



Auditor's Annual Report 2023/24

NHS Lancashire & South Cumbria ICB

—

26 June 2024

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This report is addressed to NHS Lancashire & South Cumbria Integrated Care (the ICB). 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.



01 Executive Summary

Executive Summary

Purpose of the Auditor’s Annual Report

This Auditor’s Annual Report provides a summary of the findings and key issues arising from our 2023-24 audit of NHS Lancashire & South Cumbria Integrated Care Board (the ‘ICB’). 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 ICB 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 ICB 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 ICB. 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 ICB’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	<p>We issued an unqualified opinion on the ICB’s accounts on 26 June 2024. This means that we believe the accounts give a true and fair view of the financial performance and position of the ICB.</p> <p>We have provided further details of the key risks we identified and our response on pages 7 & 8.</p>
Annual report	<p>We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the ICB.</p> <p>We confirmed that the Governance Statement had been prepared in line with the Department of Health and Social Care requirements.</p>
Value for money	<p>We are required to report if we identify any matters that indicate the ICB does not have sufficient arrangements to achieve value for money.</p> <p>We identified 1 significant weakness relating to the arrangements for the approval of the 2023/24 financial plan. We have provided further detail on page 19.</p> <p>We have followed up on the significant weaknesses in the prior year on pages 20 & 21.</p>
Regularity	<p>We did not identify any matters where irregular expenditure had been incurred.</p>
Other reporting	<p>We are required under Section 30 of the Local Audit and Accountability Act to make a referral to the Secretary of State for Health and Social Care if we identify that the ICB has or is about to enter into unlawful expenditure. A referral was made on 29 February 2024 relating to the ICB’s planned breach of the Revenue Resource Limit for 23/24.</p>

02 Audit of the Financial Statements

Audit of the financial statements

KPMG provides an independent opinion on whether the ICB's financial statements:

- Give a true and fair view of the state of the ICB's affairs as at 31 March 2024 and of its income and expenditure for the year then ended;
- Have been properly prepared in accordance with the accounting policies directed by NHS England with the consent of the Secretary of State in 2024 as being relevant to ICBs and included in the Department of Health and Social Care Group Accounting Manual 2023/24;
- Have been prepared in accordance with the requirements of the National Health Service Act 2006 (as amended).

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We have fulfilled our ethical responsibilities under, and are independent of the ICB in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Audit opinion on the financial statements

We have issued an unqualified opinion on the ICB's financial statements on 26 June 2024.

The full opinion is included in the ICB's Annual Report and Accounts for 2023/24 which can be obtained from the ICB's website.

Further information on our audit of the financial statements is set out overleaf.

Audit of the financial statements

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	Procedures undertaken	Findings
<p><i>Fraudulent expenditure recognition</i> As the ICB and system is required to break even or achieve their revenue resource limit, there is a risk that non-pay expenditure, excluding depreciation, may be manipulated in order to report that these duties have been met.</p> <p>The requirement to break even or meet their revenue resource limit creates an incentive for management to understate the level of non-pay expenditure compared to that which has been incurred. Whilst the revenue resource limit is expected to be breached in FY24 as per our secretary of state referral, management are still under pressure to report an outturn in line with that agreed with NHSE.</p> <p>We consider this would be most likely to occur through understating 'manual' non-NHS accruals and payables (i.e. excluding those which are system-generated such as Goods Received Not Invoiced), for example, to push back expenditure to 2024-25 to mitigate financial pressures.</p>	<p>We have performed the following procedures in order to respond to the significant risk identified:</p> <ul style="list-style-type: none"> - We have evaluated the design and implementation of controls for developing manual expenditure accruals at the end of the year to verify that they have been completely recorded; - We have inspected a sample of invoices of expenditure, in the period after 31 March 2024, to determine whether expenditure has been recognised in the correct accounting period; - We have inspected journals posted as part of the year end close procedures that decreased the level of manual accruals recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence; - We have performed a year on year comparison of the accruals in the prior year and current year and challenged management where the movement is not in line with our understanding of the entity. - We have performed a search for unrecorded liabilities via the bank statement, minute review & review of legal expenses incurred to confirm that relevant expenditure for the year ended 31 March 2024 is completely recorded. 	<p>We did not identify any material misstatements relating to this risk.</p>

Audit of the financial statements

Risk	Procedures undertaken	Findings
<p><i>Management override of controls</i></p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<p>We have performed the following procedures in order to respond to the significant risk identified:</p> <ul style="list-style-type: none"> - Our audit methodology incorporates the risk of management override as a default significant risk. - Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias. - In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments. - Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates. - Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the component's normal course of business, or are otherwise unusual. - We analysed all journals through the period and focussed our testing on those with a higher risk, such as journals reducing the year end manual accruals balance. - We have assessed the controls in place for identification of related party transactions and tested the completeness of the related parties identified. We verified that these have been appropriately disclosed in the financial statements. 	<p>We did not identify any material misstatements relating to this risk.</p>

03 Value for Money

Value for Money

Introduction

We are required to consider whether the ICB has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or 'value for money'. We consider whether there are sufficient arrangements in place for the ICB for the following criteria, as defined by the National Audit Office (NAO) in their Code of Audit Practice:



Financial sustainability: How the ICB plans and manages its resources to ensure it can continue to deliver its services.



Governance: How the ICB ensures that it makes informed decisions and properly manages its risks.



Improving economy, efficiency and effectiveness: How the ICB uses information about its costs and performance to improve the way it manages and delivers its services

Approach

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.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor's Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the ICB.

Summary of findings

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
Commentary page reference	12-14	15-16	17-18
Identified risks of significant weakness?	Yes	No	Yes
Actual significant weakness identified?	Yes	No	No
2022-23 Findings	Significant weakness in arrangements identified	No significant weakness identified	No significant weakness identified
Direction of travel			

Significant weaknesses followed up from the prior year

Two significant weakness surrounding financial sustainability & governance were identified in the previous year – these have both been addressed and closed off in the current year. In line with guidance, we have not raised a new recommendation this year but have followed up the progress in implementing the recommendations previously raised, see pages 20 & 21.

Value for Money

NATIONAL CONTEXT

Financial performance

The 2023-24 financial year saw a significant increase in the level of financial pressures facing the NHS sector. This followed the end of Covid-19 related financing arrangements. The sector has faced cost pressures from a range of factors, most significantly the impacts of inflation felt during the year and the costs of industrial action.

At the end of January 2024 NHS England forecast that the NHS would record an overspend of £1.1bn against its agreed budgets. This came after additional funding had been made available earlier in the year to support with the costs of industrial action.

Operational performance

In January 2023 the Government announced five pledges for 2023, including reducing NHS waiting lists and the time people wait for procedures. Waiting lists had grown significantly during the Covid-19 pandemic as elective activity was postponed in order to prioritise the treatment of Covid patients and ensure safe working.

According to the Health Foundation the NHS waiting list had grown from 6.2 million patients at the beginning of 2022 to 7.2 million in January 2023. There had also been a significant increase in the number of patients with long waits. At the end of 2023 there remained 355,000 patients that had been waiting over a year for treatment. Income arrangements for the acute sector were revised in year to reimburse providers for elective activity based on the actual number of patients treated.

System working

The Health and Care Act 2022 formally established integrated care systems (ICSs), 42 partnerships within local geographies to promote closer working between the organisations responsible for healthcare delivery. Integrated Care Boards were formed on 1 July 2022, taking over commissioning responsibility from Clinical Commissioning Groups.

In their first full year of operation ICSs have continued to work to develop and embed governance arrangements both within the ICBs themselves and as systems.

LOCAL CONTEXT

The ICB's arrangements have been understood in the context of the scale of the financial challenge across the NHS nationally and within the Lancashire and South Cumbria system. We have also understood the impact that the economic landscape, namely recently high inflation, is having on the ability of the system to deliver efficiency and productivity improvements.

In this context, the ICB is responsible for some aspects of the system's financial sustainability that sit outside of its control. Nevertheless, it is clear that the ICB has responsibility for and a pivotal role in leading the system to a more financially sustainable future, equipping system partners with the tools to unlock efficiencies in day-to-day operations as well as driving forward transformation with regard to health and social care pathways and system reconfiguration.

Financial Sustainability

How the ICB plans and manages its resources to ensure it can continue to deliver its services.

We have considered the following in our work:

- How the ICB ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the ICB plans to bridge its funding gaps and identifies achievable savings;
- How the ICB plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the ICB ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- How the ICB identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

2023/24 Financial Planning

The ICB's financial plan for 23/24 was created in accordance with NHS planning guidelines, agreeing consistent planning assumptions and principles across the system. We saw high level challenge of key budget holders through the minutes of the March 2023 Board meeting, at which the 2023/24 plan was reviewed and approved. The paper contained the latest funding and expenditure plan for all commissioned services and running costs for 2023-24 which have been used to develop the ICB's high level budgets.

The ICB inherited a £150m underlying deficit from the predecessor CCGs which put them under immediate financial pressure as a newly established entity. The Board originally set a breakeven plan for 2023/24 for the ICB, revised to a £59m deficit as part of the November 2023 reforecasting exercise. This forecast also included £30m of high risk mitigation and thus the forecast outturn deficit position was £89.0m.

A deficit plan of £80m was initially set within the provider Trusts which was revised to £149m as part of this reforecasting. Following the reassessment of the plan, a provider deficit of £149.5m was agreed with NHSE. Subsequently Lancashire & South Cumbria Foundation Trust (LSCFT) improved their forecast by £9.7m and £80.0m of deficit funding was allocated from NHSE meaning the year end target for providers was a deficit of £59.8m.

To achieve the planned position for 2023/24 the level of savings plans were set at £287m across the system. This represented 6.8% of the total allocation for the system and approximately 5% for providers.

An initial £97m Quality Improvement, Productivity & Prevention (QIPP) target for the ICB was planned, of which circa 65% was to be recurrent – this was also after the ICB had already set an initial stretch target of £76m. This represented a significant increase compared with actual QIPP delivery of £26.2m in the 9 months to 31 March 2023 (against a plan of £51m). The ICB had a further responsibility for ensuring that the system as a whole met the planned forecast deficit of £80m (originally £95m but excess inflation funding of £15m was agreed with NHSE as part of agreeing the planned deficit), which was also subject to considerable financial risk in the form of high-risk identified Cost Improvement Programmes (CIPs) and a total expected QIPP delivery of £189.8m. The planned £80m deficit position also required delivery of £72m of system 'stretch' savings required by NHSE.

The ICB has only partial control over how the providers deliver on CIP; while these are nominally the responsibility of the providers themselves, there are system-wide interdependencies underpinning the majority of these plans that the ICB has a key role in enabling. With regard to the 'stretch' target of £72m, the ICB had done work to identify opportunities that would – if fully delivered – achieve £139m of savings across the system. This exceeded the required 'stretch' but, of these, £89m (64%) were considered to be high risk. These included in particular the review of commissioned services and agreement to discontinue specific unfunded activity, as well as enabling providers' bed optimisation plans through unlocking community capacity.

Financial Sustainability

2023/24 Financial Planning (continued)

It is evident that the scale of the internal QIPP target the ICB needed to deliver, the level of embeddedness of the schemes overall, in addition to the further pressures within the system to be mitigated, represented a significant risk to achievement of the financial plan for 2023/24 in the context of the current allocations and funding available. This became apparent in the deterioration of the plan throughout the year, with the system's planned deficit being £6.3m behind plan by Month 2, £36.8m by Month 4, £71.9m by Month 6 and £82.6m by Month 8 when the reforecasting exercise began.

As at 31st March 2024 the ICB had achieved £63m of the QIPP target with £45m of this on a recurrent basis. The Providers had achieved £176.9m of the QIPP target with £120.2m of this on a recurrent basis.

We have reviewed the committee minutes relating to the drafting and approval of the 2023/24 financial plan and note that the initial plan tabled included an ICB deficit of £50m. This was alongside a presentation from the CFO on the financial difficulties faced by the organisation. We noted further discussion in May 2023 and challenge of the deficit position, as well as consideration of what could be done to close the gap to a breakeven position, however this was recognised to be a significant challenge especially in respect of the large and complex provider CIPs. However our review of the March 2023 Board minutes show the subsequent approval of a breakeven budget, albeit with commentary around the high level of risk involved in achievement and delivery of the plan.

Given the high levels of financial risk within the 23/24 plan – the significant cost savings needed to ensure this was achievable - and the amount by which the ICB & system has missed the initial targets, we have identified a significant weakness relating to the approval of a plan with significant levels of high risk – see further detail on Page 19.

System Arrangements And Monitoring Of Providers

The ICB has had in place a number of mechanisms during 2023/24 for managing the financial performance of the system as a whole and monitoring delivery by providers. The System Recovery and Transformation Board has been active since September 2023 and is attended by Chief Executives and Chairs of Providers and Local Authorities.

Financial risk has been appropriately reported through the Finance and Performance Committee and Board during the year. As at quarter 3 of 23/24, the system financial risk has been raised to the top score of 25 within the BAF. Spending measures have been implemented during the year, to minimise the planned deficit, such as vacancy control panels etc.

2024/25 Financial Planning

The Business and Sustainability Group started to pull together a long list of QIPP initiatives for 2024/25 in the last quarter of 2023/24 and we note that there are some key initiatives planned for 24/25 which should have a significant impact on the medium term financial position. Not least the review of workforce in providers, which has increased by ~7,000 WTEs since 2019, and the formation of 'One LSC' to bring together all of the back office functions as one.

The ICB Board is developing a 3 year recovery plan which aims to deliver financial sustainability. This will be dependent on the ability of the ICB to hold the providers and other partners within the system to account for their part in the system recovery and transformation, through effective operation of the System Recovery and Transformation Board. This plan will allow the ICB to operate strategically to achieve financial sustainability, rather than the current reactive position.

Financial Sustainability

2024/25 Financial Planning (continued)

The ICB are engaging with NHS England on an ongoing basis to discuss the 2024/25 outturn position and the plans for future recovery and transformation of the system. We are aware that positive discussions have taken place for the ICB to access a share of deficit funding to allow them to submit a breakeven plan for 2024/25. This plan relies upon £95m of QIPP to be delivered within the ICB and £97m with the Providers. However given the general election announcement for July 2024 the agreement of the plan will not take place before the finalisation of our VFM commentary and Auditor's Annual Report.

Other

An integrated care board has a statutory duty under section 223GC(1) of the 2006 Act to ensure that expenditure incurred by the board in a financial year does not exceed the sums received by it in a particular financial year. As at Month 10 of 2023/24 the ICB was projected to spend £59 million in excess of the sum allotted to the Board by NHS England for the year to 31 March 2024, as such we had a duty to make a referral to the Secretary of State under section 30(1)(b) of the 2014 Act, and we did so on 28th February 2024.

Conclusion

Based on the findings above we have determined that there is a significant weakness in the ICB's arrangements relating to financial sustainability. Given the high levels of financial risk within the 23/24 plan – the significant cost savings needed to ensure this was achievable - and the amount by which the ICB & system has missed the initial targets, we have identified a significant weakness relating to the approval of a plan with significant levels of high risk - see further detail on Page 19.

Governance

How the ICB ensures that it makes informed decisions and properly manages its risks.

We have considered the following in our work:

- how the ICB monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the ICB approaches and carries out its annual budget setting process;
- how the ICB ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the ICB ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour

Summary of risk assessment

The Board Assurance Framework (BAF) is a key element of the risk management architecture. As detailed on Page 21, we raised a recommendation in the PY Auditor's Annual Report relating to the lack of embeddedness of such risk management policies. Management have continued to develop the risk management arrangements in place, including the BAF, throughout 2023/24. We have found that the BAF links through to the ICB's strategic objectives and that there are clear arrangements in place to monitor, challenge and review the risks identified against these objectives within the BAF.

Internal audit have provided a moderate assurance report on risk management in September 2023, reflecting the progress and improvements made since the prior year, whilst highlighting some arrangements were still under development.

The ICB has established risk assessment criteria, used to assess all risks to ensure a consistent methodology is used. These risk assessment criteria are detailed within the Risk Management Strategy and Policy document.

We reviewed the ICB's systems and processes for monitoring performance against budgets and taking actions where variances are identified, and found that these were designed and implemented effectively. Through our review of the Standing Financial Instructions (SFIs) and the Scheme of Delegation we are satisfied that these detail the roles, responsibilities and delegation of the various officers and committees, and that this gives an appropriate escalation framework for making key decisions.

The Finance and Performance Committee has been running throughout the year supported by other forums introduced in the year, such as the Business and Sustainability Group. Financial risk has been appropriately reported through the Finance and Performance Committee and the Board during the year. As at quarter 3 of 23/24, the system financial risk has been raised to the top score of 25 within the BAF.

Through our review of the Board minutes we are satisfied that the regular presentation of the ICB Performance Balanced Scorecard enables the ICB to undertake appropriate monitoring of the system's non-financial performance, aligned clearly with the organisation's strategic priorities.

Governance

Risk assessment conclusion

Management have continued to develop the risk management arrangements, including the BAF, throughout 2023/24. The BAF links through to the ICB’s strategic objectives and there are clear arrangements in place to monitor, challenge and review the risks identified against these objectives within the BAF.

Based on the risk assessment procedures performed we have not identified a significant risk associated with governance.

	2024	2023
Control deficiencies reported in the Annual Governance Statement	0	0
Head of Internal Audit Opinion	Moderate Assurance	Limited Assurance
Oversight Framework segmentation	Segment three - Mandated and targeted support	Segment three - Mandated and targeted support

Improving economy, efficiency and effectiveness

How the ICB uses information about its costs and performance to improve the way it manages and delivers its services

We have considered the following in our work:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the ICB evaluates the services it provides to assess performance and identify areas for improvement;
- how the ICB ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
- where the ICB commissions or procures services, how it assesses whether it is realising the expected benefits.

Our findings

The ICB uses Getting It Right First Time (GIRFT) as well as NHS England benchmarking data to help identify possible quality and efficiency improvements. We have reviewed this analysis which demonstrates that the ICB has a process in place for identifying and monitoring cost improvements.

A sizeable value of the efficiencies delivered in 2023/24 have been on a recurrent basis, led by specific initiatives implemented during the year aimed at delivering efficiency such as a reduction in Commission Support Unit (CSU) contract costs and a new operating model for continuing healthcare (CHC) and individual patient activity with the aim of reducing costs in these areas. The ICB have achieved of £63m of the £97m QIPP target with £45m of this on a recurrent basis. The Providers have achieved £176.9m of the £189.8m QIPP target with £120.2m of this on a recurrent basis.

The ICB has developed a Financial Assurance Framework which establishes the governance arrangements for monitoring and managing financial performance across the system, including the coordinating of actions between providers to secure financial, service and quality improvement, both in response to specific performance issues and also in respect of systematic approaches to wider service improvement. It also establishes the reporting and accountability arrangements in place within the system, and the system-wide financial controls which include a system-wide vacancy control panel, controls over agency and consultancy spend, and significant new contracts.

The Project Management Office (PMO) has been revamped during the year with the appointment of the Head of Recovery and Transformation and supporting posts. Formal processes to support the delivery of the transformation, including the delivery of the QIPP are currently being developed and implemented. The PMO is in its infancy and requires further development and resource before it can deliver effectively.

Internal audit have issued a limited assurance opinion on the Cost Improvement Programme with recommendations in relation to processes, supporting structures and a regular reporting framework. Further, the Healthcare Financial Management Association (HMFA) financial sustainability checklist, completed by the ICB, has a number of low self-assessed scores identified in relation to CIP, with actions required to improve the arrangements supporting this.

There was no formalised business case process or documentation in place to support the Board in making consistent decisions in relation to future investments. We note that the key processes to support the delivery of the QIPP target weren't fully developed and implemented by the start of the year and were mainly driven by the finance team, however this did not have significant impact upon the delivery of QIPP for 2023/24 as noted above. We also note that further processes have been introduced ahead of 2024/25 such as the introduction of the Business and Sustainability Group.

Improving economy, efficiency and effectiveness

How the ICB uses information about its costs and performance to improve the way it manages and delivers its services

We have considered the following in our work:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the ICB evaluates the services it provides to assess performance and identify areas for improvement;
- how the ICB ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
- where the ICB commissions or procures services, how it assesses whether it is realising the expected benefits.

Our findings (continued)

There is extensive engagement between the ICB and the system providers through various assurance meetings, executive to executive meetings, System Finance Group and Deputy Group etc. The outcomes of these meetings are reported through to the ICB Finance and Performance Committee.

The ICB, led by the PMO, plans to implement joint QIPP plans with providers, recognising that this is a system issue and significant system transformation needs to take place to achieve financial recovery in the future. There are already discussions taking place in relation to the contracts with providers and the responsibility of the Local Authorities and continuing healthcare expenditure.

Conclusion

Based on our initial risk assessment procedures we identified a significant risk associated with Improving economy, efficiency and effectiveness. However, this risk has translated into a significant weakness around Financial Sustainability through the risk of delivery of the 2024/25 plan and the associated efficiency targets.

Despite not reaching the QIPP targets for 2023/24 we note that the ICB has delivered significant recurrent efficiency savings, well in excess of its achievement of such savings in 2022/23. As such, we are satisfied that there is not a significant weakness specifically associated with improving economy, efficiency and effectiveness.

Recommendations

We raised the following recommendations in response to significant weaknesses identified in our value for money procedures.

#	Recommendation	Management Response
1	<p>Ensuring an appropriate financial plan approval process is implemented and documented</p> <p>Given the high levels of financial risk within the 23/24 plan – the significant cost savings needed to ensure this was achievable - and the amount by which the ICB & system has missed the initial targets, we have identified a significant weakness relating to the approval of a plan with significant levels of high risk.</p> <p>We note that there is evidence in the Board minutes that it was flagged that some of the mitigations to achieve the 2023/24 plans contained high levels of risk, however the Board then note and approve this as part of the wider plan approval process. As such there is a risk that throughout the year the ICB is unable to effectively meet and monitor financial targets and plans given the challenging assumptions made. This is especially evidenced by how quickly the planned position deteriorated during 2023/24.</p> <p>We recommend that the Board should only approve future financial plans with reasonable levels of risk and where necessary, explicitly state that the submitted plan has been agreed to satisfy external requirements even where the Board does not believe a plan is achievable, if that is the most realistic conclusion to be drawn.</p>	<p>When approving the 2023/24 plan, the Board was fully aware of the level of risk associated with achieving its statutory financial responsibility of break-even. The deficit reported was driven by higher than expected levels of inflation for Prescribing and Continuing Health Care packages which were significantly more than the nationally mandated planning assumption uplifts.</p> <p>In developing the 2024/25 plan, the Board have been fully appraised on the recurrent underlying position, the assumptions applied and the deliverability of the QIPP target in order to deliver the ICB's share of the agreed system deficit control total. For 2024/25 final plan sign off, the Chief Finance Officer will ensure the Board are fully briefed on the risk associated with delivering the plan both in terms of national assumptions and delivery of ICB QIPP plans. As in 2023/24, detailed monthly reports will be provided to Finance and Performance Committee for scrutiny and assurance with updates to ICB Board as part of the system finance report.</p>

Prior year findings

Significant weaknesses followed up from the prior year

In our annual auditor’s report for the financial year 2022-23 we reported that the ICB had significant weaknesses in arrangements over financial sustainability & governance. As required by the Code of Audit Practice we have revisited this issue and set out in the table below an update in regards to the arrangements in this area.

#	Recommendation	Management Response	Current status
1	<p>VFM – speed of implementation of financial recovery approach</p> <p>The ICB has developed an overall financial recovery approach for the system as a whole, which includes six key approaches: being clear around targets; establishing a dedicated recovery team, agreeing formal devolved partnerships with local government; establishing a Recovery and Transformation Board (which includes NHSE participation); leading by example through ICB balanced budget target; and formalising oversight arrangements for providers with high deficits.</p> <p>We recognise that the system is developing a recovery response that aims to restore financial balance to the system over a three-year period. However, there is a significant level of risk associated with the ICB and wider system’s financial plan delivery for 2023/24.</p> <p>We recommend that the ICB ensures that resource is allocated appropriately to ensure each element of this recovery approach gains momentum during Q2 of 2023/24 and begins to deliver on the required system-wide financial improvement.</p> <p>The ICB should ensure that that an appropriate mechanism for monitoring and escalation is in place in order to address areas that are behind target. Linked to this, we recommend that the ICB prioritises the establishment of formal Terms of Reference for both the ICB Sustainability Group and the more system focused Recovery Board in order that their work is sufficiently focused and enables delivery of their respective priorities.</p>	<p>From the executive team, Maggie Oldham has been identified as the Chief of Recovery & Transformation. The Recovery and Transformation Programme received endorsement by the Board at its meeting on the 5th July 2023 and since then, the Recovery and Transformation Board has been established with clear terms of reference, supported by the identification of a small number of programme priorities against which resource will be aligned. The objective of the ICS Recovery & Transformation Programme is to lead the system successfully through some of the system’s most complex changes, while overseeing and assuring delivery of organisation-level improvements.</p> <p>The ICB has also had additional expenditure controls delegated to the ICB by NHSE covering recruitment, agency/consultancy spend, discretionary spend and procurement/new contracts – all overseen by a weekly system wide Recovery & Transformation Vacancy & Controls Panel.</p> <p>From an ICB perspective, the Sustainability Group is well established and working with programme leads to track delivery against a number of agreed efficiency schemes. This formally reports into the Finance & Performance Committee on a monthly basis.</p>	<p>Completed. Management have continued to develop the risk management arrangements, including the BAF, throughout 2023/24. The BAF links through to the ICB’s strategic objectives and there are clear arrangements in place to monitor, challenge and review the risks identified against these objectives within the BAF. Freedom to speak up arrangements are also now embedded and we have identified no further observations to be raised.</p>

Prior year findings

#	Recommendation	Management Response	Current status
2	<p>Embeddedness of key governance systems and processes</p> <p>Through our risk assessment work we identified a number of key governance systems and processes that are not fully implemented or embedded. In particular, the first draft of the Board Assurance Framework was only agreed by the Board in December 2022 and is yet to become fully operational and effective. Another example would be arrangements around Freedom to Speak Up, which were not operational for the 2022/23 year.</p> <p>There is a risk that the ICB are unable to effectively identify and manage risks. More widely, gaps in governance systems and processes could hamper the ICB's ability to operate effectively to the detriment of being able to achieve its strategic objectives.</p> <p>The ICB should undertake a prompt gap analysis to identify all aspects of the governance architecture that are not fully operational and prioritise the embedding of key systems and processes.</p>	<p>The development of the Board Assurance Framework and risk management systems and processes has progressed significantly since the review was undertaken. In June, the executive management team held a focused risk review session, and following this, in July, the updated BAF was presented to the board, along with an annual cycle of risk reporting (for the board and its assuring committees), which was approved. This has been implemented with the BAF presented to the board on quarterly basis for review, and each of its assuring committees receives a risk management report relating to the risks to the business of the committee on a bi-monthly basis for oversight and scrutiny. In addition, the executive management team receive and review/approve monthly risk update and exception reports. This demonstrates that there is a systematic process in place for regular review and oversight of both risks the to the achievement of the ICB's strategic objectives, as well as visibility and regular review against the management of operational risks relating to the day-to-day business of the ICB.</p> <p>To further strengthen the reporting and connectivity of risks, the ICB has reviewed and re-launched the report covering sheets for all reports that are being presented to the board and its committees. This requires all report authors to indicate which of the ICB's strategic objectives the report supports, and the requirement to identify any risks to their achievement (including risk ID/title if held on the BAF or CRR). This enables a consistent approach to the alignment between the report and the delivery of the ICB's strategic priorities with any associated risks clearly identified.</p> <p>The ICB has a Freedom to Speak up (FTSU) policy in place which has an Executive and Nonexecutive lead. From August 2023 3 Guardians have been appointed who will conduct this role alongside their substantive positions. The 3 Guardians are trained and registered with the National Guardians Office (NGO), in addition there are 3 FTSU champions for the ICB who have completed 3 modules the National Guardians office training 'Speak up, Listen Up, Follow up'. The ICB has a dedicated section on the intranet which explains FTSU, this also includes contact details for the guardians, champion and the promotion of speaking up was shared at a full staff briefing on 22 August 2023. On 13 September 2023 Dr David Levy who is the interim executive lead for FTSU provided an update to the ICB Board in public on 13 September 2023.</p> <p>The Guardians along with the support from the Executive and non-executive lead have agreed some key priorities which include, recruitment drive in October (national FTSU month) to appoint additional champions, development of templates for anonymous FTSU reporting, and a culture survey to be undertaken with all ICB staff October. An update will also be brought to the ICB People Board and Audit committee in October/November.</p>	<p>Completed.</p> <p>Management have continued to develop the risk management arrangements, including the BAF, throughout 2023/24. The BAF links through to the ICB's strategic objectives and there are clear arrangements in place to monitor, challenge and review the risks identified against these objectives within the BAF. Freedom to speak up arrangements are also now embedded and we have identified no further observations to be raised.</p>



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