



Auditor's Annual Report 2022/23

NHS Lancashire and South Cumbria Integrated Care Board

3 July 2023

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This report is addressed to NHS Lancashire and South Cumbria Integrated Care Board (the ICB) and has been prepared for the sole use of 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.

Summary

Introduction

This Auditor's Annual Report provides a summary of the findings and key issues arising from our audits of the three month period to 30 June 2022 of NHS Blackpool CCG, NHS Fylde and Wyre CCG, NHS Morecambe Bay CCG (the 'CCGs') and of the nine month period to 31 March 2023 of NHS Lancashire and 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:

Financial Statements - We provide an opinion as to whether the financial statements give a true and fair view of the financial position of the audited entities and of its income and expenditure during the year. We confirm whether the financial statements 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 audited entities. We perform testing of specific figures labelled in the Remuneration Reports.

Value for Money - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the entities' 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.

Summary

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

	NHS Lancashire and South Cumbria ICB	NHS Blackpool CCG	NHS Fylde and Wyre CCG	NHS Morecambe Bay CCG
Financial Statements	<p>We issued an unqualified opinion on the ICB's financial statements on 3 July 2023. This means that we believe the accounts give a true and fair view of the financial performance and position of the ICB.</p> <p>Please see page 7 for further detail.</p>	<p>We issued an unqualified opinion on the CCG's financial statements on 29 June 2023. This means that we believe the accounts give a true and fair view of the financial performance and position of the CCG.</p> <p>Please see page 5 for further detail.</p>	<p>We issued an unqualified opinion on the CCG's financial statements on 29 June 2023. This means that we believe the accounts give a true and fair view of the financial performance and position of the CCG.</p> <p>Please see page 5 for further detail.</p>	<p>We issued an unqualified opinion on the CCG's financial statements on 29 June 2023. This means that we believe the accounts give a true and fair view of the financial performance and position of the CCG.</p> <p>Please see page 5 for further detail.</p>
Annual Report	<p>We did not identify any significant inconsistencies between the content of the Annual Report, our testing and our knowledge of the ICB.</p> <p>We confirmed that the Annual Governance Statement had been prepared in line with DHSC requirements.</p>	<p>We did not identify any significant inconsistencies between the content of the Annual Report, our testing and our knowledge of the ICB (and previously of the CCG).</p> <p>We confirmed that the Governance Statement had been prepared in line with DHSC requirements.</p>	<p>We did not identify any significant inconsistencies between the content of the Annual Report, our testing and our knowledge of the ICB (and previously of the CCG).</p> <p>We confirmed that the Governance Statement had been prepared in line with DHSC requirements.</p>	<p>We did not identify any significant inconsistencies between the content of the Annual Report, our testing and our knowledge of the ICB (and previously of the CCG).</p> <p>We confirmed that the Governance Statement had been prepared in line with DHSC requirements.</p>
Value for money	<p>We are required to report if we identify any significant weaknesses in the arrangements the ICB has in place to achieve value for money.</p> <p>We have identified two significant weaknesses, as outlined in more detail from page 8.</p>	<p>We are required to report if any significant weaknesses in the arrangements the CCG has in place to achieve value for money come to our attention.</p> <p>We have nothing to report in this regard.</p>	<p>We are required to report if any significant weaknesses in the arrangements the CCG has in place to achieve value for money come to our attention.</p> <p>We have nothing to report in this regard.</p>	<p>We are required to report if any significant weaknesses in the arrangements the CCG has in place to achieve value for money come to our attention.</p> <p>We have nothing to report in this regard.</p>
Regularity	<p>We did not identify any matters where irregular expenditure had been incurred.</p>	<p>We did not identify any matters where irregular expenditure had been incurred.</p>	<p>We did not identify any matters where irregular expenditure had been incurred.</p>	<p>We did not identify any matters where irregular expenditure had been incurred.</p>
Other Reporting	<p>We have not issued any other reports.</p>	<p>We have not issued any other reports.</p>	<p>We have not issued any other reports.</p>	<p>We have not issued any other reports.</p>

Financial Statements Audit - ICB

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
<p>Fraudulent expenditure recognition</p> <p>As ICBs and systems overall are 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>We understand that the system has agreed an overall £30m forecast deficit with NHSE for 2022-23 with a break-even position for the ICB itself, but that there remains considerable risk in the achievement of these targets, which underlines this incentive.</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.</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 2023-24 to mitigate financial pressures.</p> <p>The risk is not related to NHS accrued expenditure due to the limited opportunity for manipulation as NHS transactions are underpinned by third party confirmations via the Agreement of Balances exercise. Prescribing related accrued expenditure is also not included in the risk due to the fact they are processed by a third party.</p>	<p>We identified one audit misstatement relating to our testing of this risk.</p> <p>We identified that a reduction in expenditure of £25.0m was recorded relating to the overstatement of accrued continuing healthcare expenditure brought forward from the CCGs. We identified that this reduction in expenditure should have been reflected in the predecessor CCGs for the 3 months 30 June 2022, therefore management has adjusted the CCG and ICB financial statements to reflect this transaction in the respective CCGs. NHSE funding allocations have been adjusted for the CCGs and ICB, such that there is no overall impact on the reported performance against the CCGs'/ICB's statutory financial duties.</p>
<p>Management override of controls</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>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>We did not identify any material misstatements relating to this risk.</p> <p>We identified that as the ICB's General Ledger system, Oracle, does not enforce segregation of duties, the design and implementation of controls over journal entries and post-closing adjustments are not effective. We note that the ICB has limited control over the design of controls within Oracle and the deficiency identified would impact other ICBs that use Oracle. Auditing standards require us to consider and report accordingly on the design and implementation of controls in place which respond to the significant risks identified. Therefore whilst we acknowledge localised controls in place to mitigate this issue, we are still required to note the deficiency in design within the ICB systems.</p>

Financial Statements Audit – CCGs

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.

CCG	Risk	Findings
NHS Blackpool CCG	<p>Management override of controls 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 did not identify any material misstatements or significant control deficiencies relating to this risk.</p> <p>We identified that as the CCG’s General Ledger system, Oracle, does not enforce segregation of duties, the design and implementation of controls over journal entries and post-closing adjustments are not effective. We note that the CCG had limited control over the design of controls within Oracle and the deficiency identified would impact other CCGs that use Oracle. Auditing standards require us to consider and report accordingly on the design and implementation of controls in place which respond to the significant risks identified. Therefore whilst we acknowledge localised controls in place to mitigate this issue, we are still required to note the deficiency in design within the CCG’s systems.</p>
NHS Fylde and Wyre CCG	<p>Management override of controls 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 did not identify any material misstatements or significant control deficiencies relating to this risk.</p> <p>Separately to this risk, we identified one material misstatement relating to accrued continuing healthcare (CHC) costs at 30 June 2022. This has been amended by management, which has decreased reported net expenditure for the period by £4.6m, with an accompanying decrease in the funding allocation from NHSE, with nil overall affect on the CCG’s performance against its statutory requirement to achieve breakeven.</p> <p>We identified the same matter as outlined above relating to the design and implementation of controls over journal entries and post-closing adjustments.</p>
NHS Morecambe Bay CCG	<p>Management override of controls 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 did not identify any material misstatements or significant control deficiencies relating to this risk.</p> <p>Separately to this risk, we identified one material misstatement relating to accrued continuing healthcare (CHC) costs at 30 June 2022. This has been amended by management, which has decreased reported net expenditure for the period by £3.8m, with an accompanying decrease in the funding allocation from NHSE, with nil overall affect on the CCG’s performance against its statutory requirement to achieve breakeven.</p> <p>We identified the same matter as outlined above relating to the design and implementation of controls over journal entries and post-closing adjustments.</p>

Value for Money - ICB

Introduction

We consider whether there are sufficient arrangements in place for the ICB 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:

Source	Detail
Single Oversight Framework rating	Segment three - Mandated and targeted support
Governance statement	There were no significant control deficiencies identified in the governance statement.
Head of Internal Audit opinion	We anticipate that this will provide Limited Assurance for the 9 months to 31 March 2023.

Commentary on arrangements

We have set out on the following pages commentary on how the arrangements in place at the ICB 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	One significant risk identified	Significant weakness in arrangements identified
Governance	One significant risk identified	Significant weakness in arrangements identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

The significant weaknesses identified relate to the financial sustainability of the ICB and wider system, and the embeddedness of key risk management systems and processes throughout 2022/23. We have provided further details on the following pages.

Value for money - ICB

Financial sustainability

Description

Commentary on arrangements

This relates to ensuring that the ICB 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 ICB 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.

Risk assessment

The ICB financial plan for 22/23 was created in accordance with NHS planning guidelines, agreeing consistent planning assumptions and principles across the system. The 8 predecessor CCGs jointly planned for Q1 to ensure consistency of methodology and execution. We saw appropriate challenge of key budget holders through the minutes of the 27 July 2022 Board meeting, at which the 2022/23 plan was reviewed and approved. The Board was provided with sufficient detail on risks to achievement of the planned position and mitigations that could be utilised to achieve this.

We have reviewed the ICB's Integrated Care Strategy for 2023-28. This assesses the present health and wellbeing of the local population, and gives information on the partnership and wider healthcare system across the four 'places'. This strategy then sets out the ICB's vision and priorities in terms of improving the health of the population. We also reviewed the ICB's Strategy For Working With People which sets out the ambitions, principles, governance and priorities for the ICB to work with people and communities. A key priority following the establishment of the ICB in July 2022 was to embed the engagement and involvement model, building on existing groups and networks. This is overseen by the Public Involvement and Engagement Advisory Committee, which met for the first time in October 2022.

The 2023/24 QIPP target for the ICB alone represents a significant challenge, and is to be delivered in the context of many other inflationary pressures, not all of which are expected to be funded. The majority of the ICB's savings target is expected to be achieved on a non-recurrent basis, underlining the challenge of embedding long-term financial improvement. There is therefore a significant risk around the delivery of the requisite efficiencies to achieve the planned £0.5m surplus in 2023/24 and breakeven in the longer term. In response to this significant risk, we will review in detail the specific plans the ICB has in place over QIPP for 23/24, in addition to arrangements for increasing efficiency in discrete areas such as Prescribing and Continuing Care.

There is a separate but significant risk around the wider system financial outlook and the ability of the system as a whole to meet whatever revised 2023/24 target is agreed with NHSE. There are appropriate mechanisms put in place by the ICB, including the System Finance Group, as an example, to engage with the providers, to encourage and increase the pace of collaboration. A significant amount of work has been done by the ICB in its current and previous shadow form, and by other system partners, to identify clearly the underlying reasons for the financial challenges in Lancashire and South Cumbria. These are well understood and acknowledged across the system. However, there is a limit to the extent to which the ICB is able to effect the kind of change that is required to remove costs from the system as a whole – the majority of which will come from collaboration and new ways of operating across the providers - while increasingly being considered responsible for the financial performance of the whole system.

Findings in respect of significant risk identified

The Lancashire and South Cumbria system faces particular structural issues around the configuration of hospital services across eight sites each providing the full range of services. The pace of collaboration between providers in the system, in so much as it relates to service redesign and the implementation of 'hub and spoke' approaches to clinical specialties, has been slow. Without extensive reconfiguration, hospital services within the system will continue to be inefficiently delivered. 2023/24 will be a highly challenging year financially for the ICB and the wider L&SC system, not least because of the impact of inflation which is running close to 8.7% at the present time and is simply not factored to this extent into central planning guidance. Another factor the system is facing is the age and frailty of the population served.

Value for money - ICB

Financial sustainability

Description

Commentary on arrangements

This relates to ensuring that the ICB 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 ICB 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.

Findings in respect of significant risk identified (continued)

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.

The 2023/24 financial planning process has been an iterative process, during which the ICB has taken a lead role on behalf of the system around forecast position, efficiency / financial improvement required to achieve that forecast, and the risks to achievement. At a system level discussions have taken place with NHSE to highlight that there was no real possibility of the system breaking even in 2023/24. As the ICB and system has progressed through different iterations of the plan, we have seen evidence of comprehensive and clear reporting to Board and Finance and Performance Committee regarding the revised plan and the key risks to achieving this.

An agreement was reached in early May 2023 for the ICB to achieve a surplus position of £0.5m. In order to achieve this, the ICB has an internal savings and recovery target of £172.5m. This is 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 has a further responsibility for ensuring that the system as a whole meets the forecast deficit of £80m (originally £95m but excess inflation funding of £15m was agreed with NHSE as part of agreeing the planned deficit), which is also subject to considerable financial risk in the form of high-risk identified CIPs within the providers, and delivery of the £72m system 'stretch' required by NHSE to get to the £80m deficit overall. This represents additional costs that must be removed from the system as a whole, which will primarily be around removing unfunded capacity, as well as securing additional ERF funding and some technical and non-recurrent measures.

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 these plans that the ICB has a key role in enabling. With regard to the 'stretch' target of £72m, the ICB has done work to identify opportunities that would – if fully delivered – achieve £139m of savings across the system. This exceeds the required 'stretch' but, of these, £89m (64%) are considered to be high risk. This includes 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. While £50m of low and medium risk opportunities are identified, half of these are medium-risk and don't yet have fully developed plans for delivery.

All of the above is in the context of the fact that the first quarter of the year has almost elapsed, and while achievement of QIPP in the ICB and CIP in the providers is expected to be backloaded, there is a risk around the system implementing transformational change at the pace required to deliver on the £80m system deficit plan.

The ICB has identified a series of schemes under the heading of Savings and Recovery Schemes totalling £172.5m. Of these, as of May 2023, £57.5m are considered low risk of delivery / achievement (33%), £55m considered medium risk (32%) and £60m (35%) is high risk. Aside from the risks attached to the QIPP delivery there are further risks around additional pressures of around £50m relating to unfunded capacity in the providers, which must be managed effectively to deliver the planned £0.5m surplus within the ICB. It is clear therefore that the level of risk around achievement of the 2023/24 plan is significant.

We have reviewed the identified schemes which make up the £172.5m. There is a range of embeddedness between these schemes, with the schemes around Running Costs (forecast to deliver £8.5m of efficiencies in year) and Continuing Healthcare (CHC) which is forecast to deliver £21m in 2023/24 being the most well developed with a clear line of sight of how the savings will be achieved.

Value for money - ICB

Financial sustainability

Description

Commentary on arrangements

This relates to ensuring that the ICB 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 ICB 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.

Findings in respect of significant risk identified (continued)

Reporting to Board and Finance and Performance (F&P) Committee around the risks to delivery of QIP and the 'stretch target' has been robust and clear. More generally, the Board and F&P Committee receive regular and comprehensive updates throughout the year on delivery of QIPP and the wider system's delivery of savings.

The ICB has set up a Sustainability Group which meets every 2 weeks (formerly the Business Meeting) in early 2023/24 in order to both monitor and drive delivery within the ICB. We note that the Terms of Reference for this group has not yet been finalised, which will be an important step in establishing how the Group will assist in the delivery of financial improvements. The Sustainability Group reports into the Finance and Performance Committee, to provide an appropriate escalation mechanism for significant issues with delivery. In addition to the Groups' regular business it also holds fortnightly focus group sessions which conducts a more in-depth review on a small number of particular themes within the wider QIPP programme.

The ICB has had in place a number of mechanisms during 2022/23 for managing the financial performance of the system as a whole and monitoring delivery by providers. This includes the System Finance Group which has been operating throughout the year, chaired by the Chief Finance Officer (CFO) of the ICB with Director of Finance level (DoF) representation from all providers in the system. This group enables close working between the ICB and the rest of the system and is supplemented by monthly one-to-one meetings between the ICB and each provider to challenge providers around key areas like CIP delivery, cash and run rate / efficiency.

In 2023/24, given the challenges outlined above, the System Finance Group will have a key role in holding DoFs of the providers to account, alongside the work of the Recovery Board. This Board will report directly into the ICB Board and will have representation from all system partners, focused on the system-wide recovery activities necessary to restore financial balance to the system. We note that the time of our audit, the precise Terms of Reference for this group has not yet been drafted and agreed, which will be important to ensure that the Group's work is appropriately focused from the outset.

Conclusion

The ICB faces a significant challenge in achieving the financial plan for 2023/24. The ICB must deliver QIPP of c£170m, of which around 35% is at high risk at the time of writing this report, near to the end of Q1. The ICB has a further responsibility for ensuring that the system as a whole meets the forecast deficit of £80m, which is also subject to considerable financial risk in the form of high-risk identified CIPs within the providers, and delivery of the £72m system 'stretch' required by NHSE to get to the £80m deficit overall. 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 these plans that the ICB has a key role in enabling. Based on the procedures performed we have identified a significant weakness in relation to the financial sustainability of the ICB and the wider system. The significant weakness relates to the level and risk associated with the savings identified within the financial plan that could substantially threaten the delivery of the plan.

We recognise that the system is developing a recovery response that aims to restore financial balance to the system over a three-year period. 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.

We note that the Recovery Board and Sustainability Group do not yet have established Terms of Reference in place. We recommend that the objectives and detailed Terms of Reference for these groups are formalised at the earliest opportunity.

Value for money - ICB

Governance	
Description	Commentary on arrangements
<p>This relates to the arrangements in place for overseeing the ICB's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> 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. 	<p><i>Risk assessment</i></p> <p>From the risk assessment work performed, we have identified one significant VFM risk. The Board Assurance Framework (BAF), as well as the wider Risk Management Strategy and Policy, were not formally in place for the new organisation until December and were still not in effective operation as at March 2023. There is a significant risk that these key aspects of the ICB's governance arrangements, in addition to some of the key structural features that enable effective risk management, were not in place throughout the period from 1 July 2022, which could significantly impact on the ICB's ability to deliver its strategic priorities.</p> <p><i>Findings in respect of significant risk identified</i></p> <p>We have summarised risk management activities since 1 July 2022 as follows:</p> <ul style="list-style-type: none"> In the lead-up to the merger of the predecessor CCGs, during Q1 of 2022/23, the risk registers for all 8 CCGs were considered by the Governance team, which identified that while there were commonalities between the, there were some key differences in terms of culture, approach and risk appetite. It was not therefore practical to simply amalgamate the 8 predecessor risk registers and Board Assurance Frameworks (BAFs) into a single ICB document from 1 July 2022. A series of Board sessions were therefore put in place to develop the ICB's approach to risk management and formalise the risk register and BAF documentation. This began with a designate Board session in June 2022 which was an informal and collective session to complete a 'stock take' of the risks and opportunities faced by the ICB. At the second substantive meeting of the Board on 27 July 2022 a more detailed system diagnostic paper was presented by the ICB's Chief Executive, which formally described the risks and challenges inherited by the new organisation. Further to this, in October 2022 a Board seminar was completed with the aim of developing the ICB Assurance Framework, in alignment with the previous system diagnostic reported at the end of July. On 7 December 2022 the first iteration of the ICB Risk Management Policy and Strategy, and BAF, were approved by the Board. The BAF and risk registers underpinning this have undergone further refinement during the remainder of 2022/23. In January 2023 a full review and consolidation of CCG corporate risk registers into a single ICB corporate risk register was completed. <p>We have reviewed the latest iteration of the BAF as well as a Risk Assurance Mapping exercise conducted in May 2023 which maps strategic risks to the ICB's overall objectives to the assurances available against those risks. With regard to the BAF content, while this has been augmented since the initial version presented to Board for approval on 7 December, there remain areas for improvement. For example:</p> <ul style="list-style-type: none"> The content of the columns detailing the controls/assurances are not consistent with some areas lacking evidence of specific controls to mitigate the risk identified. For example references were made to 'quality committee minutes' as a control/assurance.

Value for money - ICB

Governance	
Description	Commentary on arrangements
<p>This relates to the arrangements in place for overseeing the ICB's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> 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. 	<p><i>Findings in respect of significant risk identified (continued)</i></p> <ul style="list-style-type: none"> The target risk scores/dates don't appear to be supported by detailed plans on how these will be achieved in the timescales set. There are no associated actions listed to demonstrate how the ICB will manage the risk score. <p>Importantly, the use of the Board Assurance Framework as a living document, which should be used by the Board to both assure itself and also drive its agenda and that of its sub-Committees, is not yet fully developed or embedded. Likewise the embeddedness of the risk management processes and links between the Corporate Risk Register and BAF are not currently well developed. Management should prioritise embedding these key aspects of risk management within the ICB.</p> <p>Given the absence of formal ICB BAF and risk register documents for much of the year, we have inquired of management and reviewed documentation pertaining to Board discussion and challenge around key risk areas during the year. While formal governance features were absent, there is clear evidence from the Board papers and minutes that the matters considered broadly align with the key risks identified through the 'stock take' of risks faced by the ICB, conducted in June 2022.</p> <p>It was noted at the March 2023 Audit Committee that the ICB's Freedom To Speak Up arrangements are not yet fully implemented, which is an important aspect of the overall system of internal control in respect of prevention and detection of fraud. A commitment was made at that Audit Committee to prioritise the outstanding actions to fully operationalise these arrangements as soon as possible.</p> <p><i>Conclusion</i></p> <p>Key aspects of the ICB's governance arrangements, in addition to some of the key structural features that enable effective risk management, were not implemented until December 2022 and were still not in effective operation as at March 2023. Based on the findings above we have determined that there is a significant weakness in the ICB's arrangements relating to the extent to which effective governance arrangements were in operation for the whole of 2022/23.</p> <p>In relation to the Board Assurance Framework, management should address the areas identified for improvement including the concerns raised by the Audit Committee in relation to the risks identified, how this effectively links with the ICB's strategic priorities and how the Audit Committee will gain assurance over the effective management of risks where appropriate controls are still to be identified. Freedom to Speak Up arrangements should be fully embedded as soon as possible.</p>

Value for money - ICB

Improving economy, efficiency and effectiveness	
Description	Commentary on arrangements
<p>This relates to how the ICB seeks to improve its systems so that it can deliver more for the resources that are available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> • 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. 	<p><i>Risk assessment</i></p> <p>Before and during 2022/23 the ICB, and ICS in shadow form, commissioned external support to undertake benchmarking and diagnostic work with the aim of identifying efficiency and productivity opportunities within the Lancashire and South Cumbria system. This support included external reviews of the financial sustainability of the system and the underlying deficit that existed before Covid, and possible support service efficiencies. These projects have enabled the ICB to have a clear line of sight of where the opportunities lie for driving costs out of the system, and much of the work that has occurred since has been in formulating key priorities for efficiency and working with the providers to implement transformation schemes, many of which have a long-term focus.</p> <p>The ICB also uses Getting It Right First Time (GIRFT) to help identify possible quality and efficiency improvements. We have reviewed the 2022/23 GIRFT plan which demonstrates that the ICB has a process in place for identifying and monitoring cost improvements. Although the majority of the efficiencies delivered in 2022/23 have been on a non-recurrent basis, there have been a number of specific initiatives implemented during the year aimed at delivering efficiency, including: reduction in CSU contract costs; implementation of a MARS scheme within the ICB; consolidation of the ICB estate; embarking on a consultation on staffing structures with the longer-term aim of reducing headcount by 20%; and a new operating model for continuing healthcare and individual patient activity with the aim of reducing costs in these areas.</p> <p>Some of these activities are well embedded and have begun to deliver savings in 2022/23, whereas others will result in efficiencies in future periods. In respect of the MARS scheme, we have reviewed the documentation provided to the Remuneration Committee and Board, and confirmed that appropriate equality impact assessments have been conducted, and that appropriate governance arrangements have been put in place. There is clarity of reporting around the financial impact of the scheme and appropriate monitoring arrangements to report on achievement of efficiencies.</p> <p>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 being enforced from 1 August 2022, which include a system-wide vacancy control panel, controls over agency and consultancy spend, and significant new contracts.</p> <p>The ICB has a number of mechanisms for monitoring the performance of providers, including detailed monitoring of both national and local targets. There are numerous linkages between the ICB and NHS providers within the Lancashire and South Cumbria system, and accountability is achieved through reporting from the Provider Collaborative Board into the ICB, performance reports / dashboards to the Finance and Performance Committee and Board, which include system-wide performance, and quality and safeguarding reporting to the ICB's Quality Committee and Board. As noted in the previous section, we are continuing to review the quality assurance that is available to the Board and Committees regarding the completeness and accuracy of this performance reporting. We are also following up on performance review arrangements for GPs and independent sector providers.</p>

Value for money - ICB

Improving economy, efficiency and effectiveness

Description	Commentary on arrangements
<p>This relates to how the ICB seeks to improve its systems so that it can deliver more for the resources that are available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> • 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. 	<p>The ICB has appointed 4 Place-based Directors of Health and Social Care Integration who work alongside their respective local authority to ensure that integrated plans are developed across Health and Social Care. A programme of work regarding Place Based development has been undertaken including a series of workshops in December 2022 with the Place Directors of Health and Social Care and other Board-level representatives of the ICB and respective Local Authorities, chaired by Sir David Pearson, NHSE's System Transformation Advisor. The aim of the sessions is to develop the design of Place Based Systems in line with Thriving Places principles. The workshops resulted in a series of actions which are in the process of being responded to. We will continue to assess progress against these actions and reflect any additional findings in our Auditor's Annual Report.</p> <p><i>Risk assessment conclusion</i></p> <p>Based on the risk assessment procedures performed, we did not identify a significant risk associated with Improving economy, efficiency and effectiveness.</p>

Value for money - ICB

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

# Issue, Impact and Recommendation	Management Response
<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>

Value for money - ICB

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

# Issue, Impact and Recommendation	Management Response
<p>2 Embeddedness of key governance systems and processes</p> <p>Through our risk assessment work we identified a number two key governance systems and processes that are not fully implemented or embedded. Firstly and 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. Secondly, 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>In relation to the Board Assurance Framework, management should address the concerns raised by the Audit Committee in relation to comprehensive identification and documentation of key risks, how this effectively links with the ICB's strategic priorities and how the Audit Committee will gain assurance over the effective management of risks where appropriate controls are still to be identified. Freedom to Speak Up arrangements should be fully embedded as soon as possible.</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 Non-executive 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.</p> <p>An update will also be brought to the ICB People Board and Audit committee in October/November.</p>

Value for Money - CCGs

Introduction

We consider whether there are sufficient arrangements in place for the CCGs 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.

Per AGN03, auditors are not required to undertake a full risk assessment specifically aimed at planning a programme of VFM arrangements work to support a full commentary on arrangements against the reporting criteria when the body has demised in year. However, should any significant weaknesses come to our attention, they will be reported by exception.

We therefore undertake procedures to assess if there are any risks of significant weakness arising. These procedures include:

- Assess findings from work undertaken on the audit of the financial statements
- Review minutes of Governing Body and committee meetings
- Inquire of management and those charged with governance
- Review any internal audit findings in the period
- Follow-up prior year value for money weaknesses at the entity
- Review any other information available such as media reports.

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).

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. The results below represent the conclusions reached for each individual CCG:

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



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