



Annual Audit Letter 2015-16

NHS NEW Devon Clinical Commissioning Group

18 July 2016

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This report is addressed to NHS NEW Devon (the CCG) and has been prepared for the sole use of the CCG. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the CCG, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 6948981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



Introduction

Introduction

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2015-16 audit at NHS NEW Devon Clinical Commissioning Group (the CCG). Although this letter is addressed to the Members of the Governing Body of the CCG, it is also intended to communicate these issues to external stakeholders, such as members of the public. It is the responsibility of the CCG to publish this letter on the CCG's website.

We have reported all the issues in this letter to the CCG during the year and we have provided a list of our reports in Appendix A.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. Our main responsibility is to carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code) which requires us to report on:

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| Financial Statements including the regularity opinion and Annual Governance Statement | <p>We provide an opinion on the CCG's financial statements. That is whether we believe the financial statements give a true and fair view of the financial affairs of the CCG and of the income and expenditure recorded during the year.</p> <p>We are also required to form a view on the regularity of the CCG's income and expenditure i.e. that the expenditure and income included in the CCG's financial statements has been applied to the purposes intended by Parliament and the financial transactions in the financial statements conform to the authorities which govern them.</p> <p>We also confirm whether the CCG has complied with the requirements of the NHS Commissioning Board in the preparation of its Annual Governance Statement (AGS). We also confirm whether the balances you have prepared for consolidation into the Whole of Government Accounts (WGA) are not inconsistent with our other work.</p> |
| Value for Money conclusion | <p>We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the CCG's use of resources.</p> |

Introduction (cont.)

Adding value from the External Audit service

We have added value to the CCG from our service throughout the year through by:

- Providing a workshop to the Governing Body members on the role of external audit, risk matrix and what good governance looks like;
- Providing tax specialists to perform a “tax health check” to consider any tax risks;
- Providing an audit workshop for finance staff during February 2016 which members of your finance team attended;
- Attendance at meetings with members of the Governing Body and Audit Committee to present our audit findings, broaden our knowledge of the CCG and to provide insight from sector developments and examples of best practice;
- A proactive and pragmatic approach to issues arising in the production of the financial statements to ensure that our opinion is delivered on time;
- Issuing benchmarking reports for example “CCG Audit Committee Effectiveness Survey” and Audit Committee effectiveness checklists and guidance; and
- Building a strong and effective working relationship with Internal Audit to maximise assurance to the Audit Committee, avoid duplication and provide value for money.

Fees

Our fee for 2015-16 was £70,000 excluding VAT (2014-15: £100,000 provided by Grant Thornton). Our fees are set nationally by Public Sector Audit Appointments Ltd and reflect significant 25% reductions made nationally to scale fees. We will be charging additional fees, in addition to the scale fee for the work we have performed on the Integrated Fund, this amounts to £7,973 (excluding VAT). This is currently being agreed by the PSAA before we charge this amount to the CCG.

We have not performed any non-audit work.

Acknowledgement

We would like to take this opportunity to thank the officers of the CCG for their support throughout the year.



Headlines

Headlines

This section summarises the key messages from our work during 2015-16.

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| <p>Overall financial results and other key messages</p> | <p>Financially, 2015-16 was another challenging year for the CCG. The CCG achieved a deficit of £38m for 2015/16 but met their control total set by NHS England and achieved 87% of their QIPP target of £37m. The 2016/17 financial plan which was submitted to NHS England showed a projected £29m deficit, accumulated deficits of £105m and a QIPP target of £74m. Management are working with NHS England to understand the CCG's longer term financial plan. The CCG therefore continues to face significant financial challenges.</p> |
| <p>VFM conclusion risk areas</p> | <p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>Our work identified the following significant risks:</p> <ul style="list-style-type: none"> ▪ Financial reliance: The CCG's approved financial plan by NHS England showed a £40m deficit (£78.9m includes brought forward deficits) for the year ended 31 March 2016. As mentioned on the above, the CCG met its control total in the year. We reviewed the deficit position for the 2015/16 financial year obtaining supporting documentation that the CCG was closely monitoring the position each month; reviewed and held a number of discussions with management surrounding the 2016/17 financial plan; held discussions with the Turnaround Director to understand the work that had been performed in the year and the plans going forward; reviewed the governance structure in place surrounding the Better Care Fund with Devon County Council and NHS South Devon and Torbay CCG and the Integrated Fund with Plymouth City Council. ▪ Success Regime: The Success Regime was launched by NHS England on 1 June 2015. The regime plans to address systemic issues across whole health and care economies, with providers, commissioners and local authorities, rather than focusing on a single organisation. The Devon Health Economy, has been selected as one of three pilots for the Success Regime. The CCG continues to be committed to the success regime process, and has supported and contributed to the regime in a number of areas during the year. |
| <p>Value for Money (VFM) conclusion</p> | <p>We concluded that the CCG has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for:</p> <p><i>Financial resilience and sustainability</i></p> <p>The CCG achieved its in-year control total of a £40m deficit and a cumulative deficit of £78m. For 2016/17 the CCG's control total remains the delivery of a significant deficit, albeit at a reduced level of £29m which at the time of writing this report had yet to be agreed with NHS England.</p> |

Headlines (cont.)

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| Financial Statements audit opinion | <p>We issued an unqualified opinion on the CCG's accounts on 26 May 2016. This means that we believe the accounts give a true and fair view of the financial affairs of the CCG and of the income and expenditure recorded during the year.</p> <p>There are no unadjusted audit differences and a total of three adjusted audit differences which relate to reallocations within the balance sheet.</p> |
| Financial statements audit work undertaken | <p>We are required to apply the concept of materiality in planning and performing our audit. We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. Our materiality for the audit was £27m.</p> <p>We identified the following risks of material misstatement in the financial statements as part of our External Audit Plan 2015/16:</p> <ul style="list-style-type: none">• Accounting for the joint integrated fund with Plymouth City Council: During the year the CCG entered into a s75 agreement with Plymouth City Council (PCC) under a pooled fund arrangement. Under the s75 agreement, the CCG is the host. We held a number of discussions and understood the governance arrangements in place over the Integrated fund; we audited the year end reconciliation and performed detailed testing over the expenditure; we reviewed the CCG's accounting treatment to consider its compliance with the Manual of Accounts and IFRS 11. <p>As a result of our work we identified that the CCG had booked the entire contract instead of their share. As a result a £176m audit adjustment (which was adjusted by management) to remove the associated income and expenditure incurred by the PCC as were the lead commissioner. This adjustment effected the gross numbers in the accounts and did not change any spend or the financial position or underlying objectives of the Integrated fund.</p> <ul style="list-style-type: none">■ Accounting for the Better Care Fund with Devon County Council and NHS South Devon and Torbay CCG: The CCG entered into a S75 agreement with Devon County Council and South Devon & Torbay CCG for the Better Care Fund of Devon. Under the S75 agreement, Devon County Council is the host. The total amount of the fund amounted to £51m. The CCG had paid £35.5m into the fund, Devon County Council £6.8m and South Devon & Torbay CCG £9.5m. We reviewed the Section 75 agreement and the year end reconciliations; assessed how the funds operate, ensured that gross or net accounting arrangements were fully agreed and understood by all parties and correctly applied by the CCG; we tested a sample of CCG expenditure and agreed these back to invoices and performed cut off testing over purchases to ensure that invoices had been correctly booked into the right accounting period. <p>We reviewed the CCG's accounting treatment to ensure it is in compliance with the Manual for Accounts; As a result of our work, we identified two arrangements (Rapid Response Payments £2.1m and Frailty & Community Care £10.5m) where the CCG is the lead commissioner. This led to additional disclosure being made in the notes to the CCG's accounts in order to disclose the arrangements in order for the accounts to be compliant.</p> |

Headlines (cont.)

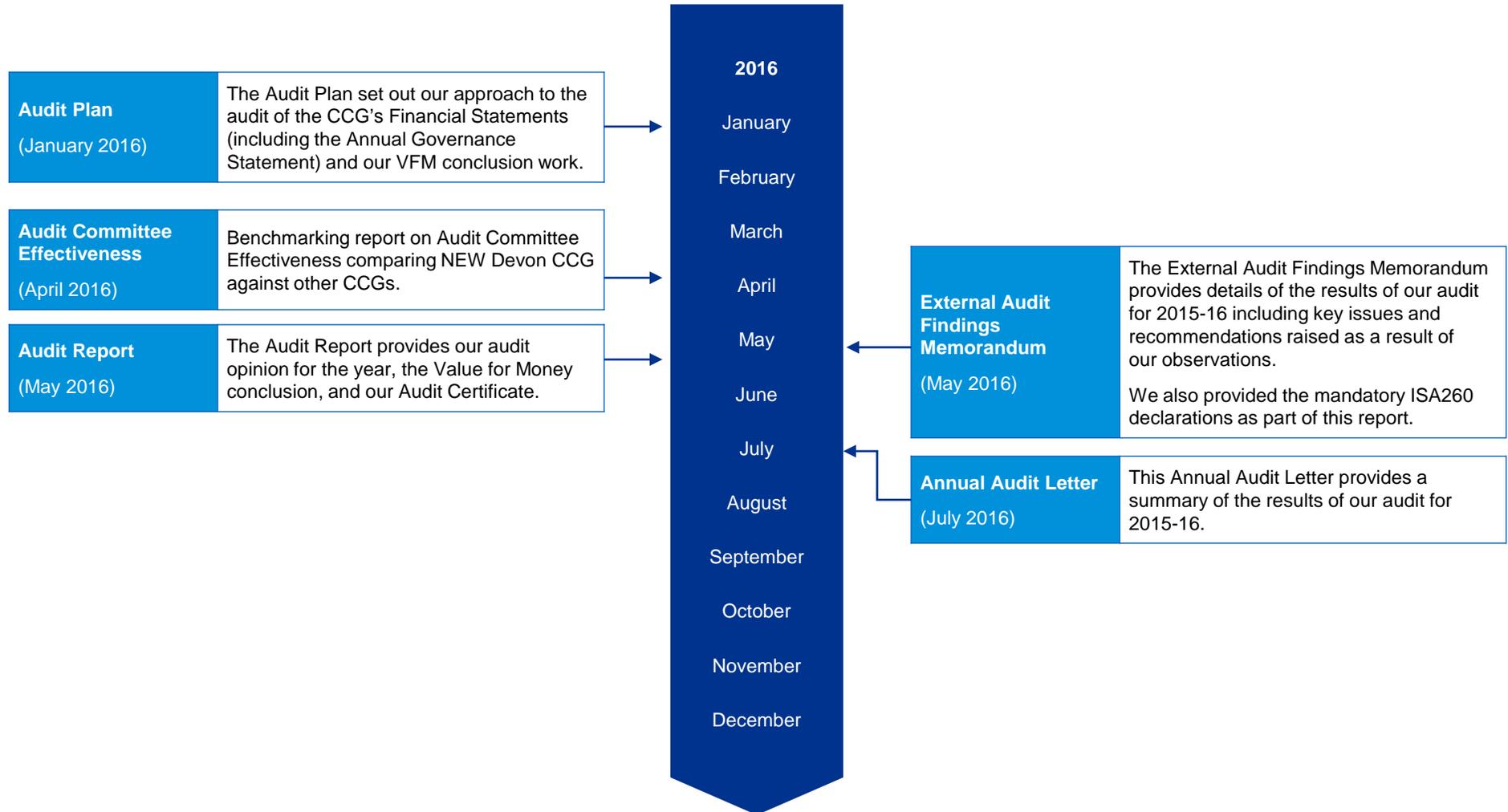
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| Regularity Opinion | <p>We are required to form a view on the regularity of the CCG's income and expenditure i.e. that the expenditure and income included in the CCG's financial statements has been applied to the purposes intended by Parliament and the financial transactions in the financial statements conform to the authorities which govern them.</p> <p>We issued a non-standard qualified opinion as the CCG breached two of its resource limits, being: the CCG's expenditure exceeds income; and the CCG's revenue resource exceeded the specified directions.</p> |
| Annual Governance Statement | <p>We confirmed that the CCG complied with the NHS Commissioning Board requirements in the preparation of the CCG's Annual Governance Statement.</p> <p>— No significant adjustments were required to the Annual Governance Statement.</p> |
| Whole of Government Accounts | <p>We issued an unqualified Group Audit Assurance Certificate to the National Audit Office regarding the Whole of Government accounts submission with a number of exceptions mainly relating to re-allocations from the statutory accounts to the WGA return.</p> |
| Recommendations | <p>We are pleased to report that there are no high recommendations arising from our 2015-16 audit work. We made two recommendations which were graded Low which related to journal authorisation and the Better Care Fund year end review.</p> |
| Public Interest Reporting | <p>We have a responsibility to consider whether there is a need to issue a public interest report or whether there are any issues which require referral to the Secretary of State. We did not issue a report in the public interest or refer any matters to the Secretary of State in 2015-16.</p> |



Appendices

Appendix A

Summary of our reports issued





The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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