



# Annual Audit Letter 2019/20

**NHS Stockport Clinical Commissioning Group**

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This report is addressed to NHS Stockport CCG (the CCG) and has been prepared for the sole use of the CCG. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

# Introduction

## Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2019/20 audit at NHS Stockport Clinical Commissioning Group (the CCG). Although this letter is addressed to the Members of the Governing Body of the CCG, it is also intended to communicate these issues to external stakeholders, such as members of the public. It is the responsibility of the CCG to publish this letter on the CCG's website. In the letter we highlight areas of good performance and also provide recommendations to help the CCG improve performance where appropriate. We have included a summary of our key recommendations in Appendix A. We have reported all the issues in this letter to the CCG during the year and we have provided a list of our reports in Appendix B.

## Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. Our main responsibility is to carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code) which requires us to report on:

<b>Financial Statements including the regularity opinion and Governance Statement</b>	<p>We provide an opinion on the CCG's financial statements. That is whether we believe the financial statements give a true and fair view of the financial affairs of the CCG and of the income and expenditure recorded during the year.</p> <p>We are also required to form a view on the regularity of the CCG's income and expenditure i.e. that the expenditure and income included in the CCG's financial statements has been applied to the purposes intended by Parliament and the financial transactions in the financial statements conform to the authorities which govern them. We report by exception if the CCG has not complied with the requirements of NHS England in the preparation of its Governance Statement.</p> <p>We also examine and report on the consistency of the schedules or returns prepared by the CCG for consolidation into the Whole of Government Accounts (WGA) with our other work.</p>
<b>Value for Money arrangements</b>	<p>We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the CCG's use of resources.</p>

## Fees

Our fee for 2019/20 was £44,477 (2018/19: £44,477) excluding VAT. This fee was in line the fee agreed at the start of the year with the CCG's Audit Committee. This excludes a fee for MHIS compliance which was charged in 2019/20 but related to returns from 2018/19. No equivalent work has yet been undertaken for 2019/20, although this may now occur later in 2020, subject to regulatory direction.

## Acknowledgement

We would like to take this opportunity to thank the officers of the CCG for their continued support throughout the year.

# Headlines

This section summarises the key messages from our work during 2019/20.

<b>Financial Statements audit opinion</b>	<p>We issued an unqualified opinion on the CCG's accounts on 25<sup>th</sup> June 2020. This means that we believe the accounts give a true and fair view of the financial affairs of the CCG and of the income and expenditure recorded during the year.</p> <p>There were no significant matters which we were required to report to 'those charged with governance'.</p>
<b>Financial statements audit work undertaken</b>	<p>We are required to apply the concept of materiality in planning and performing our audit. We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. Our materiality for the audit was £8.8m (2018/19: £8.8m).</p> <p>We identified the following risks of material misstatement in the financial statements as part of our External Audit Plan 2019/20:</p> <ul style="list-style-type: none"> <li>— Completeness, existence and accuracy of accounting for co-commissioning – From the completion of our procedures we were satisfied that the CCG's co-commissioning expenditure is fairly stated.</li> <li>— Expenditure recognition – We considered the amount of expenditure recognised to be fairly stated.</li> <li>— Management override of controls – Professional standards require us to assess this risk in all cases. We have not identified instances of management override of controls.</li> </ul> <p>We considered the impact of COVID on our financial statements work including considering a longer period for post date events, extending the sample period we considered for our cut off procedures, specifically considering whether COVID related income and expenditure from the final weeks of the year were correctly included in the financial statements, and whether the CCG has made pre-payments to providers as a result of anticipated increased expenditure relating to COVID. There were no matters to report and we did not identify any issues requiring adjustment or disclosure as a result.</p>
<b>Regularity Opinion</b>	<p>We are required to form a view on the regularity of the CCG's income and expenditure i.e. that the expenditure and income included in the CCG's financial statements has been applied to the purposes intended by Parliament and the financial transactions in the financial statements conform to the authorities which govern them.</p> <p>We reviewed the CCG's expenditure and income and in our opinion, in all material respects, it has been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.</p>
<b>Governance Statement</b>	<p>We confirmed that the CCG complied with NHS England requirements in the preparation of the CCG's Governance Statement.</p> <p>No significant adjustments were required to the Governance Statement.</p>
<b>Whole of Government Accounts</b>	<p>We issued an unqualified Auditor Statement on the Consolidation Schedules prepared by the CCG for consolidation into the Whole of Government Accounts with no exceptions.</p>

# Headlines (cont.)

<p><b>Value for Money (VFM) conclusion</b></p>	<p>We are required to report to you if we are not satisfied that the CCG has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p><b>Based on the findings of our work, we have nothing to report except for the ability of the CCG to set a sustainable operational budget within its allocation. This qualification to our conclusion formed part of our annual opinion.</b></p> <p>Our review of the CCG's arrangements for securing economy efficiency and effectiveness in its use of resources identified the following matters;</p> <ul style="list-style-type: none"> <li>- The CCG reported a breakeven position in its financial statements for the year ending 31 March 2020, including achievement of the Quality, Innovation, Productivity and Prevention (QIPP) target for the year. However, the CCG achieved the breakeven position largely through the delivery of non-recurrent QIPP measures, with only £4.484m (35.6% of the £12.589m QIPP target being delivered recurrently).</li> <li>- The CCG set an initial deficit budget of £15m for the financial year 202/21 after an assumed recurrent QIPP target of £10.7m. Prior to suspension of annual planning in March 2020, the QIPP schemes required to deliver this target has not been identified.</li> </ul>
<p><b>VFM conclusion risk areas</b></p>	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements the CCG had put in place to mitigate these risks.</p> <p>Our work identified the following significant risk: <b>Financial sustainability</b>. The CCG submitted its latest Financial Plan for 2020/21 on the 5th March which budgeted for a £15m deficit, raising a significant risk in relation to the CCG's ability to set and deliver a break-even position and fulfil its financial duties in 2020/21.</p> <p>We also conducted additional procedures to assess the impact of Covid-19 on the CCG's ability to deliver economy, efficiency and effectiveness and did not consider an additional risk necessary</p>
<p><b>Recommendations</b></p>	<p>We have raised <b>one high risk recommendation</b> as a result of our 2019/20 audit work, relating to VFM. This is summarised in Appendix A.</p> <p>The CCG has been diligent at implementing agreed audit recommendations from prior years. There are no prior year recommendations requiring further follow up from management.</p>
<p><b>Public Interest Reporting</b></p>	<p>We have a responsibility to consider whether there is a need to issue a public interest report or whether there are any issues which require referral to the Secretary of State.</p> <p><b>We have made a referral to the Secretary of State</b> in accordance with our statutory duties in respect of the following issue: as part of its budgetary planning for 2020/21 the CCG produced a draft NHSE/I planning submission in March 2020, showing a deficit of £15m. This projection was made assuming achievement of a £10.748m QIPP programme which has not been fully identified.</p> <p>At the date of our opinion, further announcements on the funding regime for CCGs had not provided any further clarity over arrangements post-31 July 2020. The CCG's current budgeted outturn would put the CCG in breach of the statutory requirements of section 30 of the Local Audit and Accountability Act 2014.</p>

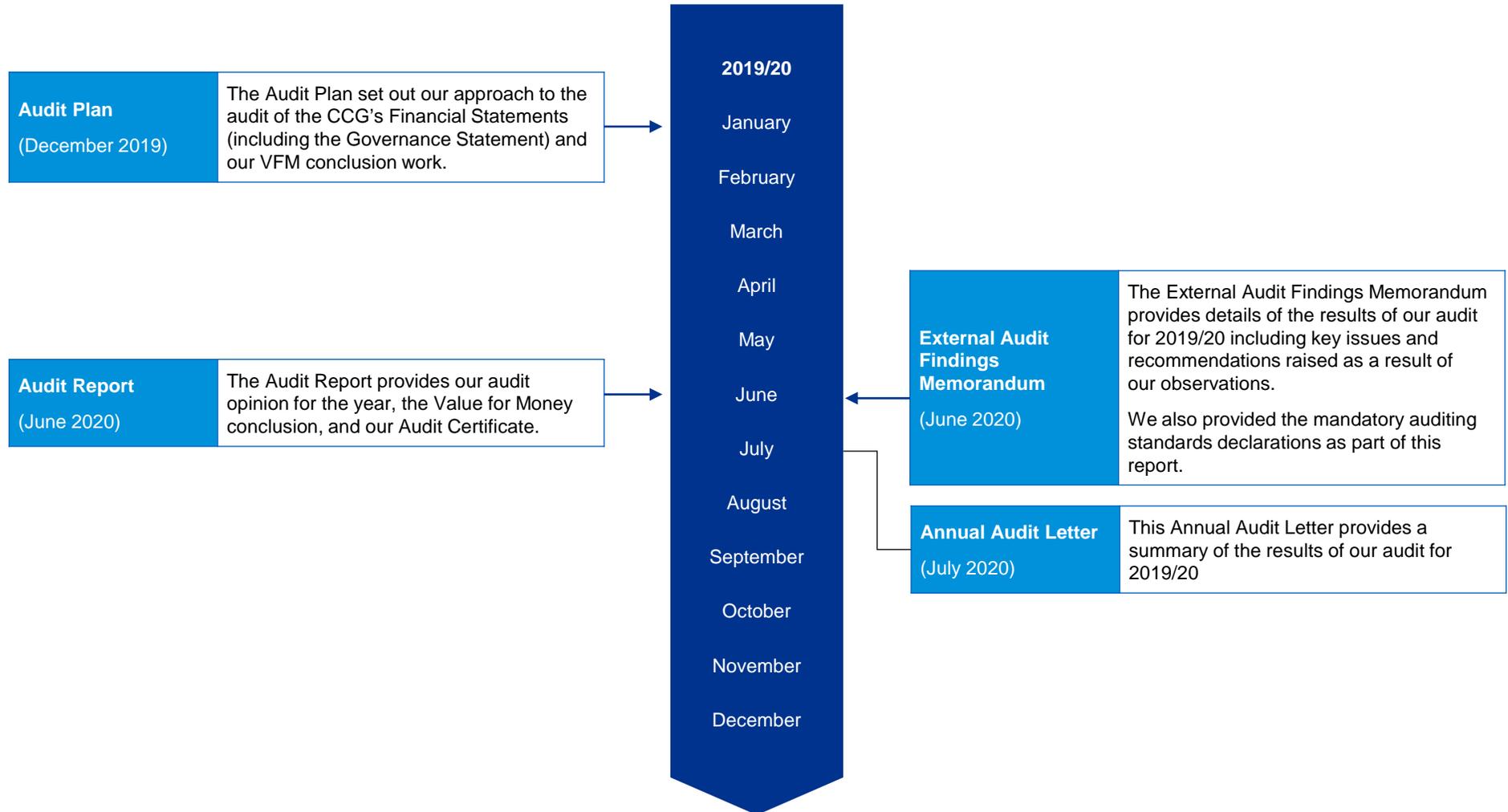
# Key recommendation

Recommendation raised in 2019/20

Risk	Issue, impact and recommendation	Management response/responsible officer/due date
<p>● High</p>	<p><b>Setting a sustainable operational budget</b></p> <p>The CCG was unable to achieve the full recurrent element of its QIPP target of £12.589m in 2019/20, instead delivering achievement of the target through non-recurrent measures. The CCG included a recurrent QIPP target of £10.789m within its pre-Covid plan for 2020/21, which was forecasting a deficit position of £15m at the end of March 2021.</p> <p>We recognise that since the onset of the Covid-19 pandemic planning for the 20/21 financial year has been put on hold for the first 4 months of the year, and that the outturn for 2020/21 will differ substantially from the draft budget. Nonetheless, the draft budget presented in early March 2020 suggests the CCG is operating in an underlying deficit position.</p> <p>We recommend that the CCG continues to identify ways to control its cost base whilst continuing to work with key stakeholders to secure appropriate funding.</p>	<p>The CCG recognises that it has a recurrent deficit that needs addressing.</p> <p>The CCG's ability to deliver QIPP during the COVID response is limited due to the financial regime and contracting arrangements currently put in place by NHS England's which have significantly limited the CCG's ability to implement planned pathway changes or to contract manage or negotiate different prices / activity levels.</p> <p>Key to responding to this position is the implementation of the recovery strategy post COVID that is in development, which will aim to lock in the beneficial changes that have been achieved during the COVID response as is work to restate medium term QIPP and financial sustainability strategies that control the cost base within allocations whilst continuing to work with key stakeholders to secure appropriate funding.</p> <p>There remains risk in the absence of operating and financial guidance for the remainder of 2020/21 and beyond however the fundamentals of securing sound Financial Management and Value for Money remain at the heart of CCG governance and decision making.</p>

## Appendix B

# Summary of our reports issued





The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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