



**NHS NORTH NORFOLK  
CCG**

Annual Audit Letter

Year ended 31 March 2020

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# EXECUTIVE SUMMARY

## Purpose of the Annual Audit 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 2020.

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 financial statements, regularity of income and expenditure and 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.

**BDO LLP**

13 July 2020

## Audit conclusions

Audit area	Conclusion
Financial statements	Unqualified opinion
Regularity	Unqualified opinion
Use of resources	Unqualified opinion
Other reporting requirements	No issues to report

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.

# FINANCIAL STATEMENTS

## Audit conclusion

We issued an unqualified audit opinion on the financial statements. This means that we consider that the financial statements give a true and fair view of the financial position and its net expenditure for the year.

The CCG reported a small underspend against its resources and we issued an unqualified opinion on regularity. This means that we consider that expenditure and income had been applied to the purposes intended by Parliament and the financial transactions conform to the authorities that govern them.

As the CCG merged into the new Norfolk and Waveney CCG on 31 March 2020, and therefore cease to exist, we included a specific reference in the auditor's report that the CCG was not a going concern but it was appropriate to prepare the financial statements on the going concern basis under the Government's guidance on transfer of functions in the public sector.

## Final materiality

Materiality was calculated at £5.383 million based on a benchmark of 1.85% of gross expenditure.

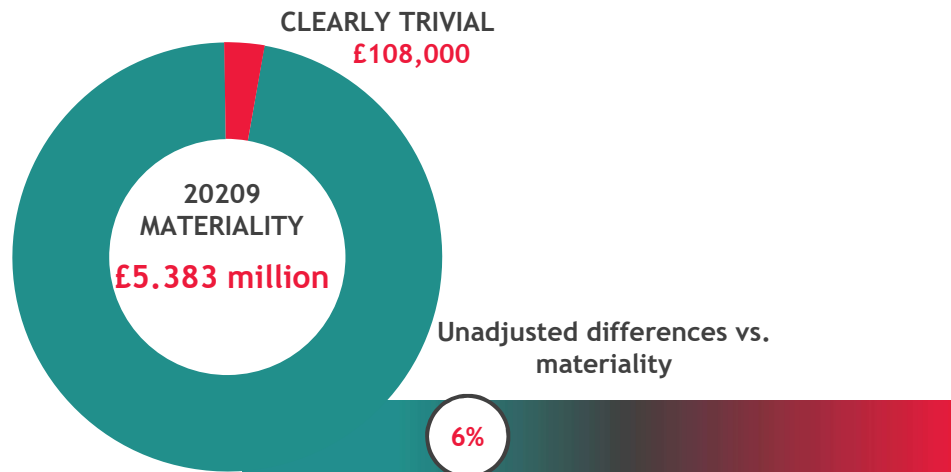
## Material misstatements

We did not identify any material misstatements.

## Unadjusted audit differences

We identified current year audit differences that, if posted, would increase net operating expenditure for the year by £0.296 million

We reported these audit differences and the Audit Committee confirmed that as the impact was not material, the final published financial statements would not require amendment.



# 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 the risk was addressed by our audit	Results
<p><b>Management override of controls</b></p> <p>Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> <li>Reviewed and verified journal entries made in the year, agreed the journals to supporting documentation. We determined key risk characteristics to filter the population of journals and used our IT team to assist with the journal extraction;</li> <li>Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and</li> <li>Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.</li> </ul>	<p>Our audit of journals did not identify any management override of controls in preparing the financial statements.</p> <p>We reviewed significant estimates made by management in preparing the financial statements. We found no evidence of deliberate bias in management estimates.</p> <p>During the audit we had access to more up to date information about the costs of prescriptions and calculated whether the CCG had under or over estimated these costs. This procedure identified a £0.296 million understatement of expenditure associated with prescribing costs. The CCG chose not to correct the financial statements for this error as they did not consider it to be material to the financial statements as a whole.</p> <p>We did not identify any evidence to suggest unadjusted audit differences were indicative of bias or deliberate misstatement by management.</p>

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# FINANCIAL STATEMENTS

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Risk description	How the risk was addressed by our audit	Results
<p><b>Expenditure recognition</b></p> <p>There is a risk that material misstatement may occur through the manipulation of expenditure recognition.</p>	<p>Our audit procedures included following:</p> <ul style="list-style-type: none"><li>• Performed procedures to gain an understanding of the CCG’s internal control environment for the significant expenditure streams, including how this operated to ensure that expenditure was recognised in the correct accounting period; and</li><li>• Tested an increased sample of non-NHS expenditure to ensure it was recorded in the correct period and accounted for in accordance with the Group Accounting Manual.</li></ul>	<p>Our audit of expenditure identified that costs associated with the five Norfolk and Waveney CCGs’ response to Covid-19 (which were fully reimbursed by NHS England) were recognised in the financial statements of NHS Norwich CCG, resulting in an estimated understatement of expenditure of £0.104 million. This understatement has no impact on the CCG’s financial performance as Covid-19 related expenditure is fully funded via an allocation adjustment. No correction was made to the financial statements in relation to this issue.</p> <p>Our audit work did not identify any other issues.</p>

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# FINANCIAL STATEMENTS

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Risk description	How the risk was addressed by our audit	Results
<p><b>Redundancy costs and provision</b></p> <p>There is a risk that redundancy costs and provisions associated with the single management team may not be accurately recorded.</p>	<p>We considered whether there were any factors indicative of the need to recognise provision in respect of redundancies or other associated costs arising from the move to a joint staffing structure.</p>	<p>Our work identified that, while the amounts recognised and disclosed in relation to exit packages were consistent with the amounts paid out by the CCG, the way in which these were calculated was not consistent with the NHS Terms and Conditions of Service Handbook. The differences arising were not material and no correction was made to the financial statements.</p>

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# FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
<p><b>Remuneration and staff report</b></p> <p>There is a risk that the remuneration report may not reflect the remuneration position accurately.</p>	<p>We reviewed disclosures in the remuneration report to ensure individuals and amounts disclosed agreed to supporting evidence.</p>	<p>Our audit work on the Remuneration and Staff Report identified the following:</p> <ul style="list-style-type: none"><li>• Staff numbers disclosure omitted one individual and misclassification of Governing Body Members between 'VSM' and 'Other' categories</li><li>• Incorrect calculation of pay multiples</li><li>• Salaries and Allowances table<ul style="list-style-type: none"><li>• Exclusion of exit package costs from the salary amount for one individual</li><li>• Incorrect calculation of pension benefits for two individuals</li><li>• Incorrect bandings arising from the above issues</li></ul></li><li>• In the Pension Benefits table, inflation of 2.4% was not applied when calculating the real increase in pension amounts</li><li>• Presentational matters arising from inconsistencies between disclosures and corresponding guidance in the Group Accounting Manual.</li></ul> <p>Management amended the errors identified in the final version of the Remuneration and Staff Report.</p>

# USE OF RESOURCES

## Audit conclusion

We issued an unqualified use of resources conclusion.

We set out below the risks that had the greatest effect on our audit strategy.

Risk description	How the risk was addressed by our audit	Results
<p><b>Informed decision making</b></p> <p>The CCG is undergoing a period of significant structural change as part of the plan to merge with the other four Norfolk and Waveney CCGs. There is a risk that there is insufficient capacity to ensure ongoing delivery of day to day operations and appropriate oversight of the merger process</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"><li>• Reviewed the processes in place to ensure the CCG delivers business as usual during the transition period;</li><li>• Reviewed the merger business case to confirm that benefits and risks of the merger have been properly articulated and obtain evidence to demonstrate scrutiny and challenge of the business case; and</li><li>• Reviewed progress against the merger project plan and the processes in place to support its delivery.</li></ul>	<p>In September 2019, following a period of consultation with stakeholders, the five Norfolk and Waveney CCG Governing Bodies approved the merger and a formal application was made to NHS England. NHS England approved the Merger on the 16 October 2020 subject to two conditions:</p> <ul style="list-style-type: none"><li>• Approval of the CCG’s constitution</li><li>• Appointment to all statutory Governing Body roles</li></ul> <p>A Merger Steering Group (MSG) was put in place and met fortnightly to oversee delivery of the merger project plan. Its terms of reference included ensuring maintenance of appropriate governance processes and effective decision making during a period of rapid change.</p> <p>A benefits realisation plan was prepared and regularly discussed at the MSG meetings. The plan included financial targets which will be reviewed following completion of the merger to determine whether the expected benefits have been achieved.</p> <p>Our review confirmed that ‘business as usual’ continued throughout the merger process. This was formalised into a document that was taken to the MSG meeting in November 2019 detailing business as usual tasks and responsibility for them during the transition period.</p> <p>NHS England confirmed on 10 March 2020 that its conditions had been met and that the merger could take place.</p>



## USE OF RESOURCES

Risk description	How the risk was addressed by our audit	Results
<p><b>Financial sustainability</b></p> <p>The CCG was forecasting a £3.1 million in-year deficit in 2019/20, a deterioration in financial performance compared to the original control total surplus of £0.6 million.</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> <li>Reviewed the CCG’s short and medium term financial planning process in the context of the merger of the five Norfolk and Waveney CCG’s from 1 April 2020. This included consideration of the consistency of assumptions with planning guidance and supporting underlying data; and</li> <li>Reviewed the efficiency savings planning process for 2020/21, including evaluation of project management documentation for a sample of efficiency schemes.</li> </ul>	<p>The CCG met its statutory financial targets in 2019/20, reporting an underspend of £0.8m. The CCG also exceeded its in year control total of £0.6m by £0.2m. Achievement of both statutory financial targets and its in year control total was supported by receipt of £2.7 million of non-recurrent funding during the year</p> <p>The CCG delivered efficiency savings of £7.6 million in 2019/20, representing 81% of its £9.1 million target.</p> <p>Short and medium term financial planning has taken place in the context of the merger of the five Norfolk and Waveney CCGs from 1 April 2020. The draft operational plan for the new organisation (NHS Norfolk and Waveney CCG), which included efficiency savings of £57.8m, was submitted in early March 2020.</p> <p>The CCG has taken action (as part of the wider Financial Recovery Plan implemented by the Norfolk and Waveney CCGs) to mitigate the impact of the financial pressures it has experienced during the year. This has enabled the CCG to achieve its statutory financial targets and control total for 2019/20.</p> <p>Taken with past performance we have concluded that the CCG had appropriate in-year arrangements for ensuring the sustainable deployment of resources.</p>

# REPORTS ISSUED AND FEES

## Fees summary

	2019/20	2018/19
	£	£
<b>Audit fee</b>		
CCG financial statements and use of resources	35,000	35,000
<b>Non-audit assurance services</b>		
Fees for audit related services		
<i>Assurance review over mental health investment standard</i>	<sup>1)</sup> -	8,500
<b>Total fees</b>	<b>35,000</b>	<b>43,500</b>

## Communication

Reports	Date	To whom
Audit Planning Report	13 March 2020	NHS North Norfolk CCG Audit Committee
Audit completion report	16 June 2020	NHS Norfolk and Waveney CCG Audit Committee

1) We expect the fee for the Mental Health Investment Standard Statement of Compliance to change for 2019/20 and the review will cover just one year rather than the comparatives testing in 2018/19. We will review the fee once the scope of the work has been confirmed by NHS England for 2019/20.



FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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