Specific materiality | We have applied a lower level of materiality to the following areas of the accounts: - Exit packages - Senior officer remuneration | £0.010 million £0.150 million |



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the CCG's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

| Identified significant risk | Our response | Our findings and conclusions |
|---|--|--|
| <p>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. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p> | <p>We addressed this risk by:</p> <ul style="list-style-type: none"> • testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the accounts; • reviewing the key areas within the accounts where management has used judgement and applied estimation techniques and considering whether there was evidence of unfair bias; and • reviewing significant transactions outside the normal course of business or that otherwise appear to be highly unusual. | <p>Sufficient audit assurance was obtained and we identified no matters to report.</p> |
| <p>Revenue recognition</p> <p>In all entities, there is a risk of fraud in financial reporting relating because of the potential for income to be recorded in the wrong period. This is not to imply we suspect actual fraud, but that we approach our audit maintaining due professional scepticism. We will focus our work on operating income.</p> | <p>We addressed this risk by:</p> <ul style="list-style-type: none"> • undertaking cut-off testing of sundry income around the year-end; • reviewing inter-NHS reconciliations and data matches provided by the NHSE (income and receivables); and • if necessary, seeking direct confirmation from third parties or their external auditors. <p>This work also informed our conclusion on the regulatory element of our audit opinion</p> | <p>Sufficient audit assurance was obtained and we identified no matters to report.</p> |
| <p>Related party transactions</p> <p>GPs are members of the CCG Governing Body and also potential service providers.</p> | <p>We addressed this risk by:</p> <ul style="list-style-type: none"> • reviewing the CCG's arrangements for identifying and recording potential related party transactions; • reviewing documents, including minutes of meetings and registers of interest for evidence of potential related party transactions; and • testing disclosures in the financial statements. | <p>Sufficient audit assurance was obtained and we identified no matters to report.</p> |

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters recorded here would be limited to those deficiencies and other control recommendations identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our work did not identify any matters to report in this section for 2017/18.

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

| | |
|----------------------------------|--|
| Description of deficiency | Our work on primary care co-commissioning expenditure has highlighted that the CCG does not have access to the source documents to be able to provide assurance that the expenditure is accurate, relying on the systems and processes in place within NHSE and its service organisations. |
| Potential effects | Primary care co-commissioning expenditure in the ledger and financial statements may be inaccurate. |
| 2017/18 update | The CCG has put in place controls to ensure that the primary care co-commissioning expenditure in its ledger and financial statements is accurate. The controls, however, are reliant on NHSE for source documentation to provide assurance that expenditure is accurate. |

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Qualified – Except for

Audit approach

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

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

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

Our auditor's report, issued to the CCG on 24 May 2018, outlined our qualified conclusion on 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>There is evidence that the CCG acts in the public interest, demonstrating and applying the principles and values of sound governance. Governance arrangements are in place and the Board assurance framework is regularly reviewed. Each meeting receives a detailed financial and performance dashboard and the Annual Governance Statement is reviewed.</p> <p>We have seen evidence confirming that the CCG understands and uses appropriate and reliable financial and performance information to support informed decision making, performance management and delivery of strategic priorities. These are reported to the Governing Body and committees and we are not aware of any data quality issues in respect of performance information.</p> <p>There are a number of information governance strategies on the policies section of the website and the information governance toolkit is completed annually and subject to Internal Audit review. The CCG maintains a system of internal control and risk management arrangements are in place with regular reporting to the Governing Body.</p> <p>The CCG has an action plan to further strengthen and enhance the arrangements in place. Key items include:</p> <ul style="list-style-type: none"> • establishing a process for project closure that includes capture of lessons learned and changes needed for future projects; • strengthening the business intelligence it commissions; and • developing more advanced reporting to include risk adjusted QIPP performance including the use of 'RAG' ratings to clearly set out when QIPP schemes have not achieved milestones and to assess the financial impact and risks to delivery. | No |

3. VALUE FOR MONEY CONCLUSION

| Sub-criteria | Commentary | Matters to report |
|---|---|---|
| Sustainable resource deployment | <p>The CCG reported a deficit of £12.8 million in 2017/18 and has therefore failed to meet its statutory duties. The 2018/19 financial plan forecasts a deficit of £10 million with a challenging QIPP target of £5.6 million.</p> <p>The CCG manages and utilises assets to support the delivery of strategic priorities but has very few assets.</p> <p>The CCG plans, organises and develops the workforce to deliver strategic priorities. There are, however, capacity issues which the CCG is looking to address. The CCG has an action plan in place which includes the following :</p> <ul style="list-style-type: none"> revisiting the 2018/19 financial plan to identify the remaining gaps including consideration of other areas of spend; developing contingency plans so that there are reserve QIPP schemes available should certain schemes not deliver as expected; and working more closely with local partners to identify opportunities for further efficiency savings and joint collaboration. This is set out in more detail below. | <p>Yes</p> <p>See significant risk on page 8 where we set out reporting implications.</p> |
| Working with partners and other third parties | <p>There is evidence that the CCG is working with third parties to deliver strategic priorities and relevant policy documents and a framework for partnership working are in place. The CCG has actively engaged with the main service provider on the development of a 5 year Strategic Plan but there has been significant overtrading each year and this is the same for 2017/18. This has had a significant impact on financial position of the CCG as noted above.</p> <p>Public sector partners are engaged in the Harrogate District Public Services Leadership Board. The CCG has established strong links with the voluntary and community sector. The CCG is fully involved in shaping the development of the West Yorkshire and Harrogate STP.</p> <p>Whilst governance and leadership arrangements operate in line with good practice, the CCG is aware it does not have the capacity and capability to deliver its agenda as a single organisation. The CCG has an action plan in place to further strengthen and enhance collaboration with partners including:</p> <ul style="list-style-type: none"> the agreement of an Aligned Incentive Contract with the main provider. This is a move away from 'payment by results' and it is hoped that this will bring greater certainty and encourage more effective partnership working to deliver whole system efficiencies; and working with other North Yorkshire CCGs and other local partners to share QIPP schemes across the patch and to build on the learning from the new care models programme, sustainable Harrogate and the development of the local integrated responses. Also, to ensure they have sufficient capacity and capability in place to transform services and to consider how leadership can be enhanced through greater collaboration. | No |

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 significant risks is outlined below.

| Audit risk | Work undertaken | Conclusion |
|--|---|---|
| <p>Sustainable resource deployment</p> <p>The CCG is projecting a deficit of £14 million for 2017/18 which is an in year deterioration of £7.5 million from the CCG's planned deficit position. The overall cumulative deficit as at 31 March 2018 is therefore expected to be circa £20m.</p> <p>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 £8.5 million.</p> | <p>We addressed this risk by undertaking the following work:</p> <ul style="list-style-type: none"> • monitoring the progress the CCG makes in developing and delivering its Financial Recovery Plan as the financial year progresses; and • considering the arrangements in place for working with other organisations to address system challenges. <p>We also considered our responsibilities to issue a report Secretary of State for Health under Section 30 of the Local Audit and Accountability Act 2014.</p> | <p>The CCG did not plan to achieve surplus in 2017/18 and it became clear as the year progressed that the CCG would also not meet the deficit budget set of £6.5 million. The actual forecast deficit was £12.8 million which represents a £6.3 million deterioration in the financial position. The failure to meet statutory duties means that we are required to:</p> <ul style="list-style-type: none"> • qualify our opinion on regularity; • submit a referral to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014 as a matter on which we report by exception; and • qualify our value for money conclusion and report the failure to plan finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. <p>The 2018/19 plan is for a £10 million deficit including a challenging QIPP plan of £5.6 million.</p> <p>There is an action plan in place to strengthen and enhance the arrangements at the CCG for 2018/19 and beyond.</p> |

4. OTHER REPORTING RESPONSIBILITIES

| | |
|--|-----------------------------|
| Exercise of statutory reporting powers | 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 publicly.

We have a duty under the Local Audit and Accountability Act 2014 to refer the matter to the Secretary of State if we have reason to believe that the CCG, or an officer of the CCG, is about to make, or has made, a decision involving unlawful expenditure, or is about to take, or has taken, unlawful action likely to cause loss or deficiency.

On 16 April 2018, we issued a report to the Secretary of State for Health under section 30 of the Local Audit and Accountability Act 2014, for the breach of financial duties under:

- section 223H(1) of the NHS Act 2006 (as amended) to ensure expenditure did not exceed income in 2017/18; and
- section 223I(3) of the NHS Act 2006 (as amended) to ensure revenue resource use does not exceed the amount specified in the Direction.

Governance statement

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

Reporting to the NAO in respect of consolidation data

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

Other information published alongside the financial statements

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

5. OUR FEES

Fees for work as the CCG's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in February 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 | £35,725 | £35,725 |

Fees for other work

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

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6. FORWARD LOOK

Financial outlook

The CCG's 2018/19 financial plan records a year-end deficit of £10 million. Under the new 'Commissioner Sustainability Fund', the CCG could receive £10 million of funding and effectively break even. Receipt of this funding is dependent on the CCG delivering the £10 million deficit control total.

The 2018/19 financial plan includes a challenging QIPP target of £5.6 million. The CCG's own risk arrangements and work commissioned by NHS England has identified risks associated with the delivery of the QIPP plan. The CCG is aware it needs to firm up plans quickly if it is to deliver the full 2018/19 QIPP plan and has action plans in place.

The CCG has agreed an Aligned Incentive Contract for 2018/19 with its main acute provider.

Challenges

The CCG is looking to develop a medium-term financial recovery plan up to 2020/21 to bring it back into a break even position.

The CCG plans to work with partners as part of the integrated care initiative which seeks to achieve better healthcare outcomes for patients. This will build on the success of work undertaken over the last few years as part of the innovative Vanguard programme to develop a new model of joined up community care and build meaningful and effective partnerships across other health and care organisations. Working more closely with local partners should help to improve capacity issues and identify opportunities for further efficiency savings and joint collaboration.

To ensure sufficient activity is commissioned to meet population needs while providers have sufficient resources to meet demand, the CCG and providers all need to agree affordable demand and capacity solutions. While overseeing the collaboration needed and setting the direction for financial recovery, the Governing Body will require assurance on the basis and progress of the changes to activity plans and pathways that need to be made to achieve financial sustainability.

How we will work with the CCG

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

- continued liaison with the CCG's Internal Auditors to minimise duplication of work;
- attending Audit Committee meetings and presenting an Audit Progress Report including updates on regional and national developments;
- hosting events for staff, such as our NHS Accounts workshop.

The CCG has taken a positive and constructive approach to our audit and we wish to thank the Governing Body, Audit Committee, and CCG staff for their support and co-operation during our audit in the past year.

We are committed to supporting the CCG as its external auditor. We will meet with the CCG 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.

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