



# Annual Audit Letter

NHS Newcastle Gateshead Clinical Commissioning Group  
Year ending 31 March 2020





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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 2020. 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.

In considering this letter we believe it is important to highlight the context of an unprecedented period when the NHS, including the CCG, experienced the impact of the COVID-19 pandemic. In that context, it is important to recognise the significant efforts that CCG staff and our team have made in working together to hit revised NHS deadlines despite the challenges posed by the 'national lockdown'. Throughout this period, the CCG and ourselves have effectively used available technology to communicate, including the use of video conferencing.

Throughout this period our responsibilities, as 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), did not change. 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 2 June 2020 included our opinion that:</p> <ul style="list-style-type: none"><li>the financial statements give a true and fair view of the CCG's financial position as at 31 March 2020 and of its financial performance for the year then ended; and</li><li>income and expenditure has, in all material respects, been applied for the purposes intended by Parliament.</li></ul>
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>
Certificate	<p>We issued our certificate on 23 June 2020, following completion of work on the consolidation schedules, which is reported to the group auditor.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 23 June 2020 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 2020 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 2 June 2020, stated that, in our view, the financial statements give a true and fair view of the CCG's financial position as at 31 March 2020 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 had, 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 2020:

Financial statement materiality	Our financial statement materiality is based on 1.5% of gross operating expenditure	£13.020 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.299 million
Specific materiality	<p>We have applied a lower level of materiality to the following areas of the accounts:</p> <ul style="list-style-type: none"><li>• exit packages</li><li>• special losses and payments (none)</li><li>• senior officers' remuneration</li></ul>	<p>25% of value disclosed</p> <p>25% of value disclosed</p> <p>£5k banding</p>

# 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, the work we carried out on those risks and our conclusions.

Identified significant and enhanced risks	Our response	Our findings and conclusions
<p><b>Significant risk - management override of controls</b></p> <p>In all entities, management at various levels within an organisation is 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.</p> <p>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"> <li>• 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;</li> <li>• examining any accounting policies that varied from the Government Accounting Manual;</li> <li>• testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements; and</li> <li>• undertaking cut-off testing around the year-end on receipts and payments.</li> </ul>	<p>Our work provided us with the assurance we sought and did not highlight any material issues to bring to the CCG's attention.</p> <p>We highlighted one low priority internal control recommendation in relation to journals.</p>
<p><b>Enhanced risk - prescribing accrual</b></p> <p>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.</p> <p>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"> <li>• testing the prescribing accrual included in the accounts, including comparing the reasonableness of the estimate to the outturn for the prior year;</li> <li>• reviewing the basis upon which the estimate has been made;</li> <li>• agreement to the BSA notification; and</li> <li>• reviewing and considering the assurance we receive from BSA (Type II Service Auditor Report).</li> </ul>	<p>Our work provided us with the assurance we sought.</p> <p>We reported, via our follow-up letter, the factual difference between the CCG's estimate and the actual; the actual was £0.351 million higher than the estimate, which was not material.</p>

### 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.

We followed up one low risk recommendation in relation to NHS Shared Business Services (SBS) journals from the prior year: this was in respect of the same person at SBS being able to prepare and approve a journal. As in prior years, we are satisfied the CCG and its Commissioning Support Unit has appropriate compensating controls in place, however the CCG should continue to ask NHS SBS to address this control weakness.



# 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 2 June 2020, 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 has assessed the CCG as 'outstanding'.</p> <p>NHSE has 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 2019/20 NHSE annual assessment will not be available until later in 2020, however for 2019/20, the CCG has met its control total, delivering an in-year surplus of £0.689 million (prior year £0.214 million) and a resulting carried forward surplus of £15.457 million (prior year £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>The CCG has, in the past year, expanded its finance and performance report, to include details across its Integrated Care Partnership; this report is a very effective summary of performance, facilitating system management.</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 2019/20.</p>	None

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# 3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Matters to report
Sustainable Resource Deployment	<p>Significant risks facing the CCG are summarised in its Governance Statement contained within its Annual Report are:</p> <ul style="list-style-type: none"> <li>meeting statutory financial duties;</li> <li>primary care risks, relating to capacity, workload and resilience and the development of the new networks; and</li> <li>the increasing activity and costs of continuing health care (CHC).</li> </ul> <p><i>Effective planning of finances</i> The CCG achieved its Quality, Innovation, Productivity, Prevention (QIPP) programme target of £13.30 million in 2019/20 (prior year £23.4 million), and it continues to embed governance arrangements for the programme, recognising QIPP targets remain a key challenge for the organisation.</p> <p><i>Planning, organising and developing the workforce effectively to deliver strategic priorities</i> The CCG recognises its workforce is its most valuable asset and never more so in recent months. Its Annual Report, in respect of the Covid-19 outbreak, sets out the changes that have been required and highlights the dedication of frontline health and care staff. The CCG has helped colleagues in primary care who have had to move very fast to comprehensively change the way they work and care for patients.</p>	None
Working with partners and other third parties	<p>The CCG's major areas of transformation for 2019/20 focused on:</p> <ul style="list-style-type: none"> <li>system working and new models of health and care systems;</li> <li>Primary Care Network development and support; and</li> <li>supporting the development of the North East and North Cumbria Integrated Care System (ICS) and the North Integrated Care Partnership (North ICP), covering Newcastle, Gateshead, Northumberland and North Tyneside local authority areas.</li> </ul> <p><i>Working with third parties effectively to deliver strategic priorities</i> The CCG considers the effectiveness of its response to the Covid-19 pandemic has been the close on-going partnership developed in both Newcastle and Gateshead systems. The CCG plays an active part in regional initiatives through the North East and North Cumbria Integrated Care System (ICS), the Gateshead and North of Tyne Integrated Care Partnership and the North East and North Cumbria Urgent and Emergency Care Network.</p> <p><i>Integrated Care Partnerships and Integrated Care System</i> North East and North Cumbria NHS organisations received confirmation of its Integrated Care System (ICS), supported by four Integrated Care Partnerships (ICPs) in June 2019. The formal approval letter acknowledges the track record of delivery on operational performance and sets out that NHSE expects to see efforts continuing to address the variation in standards across the system. 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.</p>	None



# 4. OTHER REPORTING RESPONSIBILITIES

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

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 reported that the consolidation data was 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 2020.

Having completed our work for the 2019/20 financial year, we can confirm our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£43,000	£43,000

## Fees for other work

We also expect to carry out work on the Mental Health Investment Standard spending by the CCG although the fee has yet to be agreed. In 2018/19 the fee for this work was £9,500.

# 6. FORWARD LOOK

## Environmental challenges

COVID-19 has presented and continues to present the NHS with arguably the greatest challenge it has faced since its creation. The CCG has moved rapidly to change how it works, both internally and with partners and this has resulted in transformation of working practices presenting challenges, but also opportunities to build on for the future.

Against that backdrop, the North East and North Cumbria (NENC) Integrated Care System (ICS) has overseen Phase 2 recovery implementation, collating local and Integrated Care Partnership (ICP) plans and providing assurance. The Phase 1 Covid response brought a number of new and efficient ways to provide healthcare which the CCG is seeking to preserve whilst it develops Phase 2, 3 and 4 of its COVID-19 recovery plan.

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

## Operational challenges

Over and above the challenges presented by the pandemic, the CCG and its partners continue to face operational pressures in a number of areas, including increased demand in high volume specialties and more complex cancer diagnostics and treatments.

The CCG recognises the need to work collaboratively with its partners to deliver plans developed to address these issues.

## Financial outlook

Approval of 2021/22 financial plans by NHSE was delayed as a result of the pandemic and the exceptional measures required at the time.

The CCG has continued to operate robust budget management, as well as monitoring the costs arising from COVID-19.

The CCG's carried forward surplus to 2019/20 is £15.457 million and it is required to break-even in 2020/21 against its allocation of resources from NHS England.

## How we will work with the CCG

We are grateful to the CCG, its Members, officers and North East Commissioning Support (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 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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