Annual Audit Letter

NHS East Lancashire CCG

Year ended 31 March 2020

10 July 2020

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at NHS East Lancashire CCG (the CCG) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the CCG and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the CCG's Audit Committee as those charged with governance in our Audit Findings Report on 18th June 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the CCG's financial statements (section two)
- assess the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the CCG's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the CCG's financial statements to be £9,937,000, which is 1.5% of the CCG's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the CCG's financial statements on 25 June 2020.
NHS Group consolidation template (WGA)	We also reported on the consistency of the financial statements consolidation template provided to the National Audit Office with the audited financial statements. We concluded that these were consistent
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the CCG put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Audit Committee of the CCG on 18 June 2020.
Certificate	We certified that we have completed the audit of the financial statements of NHS East Lancashire CCG in accordance with the requirements of the Code of Audit Practice on 25 June 2020.

Working with the CCG

Due to the Covid-19 pandemic, the CCG was required to operate and prepare the financial statements remotely. We worked with the CCG to use virtual meetings to complete the audit. We also held virtual meetings with management and the Audit Committee. We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the CCG's staff during these extraordinary times.

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the CCG's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the CCG's financial statements to be £9,937,000, which is 1.5**%** of the CCG's gross revenue expenditure. We used this benchmark as, in our view, users of the CCG's financial statements are most interested in where the CCG has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration.

We set a lower threshold of £300,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Annual Report to check it is consistent with our understanding of the CCG and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the CCG's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 pandemic The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial markets will increase the uncertainty of assumptions applied by management to material prescribing accruals, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1.	As part of our audit work we have: • worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications for our materiality calculations. • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise. • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic. • evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as material prescribing accruals and access to GP records. • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. • discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.	Our work has not identified any material uncertainties in relation to Covid-19 that would result in a material misstatement in the financial statements.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Operating expenses – purchase of secondary healthcare A significant percentage of the CCG's expenditure is on contracts for healthcare with NHS providers and non-NHS providers, such as operations and hospital care. This expenditure is primarily derived through block contracts that are agreed up front for a predetermined cost or level of activity. Contract variations are agreed with the supplier throughout the year to recognise demand and price adjustments against the agreed contracts. Costs related to contract variations are recognised when the adjustment has been agreed with the provider, with accruals raised at the year-end for completed activity for which an invoice has not been issued. We identified the accuracy and occurrence of secondary healthcare expenditure – contract variations, and the existence of associated payables and accruals, as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we have: • gained an understanding of the financial reporting processes used for the purchase of secondary healthcare and evaluated the design of the associated controls • agreed all significant (over £1m) contract annual expenditure to signed annual contracts • agreed, on a sample basis, invoices for variations to secondary healthcare contracts to supporting evidence • using the DHSC mismatch report, we have investigated unmatched expenditure and payable balances with NHS bodies over the NAO £0.3m threshold, corroborating the unmatched balances used by the CCG to supporting evidence • agreed, on a sample basis, payable and accrual balances relating to secondary healthcare to supporting evidence	Our audit work has not identified any issues in respect of secondary healthcare expenditure – contract variations.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The CCG faces external pressures to meet agreed targets, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we have; • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness	We identified a change to the prescribing estimate whereby the CCG has accounted for the cost of prescriptions issued shortly before the year end as a prepayment, with a value of £2.05m. The CCG's reasoning is that although the drugs have been issued, they will not have been used by the patient by the end of the financial year. This has been actioned across the Lancashire and South Cumbria region and generates a one-time saving by not recognising the I&E impact of prescriptions issued shortly prior to year end. Our view is that this does not comply with accounting standards, and the CCG should recognise the cost of all prescriptions issued in the year as expenditure, as once they have been dispensed the CCG no longer controls the drugs. These drugs would need to be destroyed if returned by the patient and therefore the drugs once dispensed have no value to the CCG. However, we do not believe this represents evidence of management override of controls as the one time saving made has not affected the CCG meeting it's financial performance targets. We sought direct representation from Audit Committee that the CCG's treatment is acceptable. Our audit work, including our review of journal entries and the related control environment, has not identified any issues with regards to management override of controls.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the CCG’s financial statements on 25 June 2020.

As well as an opinion on the financial statements, we are required to give a regularity opinion on whether expenditure has been incurred 'as intended by Parliament'. Failure to meet statutory financial targets automatically results in a qualified regularity opinion.

Based on our review of the CCG's expenditure we gave an unqualified regularity opinion.

Preparation of the financial statements

The CCG presented us with draft financial statements in accordance with the national deadline and pandemic lockdown restrictions that existed at the time, and. provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries remotely during the course of the audit

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the CCG’s Audit Committee on 18 June 2020.

Annual Report, including the Annual Governance Statement

We are also required to review the CCG's Annual Report, including the Annual Governance Statement. It provided these on a timely basis with the draft financial statements with supporting evidence.

Whole of Government Accounts (WGA)

We issued a group return to the National Audit Office in respect of Whole of Government Accounts, which did not identify any issues for the group auditor to consider.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of NHS East Lancashire CCG in accordance with the requirements of the Code of Audit Practice on 25 June 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the CCG in June 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the CCG put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

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Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability The CCG has again agreed a substantial surplus of £14.215m and is forecasting delivery of this surplus. This is alongside a QIPP target of £12.7m of which the CCG has achieved £8.9m as at month 8. We will review the CCG's arrangements for putting together and aggreging its budget, including identification of its savings plans and arrangements to monitor and manage delivery of budget and savings plans for 2019/20. In securing its financial plan the CCG is continuing to work together in Pennine Lancashire. We will monitor these arrangements and also the developments around single commissioner in Lancashire. We will consider whether the CCG has taken appropriate steps to seek to manage the situation and whether it is engaging with partners to help develop longer-term solutions. We will also consider any impact of the Covid-19 on the CCG's financial sustainability.	As part of our work we have: • reviewed the CCGs arrangements to identify and plan a sustainable budget. • reviewed the arrangements the CCG has in place for Pennine Lancashire. • reviewed the CCG's plans going forward and the impact of COVID	CCG's are required to have a planned surplus of 1% which in East Lancashire's case would be £5.924m. The CCGs initial plan was to achieve a surplus of £14.215m representing 2.4% of the allocation but the CCG have achieved an additional £7m. Therefore achieving a total surplus of £21.215m which represents 3.58% of the allocation. This was a significant increase from the previous year where the CCG achieved £16.125m representing 2.56% of the allocation. The CCG regular report the performance made to this target to the governing body and as in previous years made regular progress towards this. To achieve this surplus the CCG had a QIPP target of £12.720m which the CCG achieved. Although £8.9m of this was delivered non recurrently which was not as planned and this will be absorbed into the opening position for 2020/21. MIAA have reviewed the systems in place for QIPP and identified a number of recommendations these included, linking the QIPP schemes and corporate business plan including nominated leads for each plan objective. Documentation in the QIPP schemes to detail aims and links to the corporate plan, standard forms for project viability, initiation, business case, briefing paper as well as dashboard and standard reporting template. The CCG have accepted these recommendations however they are currently on hold as the CCG work on the Covid-19 outbreak. The CCG has continued its work in Pennine Lancashire and has developed a Corporate Business Plan to include, 19 priority programmes aligned with local Integrated Care Partnership. Commissioning managers, directors and clinical leads are named as priority program leads and overseen by committees. The partnership has five programme boards covering 19 priority areas which include prevention, integrated community care, mental health and wellbeing, scheduled care and accident and emergency. Each board meets monthly and has representatives from all partner organisations and provide facilitation and direction to transform delivery and scrutiny.

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
(continued from the previous page)		There have been discussions to have one CCG covering Lancashire and South Cumbria although consultations have been in place no firm views has been established and subsequently COVID has paused this. We will continue to review these developments. From March 2020 the CCG has had to deal with the Covid-19 outbreak and in doing so an incident room has been set up which has been maned by senior officers 7 days a week. All decisions are taken in this room and progress monitored. The CCG have in this time stopped all committees except for the essential ones which are Governing body and Audit Committee. Although the CCG had submitted a draft plan to NHSE this is now on hold along with the agreement of provider contracts. Per the guidance received the CCG is paying invoices within the two week guidelines and providers are paid at month 9 rates plus inflation. The CCG has received allocations to July 2020 and has provided cash flows for this period. The CCG continuous to maintain financial sustainability and be able to address challenges are they arise.

Appendix A: Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	April 2020
Audit Findings Report	June 2020
Annual Audit Letter	July 2020

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	49,500	53,500	49,500
Total fees	**49,500**	**53,500**	**49,500**

An additional fee of £4,000 was charged to the CCG in 2019/20 due to additional audit work required as a result of the Covid-19 pandemic and also three technical accounting issues.

Non- audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the CCG.

In 2019/20, we provided non-audit services to the CCG in relation to the compliance with the Mental Health Investment Standards, which was nationally mandated by NHS England. The fee charged for this service was £10,000 excluding VAT.

We have considered whether this non-audit service might be perceived as a threat to our independence as the CCG's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the CCG's policy on the allotment of non-audit work to your auditor.