



# Staffordshire Clinical Commissioning Groups

Annual Audit Letter for the year ended  
31 March 2020

January 2021



**EY**

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The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement letter dated [X].

This report is made solely to the Governing Body, Audit Committee and management of NHS North Staffordshire CCG, NHS Stoke on Trent CCG, NHS Stafford and Surrounds CCG, NHS South East Staffordshire and Seisdon Peninsula CCG, NHS East Staffordshire CCG and NHS Cannock Chase CCG in accordance with our engagement letter. Our work has been undertaken so that we might state to the Governing Body, Audit Committee and management of the CCGs those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Governing Body, Audit Committee and management of the CCGs for this report or for the opinions we have formed.

**Our Complaints Procedure** – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.





Section 1

# Executive Summary



# Executive Summary

We are required to issue an annual audit letter to the following Clinical Commissioning Groups (CCGs) following completion of our audit procedures for the year ended 31 March 2020:

- ▶ NHS North Staffordshire Clinical Commissioning Group (NSCCG);
- ▶ NHS Stoke on Trent Clinical Commissioning Group (SoTCCG);
- ▶ NHS Stafford and Surrounds Clinical Commissioning Group (SSCCG);
- ▶ NHS South East Staffordshire and Seisdon Peninsula Clinical Commissioning Group (SESCCG);
- ▶ NHS Cannock Chase Clinical Commissioning Group (CCCCG); and
- ▶ NHS East Staffordshire Clinical Commissioning Group (ESCCG).

Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

| Area of impact                             | Commentary  |
|--|---|
| <b>Impact on the delivery of the audit</b> |   |
| ▶ Changes to reporting timescales          | On 23 March 2020, NHSE/I wrote to all commissioners and providers setting out changes to the 2019/20 accounts reporting timescales as a result of Covid-19. The deadline for submission of audited accounts was <b>changed from 28 May 2020 to 25 June 2020</b> . Due to significant issues encountered during the audit, the opinions on the financial statements were issued on 24 September 2020.  |
| <b>Impact on our risk assessment</b>       |   |
| ▶ Disclosures on Going Concern             | Financial plans for 2020/21 will need revision for Covid-19, and the DHSC has suspended normal NHS operational planning for 2020/21 and moved to “block contract” arrangements until at least October 2020. We considered the unpredictability of the current environment gave rise to a risk that the CCGs would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the CCGs’ actual year end financial position and performance. |



# Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

| Area of Work   | Conclusion  |
|--|---|
| <b>Opinion on the CCGs':</b>   |   |
| ► Financial statements   | Unqualified – the financial statements give a true and fair view of the financial position of the CCGs as at 31 March 2020 and of its expenditure and income for the year then ended.<br><br>Our audit opinion included an "Emphasis of Matter" paragraph to refer to the going concern disclosures included by the CCGs to explain the impact of Covid-19 on future financial plans. |
| ► Regularity of income and expenditure   | Unqualified – financial transactions were conducted within the CCG legal framework – Relevant to ESCCG and SESCCG.<br>Qualified – financial transactions were conducted within the CCG legal framework except for the reported deficit in the 2019/20 financial statements of CCCCG, NSCCG, SSCCG and SOTCCG.   |
| ► Parts of the remuneration and staff report to be audited                                       | We had no matters to report.  |
| ► Consistency of the Annual Report and other information published with the financial statements | Financial information in the Annual Report and published with the financial statements was consistent with the Annual Accounts.<br>In reviewing the Annual Report and other information published with the financial statements we took account of updated guidance issued to bodies in the light of Covid-19.  |

| Area of Work  | Conclusion   |
|---|--|
| <b>Reports by exception:</b>                          |  |
| ► Consistency of Governance Statement                 | The Governance Statement was consistent with our understanding of the CCGs.  |
| ► Referrals to the Secretary of State and NHS England | We had no matters to report in relation to ESCCG.<br>We issues a report to the Secretary of State and NHS England under Section 30 of the Local Audit and Accountability Act 2014 for CCCCG, NSCCG, SESCCG, SSCCG and SOTCCG planned to achieve a deficit and exceed their resource allocation for 2019/20.  |
| ► Public interest report                              | We had no matters to report in the public interest.  |
| ► Value for money conclusion                          | We reported on by exception in respect of: <ul style="list-style-type: none"> <li>► planning finance effectively to support the sustainable delivery of strategic priorities and maintain statutory functions;</li> <li>► understanding and using appropriate financial and performance information to support informed decision making; and</li> <li>► working with third parties to effectively to deliver strategic priorities.</li> </ul> We issued an adverse qualified conclusion for each of the CCGs, see section 5 for further details. |

# Executive Summary (cont'd)

| Area of Work   | Conclusion  |
|--|---|
| Reporting to the CCG on its consolidation schedules                          | We concluded that the CCGs' consolidation schedules agreed, within a £300,000 tolerance, to your audited financial statements   |
| Reporting to the National Audit Office (NAO) in line with group instructions | <p>We are only required to report to the NAO on an exception basis if there were significant issues or outstanding matters arising from our work. We reported the following issues to the NAO:</p> <ul style="list-style-type: none"><li>• Findings arising from our audit as set out in our audit results report to management, and as set out in this annual audit letter. This includes significant control deficiencies, matters relating to the qualified (adverse) value for money conclusion, regularity opinion and referrals to the secretary of state;</li><li>• All uncorrected misstatements above £300k; and</li><li>• Any other classification errors within the agreement of balances exercise between specific providers.</li></ul> |

As a result of the above we have also:

| Area of Work  | Conclusion   |
|---|--|
| Issued a report to those charged with governance of the CCGs communicating significant findings resulting from our audit.   | Our Audit results report was issued on 8 September 2020, with a final version issued on 24 September 2020. |
| Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice. | Our certificate was issued on 24 September 2020.   |

We would like to take this opportunity to thank the CCGs staff for their assistance during the course of our work.



Janet Dawson  
Partner

&



Hassan Rohimun  
Associate Partner

For and on behalf of Ernst & Young LLP

Section 2

# Purpose



# Purpose

## The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members of the Governing Body and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Clinical Commissioning Groups (CCGs). We have already reported the detailed findings from our audit work in our 2019/20 audit results report to the 8 September 2020 Audit Committee in Common, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the CCGs.

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## Section 3

# Responsibilities



# Responsibilities

## Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that was tabled at the Audit Committee in common on 21 April 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

Expressing an opinion:

- ▶ On the 2019/20 financial statements;
- ▶ On the regularity of expenditure and income;
- ▶ On the parts of the remuneration and staff report to be audited;
- ▶ On the consistency of other information published with the financial statements, including the annual report; and
- ▶ On whether the consolidation schedules are consistent with the CCGs' financial statements for the relevant reporting period.

Reporting by exception:

- ▶ If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the CCG;
- ▶ To the Secretary of State for Health and NHS England if we have concerns about the legality of transactions or decisions taken by the CCGs;
- ▶ Forming a conclusion on the arrangements the CCGs have in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ Any significant matters that are in the public interest.

Reporting on an exception basis any significant issues or outstanding matters arising from our work which are relevant to the NAO as group auditor.

## Responsibilities of the CCGs

The CCGs are responsible for preparing and publishing its financial statements, annual report and governance statement.

The CCGs are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Section 4

# Financial Statement Audit





# Financial Statement Audit

**Key Issues** The Annual Report and Accounts is an important tool for the CCGs to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the CCGs' financial statements in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 24 September 2020. Our detailed findings were reported to the 8 September 2020 Audit Committee in common. The key issues identified as part of our audit were as follows:

| Significant Risk  | Conclusion   |
|---|--|
| <p><b>Management override of controls</b></p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p> <p>Our risk assessment increased due to concerns that we were misled during our 2018/19 audit of the CCGs and questions as to whether 2018/19 VCSL provision was held at £4.1m in order to manipulate the reported 2019/20 ESCCG financial position.</p> <p>In 2019 ESCCG was in negotiation with Virgin Care Services Ltd (VCSL) in respect of liabilities relating to the termination of the Improving Lives Contract. The ESCCG 2018/19 financial statements included a VCSL provision of £4.1m. During our 2018/19 audit (between 1 May and 7 June 2019) meetings with management and the evidence we were provided with supported the reported VCSL provision. Management confirmed at a meeting on 20 May 2019 that there were no subsequent events relating to the VCSL provision. The letter of representation, dated 5 June 2019, confirmed that provision reflected the likely financial exposure from the claim by VCSL and no adjustments were required as a result of subsequent events.</p> <p>During our 2019/20 audit we noted the following: Correspondence dated 7 May 2019 to VCSL representatives offering a £334,678 payment by ESCCG to reach settlement; and a letter dated 20 May 2019 from VCSL representatives accepting the £334,678 ESCCG offer. This information together with other details regarding the negotiation was not disclosed to us during our 2018/19 audit. As a result we concluded that we were misled during the 2018/19 audit. This has increased our risk assessment and as there is a single management team across the CCGs, our questions in respect of management integrity applied to all the CCGs not just ESCCG. We have undertaken procedures to establish if there was any evidence of intent to mislead the auditor or to deliberately manipulate the reported ESCCG financial position. This included the need to engage our forensics team to provide additional support to the audit team in reviewing the available evidence and conduct interviews with key members of CCG staff involved in the transaction in the prior year.</p> | <p>Our audit procedures identified:</p> <ul style="list-style-type: none"> <li>No evidence that the audit team were deliberately misled as part of the 2018/19 audit. During interviews we were informed that key individuals, such as the Interim Acting Chief Financial Officer, who had responsibility for ensuring proper financial stewardship, were not aware of the financial implications of decisions associated with the VCSL negotiation until the transaction had been concluded. Discussions and negotiations relating to VCSL were limited to a number of individuals who had signed a non disclosure agreement. This group did not adequately consider the proper financial reporting requirements or the need to ensure relevant bodies such as the Audit Committee in Common or the Finance and Performance Committee were aware of significant financial transactions and judgements being taken. Whilst we note the commercial sensitivities of the situation, the effective bypassing of considerations of financial reporting represents a significant weakness in controls.</li> <li>The Chairman of the Audit Committee in Common was not made aware of developments in the VCSL negotiation prior to signing the letter of representation on the 5 June 2019 and in effect received false assurance from management. This represents a significant weakness in the arrangements which those charged with governance (the Audit Committee in Common) have in relation to: <ul style="list-style-type: none"> <li>the oversight of the financial reporting process;</li> <li>the key estimates and judgements made by management in preparing the financial statements and the implications these have for the current and future years;</li> <li>the processes for identifying, recorded and disclosing subsequent events; and</li> <li>the ability to provide oversight over fraud prevention processes.</li> </ul> </li> <li>The ESCCG over provision made in 2018/19 resulted in a significant one off benefit in the 2019/20 financial statements with the release of the provision providing a £2.8m improvement to the outturn of the CCG. There was no evidence that the 2018/19 provision was deliberately overstated in order to recognise a gain in 2019/20.</li> <li>We did not identify any specific fraud risks other than that relating to fraud in expenditure recognition that was already identified as a significant risk.</li> <li>We identified material weaknesses in controls that we have set out in section 6.</li> <li>Our testing of a sample of journals did not identify any material issues or evidence of management bias.</li> <li>Our findings in relation to the recognition of expenditure, including those related to estimates and judgements are set out on the next page.</li> <li>With the exception of the VCSL transaction we did not identify any transactions during our audit which appeared unusual or outside the CCG's normal course of business.</li> </ul> |

# Financial Statement Audit

| Significant Risk   | Conclusion  |
|--|---|
| <p><b>Revenue and expenditure recognition</b></p> <p>Auditing standards also require us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. There is a risk that the financial performance of the CCGs could be manipulated in order to meet control totals or reduce the historic deficit position. Nearly 100% of 'income' is in the form of the revenue resource allocations. This is a pre-determined amount received from NHS England, which is drawn down directly into the CCGs bank account and credited to the general reserve. As such we do not consider there to be a material risk of fraud in income.</p> <p>Our focus was therefore on the recognition of expenditure, taking into consideration the financial pressures faced by the CCGs as well as issues which were identified during the course of the audit.</p> | <p>Our audit procedures identified:</p> <ul style="list-style-type: none"> <li>Weaknesses in arrangements to appropriately recognise expenditure, specifically: <ul style="list-style-type: none"> <li>a number of differences where the estimated position of the CCGs was not supported by NHS counter parties or where subsequent information received after the year end but before the signing of the financial statements did not support the CCGs reported position;</li> <li>a number of accruals where management could not provide adequate evidence or working papers to support the reported position; and</li> <li>a lack of review of the financial positions being reported, as well as the evidence being provided to audit.</li> </ul> </li> </ul> <p>These issues have been identified not only in the current year but also during a retrospective review of prior year accruals, with significant levels of error being identified.</p> <ul style="list-style-type: none"> <li>The level of errors identified in the prior year audit and during the current year audit identifies scope to significantly improve the CCGs assessment of year end accruals and estimates. Whilst our testing has not identified cases of deliberate management bias we have noted that prior year over accruals released in the current year are being recognised as QIPP savings. This recognition is incorrect and potentially masks the recurrent actions that are required to deliver the savings that the CCGs need to undertake to address the financial challenges facing the Staffordshire Health System.</li> <li>The lack of adequate audit evidence or responses to queries throughout the audit also raises concerns related to the accuracy of financial forecasting. Management have acknowledged that the current structure of the finance team means that there are challenges in gaining the desired level of understanding over circumstances impacting each CCG which would lead to an ability to forecast positions more accurately.</li> <li>Contracts had not been signed with all providers for 2019/20. This was also the case in 2018/19. The primary function of the CCGs is to procure health services and agreed contracts form the basis of those transactions. The absence of signed contracts with all providers represents a weakness in controls.</li> </ul> <p>The above issues were indicative of a significant failure of internal controls which are further summarised in section 6. The level of errors and additional work required to address the matters identified also resulted in a considerable amount of additional audit work, especially those related to accruals in both the current and previous year. Our findings, as well as the additional period of audit resulted in an extension to our unrecorded liabilities and cut off procedures.</p> |

# Financial Statement Audit (cont'd)

| Other Key Findings                        | Conclusion  |
|---|---|
| <b>Going concern – emphasis of matter</b> | We included an emphasis of matter paragraph within our audit opinion for each CCG to draw attention to the enhanced going concern note in the 2019/20 financial statements of each CCG. The note describes the economic and social disruption the CCGs are facing as a result of COVID-19 which is impacting financial planning and contractual arrangements for patient care within the NHS. |

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined calculated materiality as 1% of prior year gross expenditure. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the CCGs. We considered updating our planning materiality assessment using the draft financial statements but given our risk assessment we concluded that we would not increase materiality. As such our materiality assessment has been maintained at the level communicated in our audit plan as outlined below. We agreed with the Audit Committee in common that we would report to the Committee all audit differences in excess of the audit differences threshold set out below.

| CCG    | 2018-19 Gross operating expenditure | 2019-20 Gross operating expenditure | Planning materiality | Performance materiality | Audit difference threshold |
|--------|-------------------------------------|-------------------------------------|----------------------|-------------------------|----------------------------|
| ESCCG  | £183.06m                            | £194.39m                            | £1.83m               | £0.91m                  | £0.091m                    |
| CCCCG  | £205.11m                            | £217.86m                            | £2.05m               | £1.02m                  | £0.102m                    |
| SESCCG | £305.03m                            | £314.47m                            | £3.05m               | £1.52m                  | £0.152m                    |
| SSCCG  | £243.99m                            | £257.69m                            | £2.43m               | £1.22m                  | £0.122m                    |
| NSSCG  | £348.95m                            | £372.13m                            | £3.49m               | £1.74m                  | £0.174m                    |
| SoTCCG | £476.11m                            | £508.73m                            | £4.76m               | £2.38m                  | £0.238m                    |

We considered whether any change to our materiality were required in light of Covid-19. Following this consideration we remained satisfied that the values for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remained appropriate.

We also identified areas where misstatement at a level lower than our overall materiality level might influence the reader. We set a lower materiality for remuneration disclosures and related party transactions.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations



**Section 5**

# **Value for Money**



# Value for Money

We are required to consider whether the CCGs have put in place 'proper arrangements' to secure economy, efficiency and effectiveness on their use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise the CCGs arrangements to:

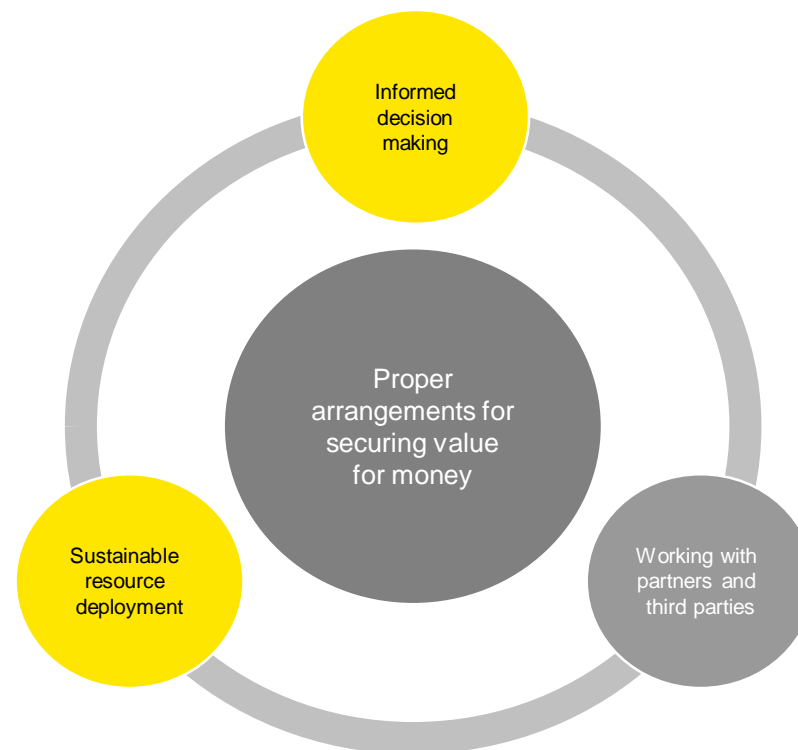
- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider NHS bodies' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We identified three significant risks in relation to these arrangements all of which were included in our Audit Planning Report. The following tables outline the findings of our work in response to the risks identified.

## Conclusion

We issued a qualified (adverse) value for money conclusion in relation to each of the CCGs arrangements to secure efficiency and effectiveness in their use of resources, particularly with regard to arrangements to deploy resources in a sustainable manner, making informed decisions and working with partners.



# Value for Money

| Significant Risk  | Conclusion - as reported in our 24 September 2020 Audit results report   |
|---|--|
| <p><b>Deploying resources in a sustainable manner</b></p> <p>Our initial audit planning procedures identified that the Staffordshire STP area faces significant financial challenges with an area wide deficit of over £200m. Financial forecasts of the CCGs to November 2019 identified the 2019/20 deficit to be £73.9m against a deficit control total of £53.9m.</p> <p>Key causes of the forecast deficits have been identified as provider over-performance and underachievement of QIPP target.</p> <p>NHS England commissioned a review of financial management within the CCGs during 2018/19 which identified issues relating to capacity within the finance team, clarity of reporting and accuracy of financial forecasts and QIPP targets.</p>                  | <p>The CCGs reported an outturn of £83m deficit against a deficit control total of £53.9m in their audited financial statements. The combined 2019/20 QIPP target for the CCGs amounted to £54m in 2019/20 of which only £33.6m (62%) was delivered. Our audit identified evidence of over accruals in 2018/19 being released in 2019/20 with the benefit being identified as an in year QIPP saving. By treating such releases as QIPP savings, the CCGs are failing to recognise fully the actions required to identify and deliver the recurrent savings across the system to achieve financial balance.</p> <p>The month 11 report to the Finance and Performance Committee outlined that the Risk Adjusted Underlying Financial Position of the CCGs was a £124.4m deficit on a recurrent allocation of £1,723m. The month 11 position was £2.7m worse than the month 10 position.</p> <p>For 2020/21, the total deficit across the CCGs as per the March 2020 plans submitted to NHSE was £81m. The plans included a QIPP requirement of £75.1m of which £54.1m of savings were unidentified.</p> <p>The Annual Report for the CCGs identified that the Ratings for the 'Quality of Leadership' indicator of the 2019/20 NHS Oversight Framework had yet to be published but at the last data release in January 2020 five of the CCGs were rated as Red (equates to "inadequate" under the previous 2018/19 framework) and one (ESCCG) was rated as Amber (equates to "requires improvement" under the previous 2018/19 framework).</p> |
| <p><b>CCG Governance and informed decision making</b></p> <p>Our 2018/19 VFM assessment noted that:</p> <ul style="list-style-type: none"> <li>Governance structures and risk management arrangements been operating fully and effectively during the year and were not fully embedded at the year end.</li> <li>The Head of Internal Audit concluded that there were significant weaknesses and non-compliance in the framework of governance, risk management and control which put the achievement of organisational objectives at risk and that major improvements were required to improve the adequacy and effectiveness of governance, risk management and control.</li> <li>NHS England rated five of the six Staffordshire CCGs as inadequate in 2018/19.</li> </ul> | <p>The draft Annual Report for the CCGs outlines that there have been a number of meetings during the year which were not quorate, these comprised:</p> <ul style="list-style-type: none"> <li>ESCCG, SoTCCG and NSCCG Governing Body meetings; One of two NSCCG and SoTCCG Remuneration Committee meeting; Quality and Safety Committee meetings for each of the CCGs; Finance and Performance Committee meetings for each the CCGs; Meetings of the North Divisional Committee; and NSCCG, SoTCCG, S&amp;SCCG and SESP CCG Primary Care Commissioning Committee meetings</li> </ul> <p>The number of inquorate meetings across the CCGs compares poorly with other organisations and is evidence of inadequate arrangements for informed decision making.</p> <p>The CCGs have taken action to improve arrangements in respect of the Board Assurance Framework and Risk Management Arrangements.</p> <p>The Head of Internal Audit issued a "Major Improvement Required" opinion, identifying significant weaknesses and non-compliance in the framework of governance, risk management and control which put the achievement of organisational objectives at risk. Areas which contributed to this opinion included: Primary Care Commissioning; Corporate Governance; Commissioning, Contracting and Performance; Conflicts of Interests; and Personal Health Budgets.</p>  |



# Value for Money

| Significant Risk   | Conclusion - as reported in our 24 September 2020 Audit results report   |
|--|--|
| <p><b>CCG Governance and informed decision making (continued)</b></p>  | <p>As outlined on the previous page the January 2020 'Quality of Leadership' data rated five of the CCGs as Red and one, ESCCG, as Amber.</p> <p>Our audit testing identified that the 2018/19 financial statements of ESCCG were materially misstated and as a result of ineffective internal communication the Interim Acting Chief Finance Officer was unaware of the financial impact of decisions relating to the VSCL provision. As a result the Audit Committee in Common and the Financial Performance Committee were also not aware of the financial impact. The omission of full information represents a weakness in arrangements to make informed decisions on the resources available to deliver organisational priorities and operational services.</p>  |
| <p>Working with partners and other third parties</p> <p>During November 2018, a joint Ofsted and CQC inspection of the local Staffordshire area was carried out to judge the effectiveness of implementation of special educational needs reforms following the Children and Families Act 2014.</p> <p>This inspection identified a number of significant areas of weakness in practice, resulting in the requirement for the County Council and CCGs to issue a Written Statement of Action.</p> <p>Given the findings of the reports as above, there is a risk that the CCGs are not working effectively with partners to deliver required services and outcomes to the local population.</p> <p>In addition, joint working is key to the CCGs' plans in 2019/20 as they work to develop integrated care systems and take a collaborative approach to delivery with provider organisations and other partners.</p> | <p>Given the scale of the action needed Staffordshire CC and the CCGs responded quickly to agree a written statement of actions in April 2019. The Staffordshire bodies have made progress on the implementation of actions in response to the CQC/Ofsted SEND review in 2019/20. An update on the Written Statement of Actions as at May 2020 indicated that action had been taken in a number of areas including: revised governance structures; co-production of a comprehensive local offer; and development of a shared outcomes framework. However, action was still in progress in a number of key areas and arrangements not yet in place, including: shared SEND strategy and joint needs assessment; quality assurance and contract monitoring arrangements; roll out of the SEND district and inclusion mode</p> <p>An Intelligent Fixed Payment System was established to better manage the Staffordshire health economy to bring the system back to clinical, operational and financial balance. The month 12 report sets out overall STP performance for 2019/20 with an overall £71.1m deficit after PSF, CSF and MRET funding. This represents a £5.5m adverse variance against plan. The system wide 2020/21 plans and savings (agreed before COVID-19) detail a system wide deficit of £99.5m, in line NHSE/I control total, with a system savings target for 2020/21 of £35m as at 3 March 2020 38% of this target was either fully developed or under development at 3/3/20. Given the adverse variance to plan in 2019/20 there is insufficient evidence to indicate that the system will successfully deliver future plans.</p> <p>The NHS Constitutional Standards provide a guide of how the CCGs are working with local providers to deliver key services. In the draft Annual Report of the CCGs it is highlighted that four of the CCGs failed to meet 12 of the 14 indicators, SoTCCG failed to meet all 14 and S&amp;SCCG failed to meet 11 of the 14 indicators.</p> <p>During the course of our audit we have identified a significant number of differences relating to accruals and estimation of expenditure at the year end with NHS providers and partners. The volume of differences highlight weaknesses in the CCGs arrangements to effectively work with partners to monitor and agree financial transactions.</p> |

A blurred background image of a business meeting. Several people in professional attire are gathered around a wooden conference table. A woman with blonde hair is leaning forward, resting her chin on her hand, looking intently at documents on the table. Other people's hands and arms are visible, some pointing at the papers. The scene is brightly lit, suggesting a modern office environment.

Section 6

# Other Reporting Issues

# Other Reporting Issues

## NHS England Group Instructions

We are only required to report to the NAO on an exception basis if there were significant issues or outstanding matters arising from our work. We reported the following issues to the NAO:

- Findings arising from our audit as set out in our audit results report to management, and as set out in this annual audit letter. This includes significant control deficiencies, matters relating to the qualified (adverse) value for money conclusion, regularity opinion and referrals to the secretary of state;
- All uncorrected misstatements above £300k; and
- Any other classification errors within the agreement of balances exercise between specific providers.

## Governance Statement

We are required to consider the completeness of disclosures in the CCGs' governance statements, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and identified that the draft Annual Governance Statements were not consistent with our knowledge of the CCGs and the remuneration and staff report disclosures that are required to be audited did not agree to the disclosures which were provided with for audit. The CCGs amended the Annual Governance Statement to include these areas. The CCGs should ensure that the Annual Governance Statement and the remuneration and staff report presented for audit are subject to review and appropriately reflect the position of the CCGs.

## Breach of revenue resource limit and referral to Secretary of State

We must report to the Secretary of State any matter where we believe a decision has led to, or would lead to, unlawful expenditure, or some action has been, or would be, unlawful and likely to cause a loss or deficiency.

The Department of Health set revenue resource limits for CCGs. CCGs are required to keep their spending within this limit. As spending in excess of the revenue resource limit is unlawful, we are required to report to the Secretary of State on any breach, whether planned or actual. Five of the CCGs (all except ESCCG) planned to achieve a deficit and exceed their resource allocation for 2019/20. The actual results for 2019/20 resulted in four of the CCGs spending more than their allocated resource limits for the year, being CCCCCG, NSCCG, SSCCG and SOTCCG.

We fulfilled our responsibility by qualifying the regularity opinion (for CCCCCG, NSCCG, SSCCG and SOTCCG) and issuing a report to the Secretary of State and NHS England under Section 30 of the Local Audit and Accountability Act 2014 (for CCCCCG, NSCCG, SESCCG, SSCCG and SOTCCG).

## Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the CCGs or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.



# Other Reporting Issues (cont'd)

## Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

### High risk rated findings:

Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within 3 months.

| Description  | Recommendation   |
|--|--|
| Key individuals such as the Interim Acting Chief Financial Officer, with responsibility for ensuring proper financial stewardship, were not aware of the financial implications of decisions associated with the VCSL negotiation. Discussions and negotiations relating to VSCL were limited to a number of individuals who had signed a non disclosure agreement, this group did not adequately consider the proper financial reporting requirements or the need to ensure relevant bodies such as the Audit Committee in Common or the Finance and Performance Committee were aware of significant financial transactions and judgements being taken. | The CCGs should make sure there are arrangements in place to ensure the Chief Financial Officer is aware of all relevant financial transactions and that members with with governance responsibilities are appropriately informed and briefed on significant financial transactions. |
| The Chairman of the Audit Committee in Common was not made aware of developments in the VSCL negotiation prior to signing the letter of representation on the 5 June 2019 and in effect received false assurance from management. This represents a significant weakness in the arrangements which those charged with governance (the Audit Committee in Common) have to provide oversight of fraud processes.   | The CCG should review the reporting arrangements to those charged with governance to ensure that the assurances they receive are accurate and true.  |
| There are weaknesses in arrangements to appropriately recognise expenditure. Our audit identified a number of differences where the estimated position of the CCGs was not supported by NHS counter parties or where subsequent information after the year end did not support the CCGs reported position.   | The CCGs need to review the arrangements for making year end accruals and estimates to ensure they more accurately reflect the likely position.  |
| We noted that prior year over accruals released in the current year are being recognised as QIPP savings. This recognition is incorrect and potentially masks the recurrent actions that are required to deliver the savings that the CCGs need to undertake to address the financial challenges facing the Staffordshire Health System.   | The CCGs should not identify prior year over accruals as current year QIPP savings and should ensure that QIPP programmes are properly designed to deliver recurrent savings.  |

# Other Reporting Issues (cont'd)

## High risk rated findings (continued):

| Description   | Recommendation  |
|---|---|
| Contracts had not been signed with all providers in 2019/20, which was also the case in 2018/19. The primary function of the CCGs is to procure health services and agreed contracts forms the basis of this transaction. The absence of signed contracts with all providers represents a weakness in controls. | The CCG should ensure that there are signed contracts in place with all healthcare providers.   |
| The draft Annual Report for the CCGs outlines that there have been a number of meetings during the year which were not quorate. The number of inquorate meetings across the CCGs compares poorly with other organisations and is evidence of inadequate arrangements for informed decision making               | The CCGs should take action to remind members of their governance responsibilities and the importance that meetings are appropriately attended to: assess; challenge and ensure that decisions are undertaken on an informed basis. |

## Medium risk rated findings:

Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within 6 months.

| Description   | Recommendation   |
|---|--|
| During our walkthrough procedures we identified that there was no evidence of review included on the reconciliations between the PMD reports and the general ledger. Whilst there was no evidence of review we were able to confirm through our substantive procedures that there were no issues in the reconciliation process. | During our walkthrough procedures we identified that there was no evidence of the CCGs reviewing the bank reconciliations performed by SBS. Whilst there was no evidence of review we were able to confirm through our substantive procedures that there were no issues in the reconciliation process. |
| Management should ensure that the reconciliations are reviewed and signed and dated as evidence of this.  | Management should ensure that the bank reconciliations are reviewed and signed and dated as evidence of this.  |

Appendix A

# Audit Fees



# Audit Fees

Our fee for 2019/20, as agreed with the Chair of the Audit Committee in Common is as follows:

|  | 2019/20 Final<br>Fee (Note 3) | 2019/20<br>Estimated Fee<br>(Note 2) | 2019/20 base<br>fee | 2018/19 Actual<br>Fee (Note 1) |
|--|-------------------------------|--------------------------------------|---------------------|--------------------------------|
|  | £                             | £                                    | £                   | £                              |
| East Staffordshire CCG                           | 118,070                       | 43,740                               | 36,450              | 40,540                         |
| Cannock Chase CCG                                | 68,140                        | 44,740                               | 36,450              | 45,590                         |
| South East Staffordshire & Seisdon Peninsula CCG | 68,140                        | 44,740                               | 36,450              | 41,540                         |
| Stafford and Surrounds CCG                       | 68,140                        | 43,740                               | 36,450              | 45,590                         |
| North Staffordshire CCG                          | 72,880                        | 47,800                               | 39,000              | 44,090                         |
| Stoke on Trent CCG                               | 94,630                        | 55,000                               | 45,000              | 50,090                         |
| <b>Total statutory audit fee</b>                 | <b>490,000</b>                | <b>279,760</b>                       | <b>229,800</b>      | <b>267,440</b>                 |
| Non audit service fees                           | 0                             | 0                                    | 0                   | 0                              |
| <b>Total fees</b>                                | <b>490,000</b>                | <b>279,760</b>                       | <b>229,800</b>      | <b>267,440</b>                 |

Note 1: The 2018/19 prior year fees included additional costs associated with value for money, section 30 referrals, financial statement procedures and NAO WGA reporting and that these had been agreed and reported to the Audit Committee.

Note 2: We reported in our 2019/20 Audit Planning Report that the fee will be impacted by a range of factors which will result in additional work and in doing so we set out an estimate of the potential additional fee. The issues we have identified at the planning stage which could impact on the fee includes: Section 30 referrals and the need to operate at a lower level of materiality due to the volume of matters identified in the prior year and therefore increase the level of testing required. We highlighted in our plan that additional work would need to be undertaken in respect of our value for money conclusion but we did not have an estimate of what that might be at the planning stage.

Note 3: During the course of our audit additional time has been taken to respond to the points raised in our Audit Planning Report. In addition the final fee reflects the time taken to: undertake the additional work on the value for money conclusion; to respond to and investigate concerns that we were deliberately misled during the course of our 2018/19 audit; determine the validity of key estimates and judgements given the inadequate supporting records for the CCGs financial transactions; and undertake additional procedures to assess the impact of CV-19. The level of fee increase reflects this work required and the senior Partner time that was required to respond to the increased risks and additional consultations that were undertaken with our legal and risk management teams.

We confirm we did not undertake any non-audit work.



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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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