KPMG

Auditor's Annual Report 2021/22

NHS Kirklees CCG

21 June 2022

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This report is addressed to NHS Kirklees 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.

Summary

Introduction

This Auditor's Annual Report provides a summary of the findings and key issues arising from our 2021-22 audit of NHS Kirklees CCG (the 'CCG'). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the CCG alongside the annual report and accounts.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:

- **Accounts -** We provide an opinion as to whether the accounts give a true and fair view of the financial position of the CCG and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the Group Accounting Manual prepared by the Department of Health and Social Care (DHSC).
- **Annual report -** We assess whether the annual report is consistent with our knowledge of the CCG. We perform testing of certain figures labelled in the remuneration report.
- **Value for money -** We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the CCG's use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.
- **Regularity -** We assess whether expenditure incurred is in line with the purposes for which it was provided.
- **Other reporting -** We may issue other reports where we determine that this is necessary in the public interest under the Local Audit and Accountability Act.

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities.

Accounts	We issued an unqualified opinion on the CCG's accounts on 21/6/2022. This means that we believe the accounts give a true and fair view of the financial performance and position of the CCG. We have provided further details of the key risks we identified and our response on page 4.
Annual report	We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the CCG. We confirmed that the Governance Statement had been prepared in line with the DHSC requirements.
Value for money	We are required to report if we identify any matters that indicate the CCG does not have sufficient arrangements to achieve value for money. We have nothing to report in this regard.
Regularity	We did not identify any matters where irregular expenditure had been incurred.
Other reporting	We did not consider it necessary to issue any other reports in the public interest.

Accounts audit

The table below summarises the key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Risk	Findings
Fraud Risk from Expenditure Recognition As CCGs are set a statutory allocation for the amount of expenditure that is able to be incurred this creates a risk that there is an incentive for management to overstate expenditure in the year so that the CCG reports that the resource allocation has been complied with where accurate reporting would show a surplus. Therefore we consider there to be an existence and accuracy risk in relation to said expenditure and accruals (i.e. purchase of healthcare from non-NHS bodies and non-NHS and other WGA accruals), recognised at the year-end, as the CCG may seek to overstate expenditure whilst still reporting compliance with it its breakeven duty.	We did not identify any material misstatement relating to this risk. We raised a recommendation relating to the need for formal documentation of the management's year-end review of their accruals position.
Opening Balances On 1st April 2021, NHS Kirklees CCG was formed by a merger of the 2 legacy CCGs (NHS Greater Huddersfield CCG and NHS North Kirklees CCG). The new CCG has migrated the ledgers from the two CCGs. This has resulted in accounting data being migrated from one ledger to another. While there are a number of risks associated with data migration which include data corruption and application stability risks, the most common risk associated with data being migrated from one system to another is that of data loss. Consequently, for our audit of the financial statements this poses a risk of incomplete or inaccurate data having been migrated over and therefore a risk of there being inaccurate ledger balances. We also note there were a number of debtor and creditor balances between 2 CCGs at 31 March 2021 which will require eliminating from the opening position.	We did not identify any material misstatements relating to this risk.

Accounts audit

Risk	Findings
Management override of controls	We did not identify any material misstatements relating to this risk.
We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.	We raised a recommendation relating to establishing an effective control or mitigating control to prevent authorization of a journal by the preparer.

Value for money

Introduction

We consider whether there are sufficient arrangements in place for the CCG for each of the elements that make up value for money. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

Further details of our value for money responsibilities can be found in the Audit Code of Practice at Code of Audit Practice (nao.org.uk)

Matters that informed our risk assessment

The table below provides a summary of the external sources of evidence that were utilised in forming our risk assessment as to whether there were significant risks that value for money was not being achieved:

CCG assessment framework	Positive outcome in all six priority areas as per draft report
Governance statement	There were no significant control deficiencies identified in the governance statement
Head of Internal Audit opinion	Significant Assurance

Commentary on arrangements

We have set out on the following pages commentary on how the arrangements in place at the CCG compared to the expected systems that would be in place in the sector.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	No significant risks identified	No significant weaknesses identified
Governance	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

Value for money

Financial sustainability	
Description	**Commentary on arrangements**
This relates to ensuring that the CCG has sufficient arrangements in place to be able to continue to provide its services within the resources available to it. We considered the following areas as part of assessing whether sufficient arrangements were in place: ▪ How the CCG sets its financial plans to ensure services can continue to be delivered; ▪ How financial performance is monitored and actions identified where it is behind plan; and ▪ How financial risks are identified and actions to manage risks implemented.	**Summary of findings** ▪ In 2020-21, the organisation's predecessor CCGs were placed under a new financial framework to ensure financial stability and effective administration amidst the Covid-19 pandemic. However, in 2021-22, the framework moved away from the merged CCG receiving a population-based allocation to receiving an allocation share via the West Yorkshire Integrated Care System (ICS). During this period, the CCG also received additional funding to support Covid programmes, independent sector provider costs, long term planning investments and the Hospital Discharge Programme (HDP). ▪ Due to the Covid-19 pandemic, operational planning guidance for the 2021/22 financial year was delayed and was received on 25th March 2021. Therefore at the beginning of the 2021/22 financial year, this guidance was being worked through by Finance Officers in order to develop the 2021/22 financial plan. ▪ The 2021-22 financial year has been split into two halves (i.e. H1 and H2), with funding arrangements broadly consistent in both H1 and H2. For H1, Finance, Performance and Contracting Committee (FPCC) were made aware that core allocations would be received through the ICS, with a separate service development fund coming directly to the CCG. The total H1 allocation was determined as £348m and the CCG's financial plan was approved by the Board during its meeting held on 9th June 2021. ▪ Upon receipt of the H2 operational planning guidelines, the CCG was able to combine the H1 and H2 plans and report a full year forecast to FPCC and Board in the month 7 reporting period. As per said forecast, the CCG's budgeted allocation was £710.726m, with forecast annual expenditure of £710.726m, resulting in an expected break-even position at the year-end, in line with the target agreed between the CCG and the ICS. After the Board's approval, the full-year plan was been submitted to NHSE/I on 16th November 2021, in line with national timelines. ▪ A financial gap of £4.5m was identified for H2 to achieve the CCG's targeted breakeven control total and management identified areas to bridge this gap, including an immediate release of £0.8m of contingency in December 2021. ▪ The system funding envelopes for this year mainly include adjusted core CCG allocations and delegated co-commissioning allocations with top-up funding for the Hospital Discharge Programme, Elective Recovery Fund and System Development.

Value for money

Financial sustainability	
Description	**Commentary on arrangements**
	▪ As part of the CCG's financial planning for the 2021/22, the QIPP target of £3.2m was set for H1. This equated to 1.1% efficiency which was built into contracts as set out in the financial plans. Additional QIPP savings of £0.76m were also identified for H2 as part of a strategy to mitigate the funding gap. ▪ Performance and monitoring against efficiency targets have been monitored by the Programme Management Office and are reported to each FPCC meeting during the 2021/22 financial year. ▪ At each Governing Body meeting a Finance Report is presented (also presented at FPCC prior to this). This report includes a RAG rated table showing performance against the CCG's statutory duty and performance targets, the up-to-date financial position with explanations for significant year-to-date variances and a summary forecast with explanations for significant forecast outturn variances. ▪ Budget holders have oversight of the financial plans to ensure these aligned with overarching operational and strategic plans. However this was limited through the period of command and control as contract values were fixed and mandated in line with allocated budgets. We did not identify any inconsistency between the 2021/22 financial plan and the CCG's operational plans. ▪ The CCG assesses and manages it's financial strategy and risk through the High Level Risk Log presented regularly to the Governing Body. The CCG has identified and documented the key risks around financial sustainability including risk of delay in financial allocation and exceeding expenditure limits set as per their allocation. Inclusion of risks to financial sustainability in the High Level Risk Log presented to Governing Body ensures that this risk is regularly reviewed and scrutinised by those charged with governance. ▪ As at month 11, the CCG was forecasting to receive total allocations of £719.8m, of which approximately £3m was anticipated. We noted that by the year-end, the CCG's total outturn was £722.9m, compared to forecast of £719.8m, thereby allowing the CCG to break-even for the year-ending 31st March 2022. ▪ In line with national guidelines, as at year-end, financial planning for the 22/23 financial year was ongoing. Post year-end, we reviewed the CCG's formal submission and considered the ongoing work regarding this area at the West Yorkshire Integrated Care System (ICS) level. We did not identify any further significant risk from our follow-up procedures. **Conclusion** Based on the procedures performed we have not identified any significant risks and/or significant weaknesses that the CCG does not have sufficient financial sustainability arrangements in place to oversee and monitor their value for money achievement.

Value for money

Governance	
Description	**Commentary on arrangements**
This relates to the arrangements in place for overseeing the CCG's performance, identifying risks to achievement of its objectives and taking key decisions. We considered the following areas as part of assessing whether sufficient arrangements were in place: ▪ Processes for the identification and management of strategic risks; ▪ Decision making framework for assessing strategic decisions; ▪ Processes for ensuring compliance with laws and regulations; ▪ How controls in key areas are monitored to ensure they are working effectively.	**Summary of findings** ▪ We consider the CCG to have effective processes and controls in place to identify, monitor and assess risk. There are different frameworks and documents that record the varying risks within the CCG. Strategic risks are recorded and identified using the CCG's Integrated Risk Management Framework which sets out the approach to identifying, recording and scoring all risks onto the Corporate Risk Register and High Level Risk Log for Governing Body. If a risk has been identified as a result of this Framework, it is reported on a regular and timely basis through FPCC, Audit Committee (AC) and Governing Body (GB) to ensure there is sufficient and appropriate oversight and time given to allow informed discussion, challenge and decision-making. ▪ We have reviewed the CCG's Corporate Risk Register and Integrated Risk Management Framework. We have been able to determine that the Integrated Risk Management Framework, which was last updated on 21st April 2021, lays out how the CCG approaches financial risks. Furthermore the CCG's Corporate Risk Register shows that the CCG has carefully considered the likelihood and impact of each risk, with rationale provided, and how the CCG intends to reduce the risk to an achievable targeted level. Our review has demonstrated that these documents are complete and together display strong and robust arrangements in place to help identify, assess and monitor risk. ▪ To appropriately manage operational risk, the CCG's risk owners, from across all services, identify risks and input them onto CCG's risk management system. All risks are reviewed by a senior reviewer as well as by the Senior Management Team (SMT), before consideration by FPCC and GB where required. In order to incorporate risks into financial plans, all reports to FPCC and GB have a section to highlight financial risks associated with the matter under consideration. ▪ When the CCG's risk management system identifies and captures financial pressures or risks within the wider health system, such as CCG plans or in relation to services commissioned, they are captured within the Corporate Risk Register. However, for strategic risks, these are captured and reported to Governing Body through High Level Risk Log for Governing Body. ▪ As detailed in the 'Financial Sustainability' section of this document, the GB approved the budgets to enable the provision of funding to providers on a block contract basis during 2021/22. As part of this process financial risks were communicated to the GB prior to their approval of the plans. ▪ On a monthly basis, the FPCC receives the Financial Performance Report which identifies any areas of over or underspends against original and year-to-date budgets. This information is derived from the budget holders and the financial performance of cost centres. Discussions are held with budget holders periodically to identify any cost pressures and agree necessary corrective actions. The FPCC will initially scrutinise and challenge the performance reports before presentation to the GB on a timely and regular basis.

Value for money

Governance	
Description	**Commentary on arrangements**
	▪ We noted that although finance managers meet with budget holders on monthly basis to review financial performance against budgets and to check and review forecast outturn assumptions, minutes of such meetings are not documented. We would expect documented minutes of these meetings to keep track of progress on follow-up actions. We have therefore raised a recommendation in this regard. However, this does not impact our risk assessment regarding governance arrangements. ▪ The Audit Committee supports the establishment and maintenance of an effective system of integrated governance, risk management and internal control, across the whole of the CCG's activities that support the achievement of the CCG's objectives. The CCG monitors internal control effectiveness primarily through the delivery of the Internal Audit Plan and with regular reports provided to the AC in the delivery of this plan. Required audits are identified from the operational delivery of the CCG's functions and informed by the requirements identified as per assurance controls against key risks. ▪ CCG has a designated Local Counter Fraud Specialist (LCFS) who regularly reports to the AC and delivers training to the GB and briefings to CCG staff. We have also confirmed that the CCG has key policies in place in respect of fraud and whistleblowing. ▪ The CCG monitors its compliance with laws and regulations on an ongoing basis through the year and formally on an annual basis. The CCG has a suite of HR policies setting out expectations, together with a Standards of Business Conduct Policy which is regularly reviewed. ▪ The CCG's Declaration of Interest policy includes the CCG's policy on gifts and hospitality. The CCG's Conflicts of Interest Policy sets out clear expectations and the process for obtaining declarations. Live registers are maintained via a portal and are reported quarterly to Audit Committees. Declarations are held for all staff within scope of NHSE/I's expectations. ▪ Key policies and procedures, such as the CCG's Scheme of Delegation, sets out how and where decisions are made. Our review has demonstrated that the CCG has a well-developed committee structure which helps ensure key decisions receive appropriate scrutiny by first going to SMT for management input, Clinical Strategy Group (CSG) for clinical input as well as the relevant finance and quality committees before then going to GB for final decision. **Conclusion** Based on the procedures performed we have not identified any significant risks and/or significant weaknesses that the CCG does not have sufficient governance arrangements in place to oversee and monitor their value for money achievement.

Value for money

Improving economy, efficiency and effectiveness	
Description	**Commentary on arrangements**
This relates to how the CCG seeks to improve its systems so that it can deliver more for the resources that are available to it. We considered the following areas as part of assessing whether sufficient arrangements were in place: ▪ The planning and delivery of efficiency plans to achieve savings in how services are delivered; ▪ The use of benchmarking information to identify areas where services could be delivered more effectively; ▪ Monitoring of non-financial performance to assess whether objectives are being achieved; and ▪ Management of partners and subcontractors.	**Summary of findings** ▪ It is mandatory that the NHS Standard Contract is used when commissioning clinical services. This helps ensure that the required laws and regulations are incorporated and adhered to and that services will deliver the expected standards, including value for money. ▪ The CCG receives monthly performance reports from its main provider. These reports are distributed to commissioning, finance, contract and clinical leads. Whilst normal monitoring meetings have been suspended during the current year, in line with national instructions for the CCG's NHS providers, if required, meetings are then arranged with appropriate people at the relevant Trust to discuss performance and required actions. Our assessment has identified that these meetings have been established where required in the year. ▪ The CCG has a number of contracts with non-NHS providers. Our assessment has identified that the CCG has appropriate arrangements in place to monitor these contracts and to determine if expected standards are being delivered. ▪ As part of monitoring of costs, all expenditure is recorded within the Non-ISFE returns which are supported by specific systems maintaining underlying granular detail over cost and activity for relevant services. ▪ Income and cost pressures are identified via a number of methods including regular meetings with budget holders, the CCG's representation on various West Yorkshire working groups, NHSE/I planning guidance and underlying trends in monitoring recurrent and non-recurrent expenditure activity. ▪ On a monthly basis, FPCC receives the CCG's Performance Report. The report illustrates and scrutinises the CCG's performance against key performance indicators. Achievement against the standard is RAG rated against an agreed tolerance. Where applicable, national benchmarking is also used to add context to local delivery. The CCG gains assurance over the accuracy of the operational and non-financial performance through routine business intelligence reports which are produced and data quality checked to ensure that the data is accurate.

Value for money

Improving economy, efficiency and effectiveness	
Description	**Commentary on arrangements**
	▪ The CCG uses a number of benchmarking sources including the NHS Benchmarking website and the NHS Future Platform to help inform their assessment of the value for money being achieved. The CCG is able to routinely identify where the CCG is an outlier and, where there is no valid reason, develop appropriate schemes and projects for implementation within their potential efficiencies list of programmes. ▪ NHS Kirklees CCG functions and accountabilities will transfer to a newly established Integrated Care Board (ICB) in West Yorkshire from 1st July 2022 (subject to the Health and Care Bill being passed and the GM ICB Constitution agreed). The CCG will, like all CCGs nationally, be closed down at midnight on 30th June 2022. ▪ The local health and care system will need to establish arrangements supported by integrated governance, built around a future Locality Board, Provider Partnership/Alliance and the integrated neighbourhoods. ▪ Kirklees is one of 5 localities within the West Yorkshire Health and Care Partnership (WY HCP) Integrated Care System (ICS). The Chair and Chief Officer of CCG are members of the WY ICS joint committee while SMT members chair or participate in a range of WY ICS workstreams. Also, the CCG host or lead on a number of commissioning arrangements like Integrated Urgent & Emergency Care Team (IUEC) and Integrated Urgent Care (IUC). It is through this WY HCP governance structure that organisations contribute to ICS plans. ▪ The Kirklees Integrated Health and Care Leadership Board oversees local integration agenda. The Board includes a wide range of local stakeholders and receives regular updates. In addition there is the statutory local Kirklees Health and Well-being Board. For particular programs of work, separate boards are set up which report back to the overall leadership board. ▪ The Kirklees Integrated Commissioning Strategy sets out the priorities for change and how benefits and outcomes will be measured at partnership level. The Kirklees Integrated Health and Leadership Board brings together the local work to deliver those priorities. Joint partnership boards are also in place to deliver key programs such as Urgent Care Response (UCR) and enhanced care in care homes. ▪ Furthermore, the Kirklees Integrated Health and Care Leadership Board brings together joint working across partnerships. Regular update reports are also taken to the CCG's Governing Body on their work.

Value for money

Improving economy, efficiency and effectiveness	
Description	**Commentary on arrangements**
	Conclusion Based on the procedures performed we have not identified any significant risks and/or significant weaknesses that the CCG does not have sufficient improving economy, efficiency and effectiveness arrangements in place to oversee and monitor their value for money achievement.