



# NHS NORTH NORFOLK CCG

## ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2018  
09 July 2018

# EXECUTIVE SUMMARY

## PURPOSE OF THE LETTER

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2018. It is addressed to the CCG but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

## RESPONSIBILITIES OF AUDITORS AND THE CCG

It is the responsibility of the CCG to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- The CCG's financial statements
- Whether, in all material respects, the CCG's expenditure and income have been applied to the purposes intended by parliament and that the financial transactions conform to the authorities which govern them.
- The auditable parts of the Remuneration and Staff Report
- Whether the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to review and report on the Annual Report, Governance Statement and the CCG Template used in the preparation of the NHS England group consolidation.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

## AUDIT CONCLUSIONS

### FINANCIAL STATEMENTS

We issued our unmodified true and fair opinion on the financial statements on 25 May 2018.

We reported our detailed findings to the Audit Committee on 25 May 2018.

Our regularity opinion was also unmodified.

### USE OF RESOURCES

We have no exceptions to report in relation to the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources on 25 May 2018.

# FINANCIAL STATEMENTS

## OPINION

We issued our unmodified true and fair opinion on the financial statements on 25 May 2018.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

This includes an assessment of whether the accounting policies are appropriate to the CCG’s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

## OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Our audit was scoped by obtaining an understanding of the CCG and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p><u>Management override</u></p> <p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under auditing standards there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We responded to this risk by:</p> <ul style="list-style-type: none"> <li>• Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>• Reviewing accounting estimates for biases and evaluating whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud</li> <li>• Obtaining an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.</li> </ul> <p>Our audit did not identify any inappropriate journals or bias in accounting estimates. We did not identify any unusual transactions outside the normal course of business.</p>	<p>No issues to report.</p>

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p><b><u>Revenue and Expenditure Recognition</u></b></p> <p>Under auditing standards there is a rebuttable presumption that income recognition presents a fraud risk. Other operating income received by the CCG is not material and the presumption can therefore be rebutted.</p> <p>In the public sector auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as only being relevant to non-NHS expenditure in relation to cut-off of expenditure.</p>	<p>We responded to this risk by:</p> <ul style="list-style-type: none"> <li>Carrying out audit procedures to gain an understanding of the CCG's internal control environment for the significant expenditure streams, including how this operates to ensure that expenditure is recognised in the correct accounting period.</li> <li>Testing an increased sample of non-NHS expenditure to ensure it has been recorded in the correct period and it has been accounted for in accordance with the Group Accounting Manual.</li> </ul> <p>Our audit did not identify any significant deficiencies in the control environment associated with key expenditure streams.</p> <p>Our testing of a sample of non-NHS expenditure did not identify any transactions which had been accounted for in the wrong period.</p>	<p>We have no matters to report.</p>
<p><b><u>Fully delegated primary care co-commissioning</u></b></p> <p>From 1 April 2017, the CCG was approved for fully delegated responsibility for the commissioning of primary care within its geographical area.</p> <p>The administration of primary care services (including initiation and processing of the associated transactions) involves third party service organisations. In prior years, the service auditor reports issued by these organisations have provided limited assurance over the controls operating at the service organisations.</p> <p>The absence of effectively operating controls at the service provider increases the risk that expenditure associated with primary care co-commissioning recognised in the CCG's financial statements is not complete, accurate or does not exist.</p>	<p>We responded to this risk by:</p> <ul style="list-style-type: none"> <li>Reviewing the controls that the CCG has in place to satisfy itself that expenditure associated with primary care co-commissioning exists and is both complete and accurate.</li> <li>Reviewing the relevant service auditor reports to confirm the adequacy of design, implementation and operating effectiveness of controls in place at the service organisations.</li> <li>Undertaking substantive testing of a sample of primary care co-commissioning transactions.</li> </ul> <p>We from our review of the service auditor reports noted that, while the operating effectiveness of controls had improved when compared to previous years, exceptions were identified.</p> <p>Our review of the CCG's controls and substantive testing of primary care co-commissioning transactions did not identify any issues.</p>	<p>We have no matters to report.</p>

## OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the financial statements as a whole was set at £4.619 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 1.75 per cent) which we consider to be one of the principal considerations for the CCG in assessing the financial performance.

We agreed with the Audit Committee that we would report all individual audit differences in excess of £92,000.

## REGULARITY OPINION

The CCG met its financial duties and there were no issues to report regarding regularity of income and expenditure.

## AUDIT DIFFERENCES

Our audit did not identify any material audit differences and there are no uncorrected audit differences.

## CCG CONSOLIDATION TEMPLATE

We are required to provide an opinion to the CCG to confirm that the financial information included in the CCG template (and used in the preparation of the Group consolidation) is consistent with the audited financial statements.

We reported the CCG template was consistent with the financial statements.

## ANNUAL REPORT

Other information in the Annual Report was not misleading or inconsistent with the financial statements or with our knowledge acquired in the course of our audit.

## GOVERNANCE STATEMENT

The Governance Statement was found to comply with NHS England's guidance and was not misleading or inconsistent with other information we were aware of from our audit of the financial statements, the evidence provided in the CCG's review of effectiveness and our knowledge of the CCG.

## REMUNERATION AND STAFF REPORT

The auditable parts of the Remuneration and Staff Report were found to have been properly prepared in accordance with the requirements directed by the Secretary of State.

## INTERNAL CONTROLS

We did not find any significant deficiencies in internal controls during the course of our audit.

# USE OF RESOURCES

## CONCLUSION

We had no exceptions to report on the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources on 25 May 2018.

## SCOPE OF THE AUDIT OF USE OF RESOURCES

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting 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.*

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

## OUR ASSESSMENT OF SIGNIFICANT RISKS

Our audit was scoped by our review of predecessor auditor's audit file, relevant findings from work undertaken in support of the opinion on financial statements, reports from the CCG including internal audit, information disclosed or available to support the Governance Statement and Annual Report, NHS England's ratings of the CCG and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and direction of the efforts of the audit team.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p><u>Partnership and Joint Working through the Sustainability and Transformation Partnership (STP)</u></p> <p>The Norfolk and Waveney STP continues to be the primary route by which members of the local health economy, including North Norfolk CCG, will achieve financial balance in the medium term. Should the STP fail to progress as envisaged, it is unlikely that the CCG and its health economy partners will be able to maintain financial sustainability.</p>	<p>We responded to this risk by:</p> <ul style="list-style-type: none"> <li>• Reviewing how the CCG’s operational and financial plans are aligned with the STP and demonstrating how the STP will contribute to the financial sustainability of the CCG in the context of the health economy.</li> <li>• Reviewing the progress made by the STP in 2017/18 and consider whether key work streams are delivering against agreed timelines and objectives.</li> <li>• Considering how the governance of the STP has evolved during the year and whether the CCG has a clear understanding of both the progress being made and the risks associated with delivery.</li> </ul> <p>The CCG was fully involved in the STP, with the CCG’s previous Chief Officer acting as the STP lead for the majority of 2017/18. The CCG’s 2017/18 Commissioning Intentions complement the STP and its 2018/19 financial plan refers to the STP. The 2018/19 quality, innovation, productivity and prevention programme includes a number of schemes developed alongside the other Norfolk and Waveney CCGs.</p> <p>During 2017/18, the Norfolk and Waveney CCGs have set up the Joint Strategic Commissioning Committee. This operated in shadow form until April 2018 at which point it took on formal delegated decision-making powers. This arrangement is a key element of the STP.</p> <p>The introduction of more robust governance of the overall STP arrangement has progressed during the year and the associated governance structures are now fully in place. Risks remain around finance, workforce and ICT and each of these areas is subject to a specific STP work stream via which plans are being put in place to address the associated issues. There is also recognition that the number of partners involved in the STP has at times acted as a barrier to progress.</p> <p>The STP has made good progress in the year, including submission of a bid to become an integrated care system. It is likely that increased investment will be necessary for the STP to fully realise its ambition, although it is unclear whether such funds will be made centrally. To support use of such investment, the STP will need to develop a financial strategy to ensure the funds are used as effectively as possible.</p>	<p>We had no issues to report by exception.</p>

# APPENDIX

## REPORTS ISSUED

We issued the following reports in respect of the 2017/18 financial year.

REPORT	DATE
Audit Plan	12 March 2018
Audit Completion Report	25 May 2018
Annual audit letter	09 July 2018

## FEES

We reported our original fee proposals in our Audit Plan. We have not had to amend our planned fees.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Code audit fee	35,000	35,000
<b>Total audit</b>	<b>35,000</b>	<b>35,000</b>



**FOR MORE INFORMATION:**

**APHRODITE LEFEVRE**  
Engagement lead

T: +44 (0)1603 756 909  
M: +44 (0)7715 487 411  
E: aphrodite.lefevre@bdo.co.uk

**BARRY PRYKE**  
Manager

T: +44 (0)1473 320 793  
M: +44 (0)7583 032 401  
E: barry.pryke@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2018 BDO LLP. All rights reserved.

[www.bdo.co.uk](http://www.bdo.co.uk)