NHS South Tyneside Clinical Commissioning Group
Annual Audit Letter 2015/16
July 2016
Dear Governing Body and Audit Committee Members

Annual Audit Letter 2015/16

I am pleased to present our Annual Audit Letter for the 2015/16 audit year. The purpose of this document is to summarise the outcome of the external audit of NHS South Tyneside Clinical Commissioning Group’s 2015/16 financial statements and our review of your arrangements for securing economy, efficiency and effectiveness (value for money).

We carried out our audit in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Local Audit and Accountability Act 2014 and delivered in line with the timetable established by the Department of Health and NHS England.

I would like to express my thanks for the assistance of all the finance team in both the CCG and in North of England Commissioning Support (NECS) as well as management and the Audit Committee.

If you would like to discuss any matters in more detail, please do not hesitate to contact me on 0191 383 6314.

Yours faithfully

Cameron Waddell
Partner
Mazars LLP
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Key messages

This Annual Audit Letter summarises the findings from our 2015/16 audit of NHS South Tyneside Clinical Commissioning Group.
01 Key messages

In 2015/16 our audit of NHS South Tyneside Clinical Commissioning Group (the CCG) was made up of two elements:

- auditing your financial statements, including a review of the Governance Statement and Annual Report (including auditing specified sections of the Remuneration and Staff Report); and
- assessing arrangements for achieving value for money (VfM) in your use of resources.

We reported the detailed findings from our audit work to the Governing Body (those charged with governance) in our Audit Completion Report and an update letter on 26 May 2016.

The key conclusions for each element are summarised below.

Audit of the financial statements

We issued an audit report including an unqualified opinion on the CCG’s financial statements on 26 May 2016. The audit progressed smoothly and identified only a small number of disclosure errors, with no material errors.

We would like to highlight the positive support we received from staff at both the CCG and North East Commissioning Support (NECS) in undertaking our work.

Value for money

We carried out our work in line with updated National Audit Office guidance, so that we could conclude on whether you had proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources (value for money review). We concluded there were no matters we were required to report on an exception basis.
Financial statements

The CCG produced good quality financial statements, requiring amendment to a small number of disclosures only.
Audit of the financial statements

We audited the CCG’s financial statements in line with auditing standards and we reported the detailed findings of the audit to the Audit and Risk Committee on 17 May and to the Governing Body on 26 May 2016 in our Audit Completion Report along with the update letter we issued in respect of outstanding matters. Following this meeting we issued an audit report including an unqualified opinion on the CCG’s financial statements and the remuneration report on 26 May 2016. This enabled the CCG to submit its audited annual report and financial statements to NHS England (NHSE) before the 27 May 2016 deadline.

Our work on the CCG’s accounts is designed to provide reasonable assurance that they are free from material misstatement. The assessment of materiality is a key part of our work and we specify an overall materiality threshold, based upon 1 per cent of the CCG’s gross revenue expenditure, together with lower materiality values for accounting entries we consider to be more sensitive, such as the remuneration report. We consider materiality when planning and performing our work and in assessing audit results. At the planning stage, we made a judgement about the size of misstatements which we would consider to be material and which gave a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We updated our materiality calculation when we received the draft accounts and set the overall level at £2.4 million. Appendix A provides more information on our approach.

Having considered the risks of material misstatement, we identified one area of significant risk, which is present in all audits. Our findings in this area are summarised below:

<table>
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<th>Risk</th>
<th>Description of the risk</th>
<th>How we addressed the risk</th>
<th>Our conclusion</th>
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<tr>
<td>Management override of controls</td>
<td>In all entities management is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent accounts by overriding controls. Due to the unpredictable way in which this could occur there is a significant risk on all audits.</td>
<td>Auditing standards mandate an element of substantive testing on all audits regardless of the effectiveness of the system of internal control. As a result we tested the appropriateness of journals and other adjustments. We also reviewed areas of management judgement, estimation techniques and significant transactions that seemed outside of the CCG’s usual business.</td>
<td>Our work provided the assurance we sought and did not highlight any material reporting issues.</td>
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Preparation of the financial statements

The CCG presented us with draft financial statements ahead of the national deadline which were of good quality. Working papers were provided as requested.

Issues arising from the audit of the financial statements

We issued an audit report including an unqualified opinion on the CCG’s financial statements on 26 May 2016. The audit progressed smoothly and identified only a small number of errors, with no material errors.
Annual report

We reviewed the CCG’s draft annual report, which includes the Remuneration and Staff Report and a small number of amendments were made before it was finalised.

Governance Statement

The aim of the Governance Statement is to give an overview of the governance arrangements in place during the year as well as any potential significant governance issues arising.

We reviewed the Governance Statement to see whether it complied with relevant guidance and whether it was misleading or inconsistent with what we know about the CCG. We found no areas of concern to report in this context. Both the Governance Statement and the annual report were consistent with our understanding of the CCG.

Regularity opinion

We give our opinion on whether, in all material respects, the CCG used the money allocated by Parliament in the way intended and in accordance with the various authorities governing the transactions. We had no issues to report and therefore issued an unqualified regularity opinion.

Weaknesses in internal control

Our work on the CCG’s financial systems identified no significant deficiencies in internal control. The NECS service auditor reports for 2015/16 highlighted control exceptions; based on our assessment, there was no material impact on our opinion.

Assurance to the National Audit Office

Although the CCG is a stand-alone entity, along with the other CCGs in England it forms part of the NHS England (NHSE) group. NHSE consolidates all CCG financial statements to prepare its own statements. The National Audit Office, as the auditor of NHS England, instructs the auditors of CCGs to carry out specified procedures to inform an assurance statement that reports whether the consolidation information submitted by the CCG to NHS England is consistent with the audited financial statements of the CCG.

On 26 May 2016 we reported that the CCG consolidation template was consistent with the audited annual report and financial statements. The CCG submitted this report to NHSE to meet the deadline of 27 May 2016, enabling consolidation of the financial statements of the NHS accounting group.
Value for money

We did not identify any significant risks in respect of our value for money review and we concluded that there were no matters which we were required to report on an exception basis.
03 Economy, efficiency and effectiveness

For 2015/16, we were required to:

- satisfy ourselves that the CCG had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- report on an exception basis only in the auditor’s report.

Updated National Audit Office guidance is based on one overall criterion, supported by three sub-criteria, as set out below.

**Overall criterion:** in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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<th>Sub-criteria</th>
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<td>Informed decision making</td>
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<td>Sustainable resource deployment</td>
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<tr>
<td>Working with partners and other third parties</td>
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As part of our work, we also:

- reviewed your annual governance statement;
- reviewed the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- carried out risk-based work we determined appropriate.

A summary of our findings against each sub-criteria and our overall assessment is set out in the sections that follow.

**Informed decision-making**

The CCG continues to produce regular finance reports for the Audit and Risk Committee and Governing Body. Reports are clear and easy to read.

Based on our attendance at the Audit and Risk Committee, there is robust scrutiny of financial reporting and good practice is adopted where appropriate e.g. review of accounting policies ahead of production of the statutory financial statements.

The CCG has received an overall internal audit opinion of significant assurance for 2015/16, with two limited assurance reports in respect of Standards of Business Conduct and Conflicts of Interest, and Compliance with the Mental Health Act, for which appropriate actions have been, or are planned to be, taken. A comprehensive internal audit plan is in place which takes into account the strategic priorities of the CCG and the different sources of assurance. There is appropriate challenge by the Audit and Risk Committee over coverage and risk areas. The Audit and Risk Committee also helps ensure it delivers on its oversight role by considering key documents such as the governance statement (including challenging themselves on whether all potential significant governance weaknesses had been considered) and also undertakes a self-assessment on effectiveness.
The CCG assurance framework is regularly reported on to both the Audit and Risk Committee and Governing Body. Regular risk management reports are presented to the Audit and Risk Committee before being reported to the Governing Body.

**Sustainable resource deployment**

The CCG has used NHS Right Care to identify areas of potential high spend, and is focusing on these areas to help both improve patient care and also achieve future savings targets. The use of Health Pathways is central to the CCG’s planned approach and is an innovative approach, with the CCG being the first in England to use this. The CCG has recognised the national view of a crisis in workforce in primary care in its Primary Care Strategy, against the backdrop of increasing demand arising from an aging population. The use of Health Pathways is assisting in this area, as it seeks to equip GPs with clinically agreed treatment routes for specific conditions which will provide consistency in treatment and also aims to smooth spending by reducing unnecessary interventions by getting the best treatment the first time.

**Working with partners and other third parties**

There is a clear willingness to collaborate with local partners:

- The CCG Chief Officer chairs the South Tyneside Integration Board, set up in 2013 to help progress integration across health and social care in the region. The Board includes representatives of the South Tyneside Partnership, such as other NHS and local authority bodies, as well as the voluntary sector and Healthwatch.
- The CCG continues to have significant representation in the South Tyneside Partnership, which is to be one of 14 National Integration Pioneers, with its objective being to develop approaches to self-care which can reduce over-reliance on statutory services in future.

The 360 degree feedback from key partners of the CCG shows that the feedback received is positive.

The CCG has clearly set out its commissioning priorities for the year, informed by the joint assessment of local needs. Fortnightly meetings are held with the key providers of the CCG between the two executive teams to ensure that provision of services works within the local health economy.

**Overall assessment (‘reality check’)**

Having gathered evidence in each area we conducted a final ‘reality check’, which included consideration of our cumulative knowledge of the CCG and, in particular:

- reports by statutory inspectorates, other regulators and external advisors;
- achievement of performance and other targets; and
- performance against budgets and other financial targets.

We do this to identify anything that would make us reconsider our conclusion.

<table>
<thead>
<tr>
<th>Evidence</th>
<th>Auditor assessment</th>
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<tr>
<td>Reports by statutory inspectorates or other</td>
<td>As well as its own assurance framework, the CCG is assessed against the NHSE’s assurance framework, along with other CCGs.</td>
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<tr>
<td>regulators</td>
<td>The latest rating for 2015/16 assesses the CCG as ‘good’, against a rating of ‘assured’ in 2014/15. Based on provisional results for the year, we understand this is unlikely to significantly change. Due to changes in the framework assessment, the categories are not directly comparable, but this shows consistent performance from the CCG.</td>
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The CCG has set out the following areas for improvement in its Annual Report:

- A&E four-hour waits
- Ambulance response times
- Clostridium difficile infection

Targets in some key areas have not been met, but it is important to assess this against the context of the CCG as a whole. The CCG has plans in place to drive improvement in these areas, and it is also important to note the impact of factors outside of the CCG’s control, such as the performance of providers. As noted above, the CCG is working closely with partners to improve performance, including working directly with providers and commissioners Healthcare Acquired Infection Improvement Group, and with the ambulance service through the area Systems Resilience Group.

The CCG has met all its financial targets for 2015/16, including:

- delivery of a surplus above the 1 per cent required by NHSE (1.4 per cent delivered);
- maintaining running costs (administration expenditure) within the allocation; and
- ensuring cash spending is within the cash limit set.

Having completed our overall assessment, including our ‘reality check’, we did not identify any matters that we needed to report on an exception basis.
Future challenges

The challenges facing the CCG in the coming years are not insignificant, with an expectation of significant progress in transforming services in the coming year.
04 Future challenges

The challenges facing the CCG in the next few years are not insignificant, with an expectation of substantial and continued progress in transforming services from NHS England in the coming year. The CCG has placed itself in as good a position as possible, via:

- continuing to maintain a robust financial position, via achievement of its business rules and careful planned use of its carried forward surplus of £3.437 million; and

- introducing Health Pathways (the Canterbury model) across GP practices to drive improved and consistent patient care, whilst also managing the pressure on referrals to the acute sector, recognising the importance to the entire local health economy.

Significant challenges remain, not least of which include the continuing resource pressures across the board, both in terms of patient demand and resources of partners (NHS and non-NHS).

Alongside the increased expectations for transformation, 2016/17 of course sees the introduction of the new system-wide Sustainability and Transformation Plans. As stated clearly in the NHS planning guidance, system leadership is key to making a reality of the ambitions of the new Sustainability and Transformation Plans. The new CCG assurance framework for 2016/17 is intended to promote cross-organisation working, with a view being taken to the trajectory of performance in assessing CCGs. However given the often-competing resource demands, making a reality of the Sustainability and Transformation Plans in the current commissioner / provider marketplace undoubtedly remains extremely challenging.
Fees and closing remarks

The 2015/16 audit was delivered within the scale fee set by Public Sector Audit Appointments Limited.
05 Fees and closing remarks

We can confirm the final audit fee for 2015/16 was £45,000 plus VAT.

We have discussed and agreed this letter with officers and will present it to the Governing Body on 28 July 2016. During the audit year we have continued to support the CCG in other ways, including:

- attendance at Audit Committees where we inform the Committee about progress on the audit, report our key findings and update it about developments in the NHS, CCGs, and the wider environment; and

- hosting events for staff, such as our NHS financial statements workshops.

Further detailed findings, conclusions and recommendations in the areas covered by the audit are included in the reports issued to the CCG during the year, which are summarised below.

<table>
<thead>
<tr>
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<td>2015/16 Audit Fee Letter</td>
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<td>Audit Strategy Memorandum</td>
<td>March 2016</td>
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<td>Progress reports to Audit Committee</td>
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<td>Audit Completion report</td>
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<td>Auditor’s Report (opinion)</td>
<td>May 2016</td>
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<td>Annual Audit Letter</td>
<td>July 2016</td>
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The CCG has continued to take a positive and constructive approach to our audit and I wish to thank the Governing Body and Audit and Risk Committee for their support and co-operation throughout the year. We would also like to record our appreciation for the assistance and co-operation provided to us during our audit by staff from both the CCG and NECS.

We are committed to supporting the CCG to move forward with clarity of purpose and strong governance and accountability arrangements. Mazars currently audits a further eight CCGs and advises other NHS bodies across the country. We will meet with the CCG and NECS to identify learning from the 2015/16 audit and will continue to share our insights from other CCGs, across the NHS and relevant knowledge from the wider public and private sector.

Cameron Waddell
Partner
July 2016
Appendix A - materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assumed that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We considered materiality whilst planning and performing our audit.

Whilst planning the audit, we made judgements about the size of misstatements which we considered to be material and which provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

In 2015/16 we set materiality at the planning stage at £2.384 million (approximately 1 per cent of turnover) with a clearly trivial threshold of £72k below which identified errors will not usually be reported. We set lower materiality levels for the disclosure of senior managers’ remuneration as we considered this item to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage did not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, would be considered as immaterial.

We revised materiality for the financial statements as our audit progressed. Our closing assessment of materiality in 2015/16, based upon the final version of the financial statements, was £2.432 million with a clearly trivial threshold of £73k below which identified errors were not reported.

We discussed with management any significant misstatements or anomalies that we identified during the course of the audit and we reported in our Audit Completion Report all unadjusted misstatements we identified other than those which were clearly trivial, and obtained written representation that explained why these remain unadjusted.
This Annual Audit Letter is prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies 2015-16’ issued by Public Sector Audit Appointments Ltd. It is addressed to the Governing Body as those charged with governance of the CCG. We, as appointed auditor, take no responsibility to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy organisation, and is a limited liability partnership registered in England with registered number OC308299. A list of partners’ names is available for inspection at the firm’s registered office, Tower Bridge House, St Katharine’s Way, London E1W 1DD.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.

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