

Northern, Eastern and Western Devon Clinical Commissioning Group

2017/18 Final Head of Internal Audit Opinion

For the Year Ended 31 March 2018

PRIVATE & CONFIDENTIAL

Prepared By:
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May 2018

FINAL HEAD OF INTERNAL AUDIT OPINION ON THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL AT NORTHERN, EASTERN AND WESTERN DEVON CLINICAL COMMISSIONING GROUP FOR THE YEAR ENDED 31ST MARCH 2018

Roles and responsibilities

The whole Governing Body is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Annual Governance Statement is an annual statement by the Accountable Officer, on behalf of the Governing Body, setting out:

- how the individual responsibilities of the Accountable Officer are discharged with regards to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- the governance framework of the organisation including the committee structure, the structure and use of the Assurance Framework, an assessment of the Governing Body's effectiveness and its compliance with the Corporate Governance Code;
- how risk is assessed and managed including a description of the risk management and review processes;
- the conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control deficiencies together with assurances that actions are or will be taken where appropriate to address issues arising.

The organisation's Assurance Framework should bring together all of the evidence required to support the Annual Governance Statement requirements.

In accordance with Public Internal Audit Standards and the Core Principles for the Professional Practice of Internal Auditing, the Head of Internal Audit (HoIA) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit and Assurance Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led Assurance Framework. As such, it is one component that the Governing Body should take into account in making its Annual Governance Statement.

The Head of Internal Audit Opinion

The purpose of my annual opinion is to contribute to the assurances available to the Accountable Officer and the Governing Body which underpin the organisation's own assessment of the effectiveness of the organisation's system of internal control. This opinion will in turn assist the Governing Body in the completion of its Annual Governance Statement.

My opinion is set out as follows:

1. Overall opinion;
2. Basis for the opinion;
3. Commentary.

Overall Opinion

My **overall opinion** is that:

Significant assurance can be given that there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. However, some weaknesses in the design and/or inconsistent application of controls put the achievement of particular objectives at risk.

Although our audit work throughout the year has identified some areas where improvements could be made to the system of internal control, we highlight the CCG's continued emphasis on the control environment and the very proactive approach that has been taken over its response to internal audit work and the clearance of internal audit recommendations.

The **basis** for forming my opinion is as follows:

1. An assessment of the design and operation of the underpinning Assurance Framework and supporting processes;
2. An assessment of the range of individual opinions arising from risk-based audit assignments contained within internal audit risk-based plans that have been reported throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses; and
3. Any reliance that is being placed upon third party assurances.

The **commentary** below provides the context for my opinion and together with the opinion should be read in its entirety.

Alignment of CCG Structures

Northern, Eastern and Western Clinical Commissioning Group (NEW Devon CCG) and South Devon and Torbay Clinical Commissioning Group have been working together in 2017/18 to align committee and management structures to work more closely, reduce duplication for both CCGs, and to support consistent decision-making.

In support of the CCGs' alignment process, 'aligned' audits have been undertaken in 2017/18 wherever possible, that is, one audit covering both CCGs' arrangements has been undertaken with one audit report produced for the area under review. We have continued to provide separate assurance ratings for each CCG in our reports, for key systems, in support of the Head of Audit Opinion statements.

CCG Financial Targets and Position in the Context of the System Wide Plan

The CCG's Financial Plan for 2017/18 was produced in conjunction with its main providers within a wider System Transformation Plan (STP) footprint encompassing South Devon and Torbay CCG. The CCG's and System financial targets for 2017/18 are summarised in the table below.

CCG Control Total	CCG Planned Target	CCG Planned Cumulative Target	System Planned Target	System Savings Plan Target
£17.4m deficit	£57.1m deficit	£177.6m deficit	£61.5m deficit	£168.2m

The CCG's planned deficit for 2017/18 was £57.1m. This was an improvement from its original planned deficit of £78m following proposals developed through the Capped Expenditure Process (CEP). NHS England confirmed that the plans submitted under the CEP would be used to review the CCG's performance and accordingly the CCG reported against this revised plan.

In addition to this the CCG had brought forward a deficit from 2013/14 to 2016/17 of £120.5m making the planned cumulative deficit £177.6m.

Although the plan was updated, NHS England confirmed that they would also continue to measure overall performance against the control total of £17.4m deficit. The forecast represented an overspend of £39.7m to the control total.

The updated CCG plan sat within an overall plan for the STP which had a deficit of £61.5m with a savings plan of £168.2m. The plan was based on an agreed set of block contracts with the main providers which de-risked this element of the CCG's commissioning budget and delivers savings within those contracts of £11.2m.

Post year end and subject to external audit verification, we understand that the CCG is reporting an improved year-end position of a £49.9m in year deficit, achieved through the release of 0.5% headroom funding of £5.787m and category M prescribing savings of £1.423m, these releases were nationally mandated by NHS England.

The CCG is part of the Devon STP. Our first review of the STP's governance arrangements, which was shared with the Audit Committee, concluded that, at the time of writing, the arrangements were overall fit for purpose. Our next review of the STP's arrangements will be undertaken during 2018/19.

Corporate Governance - Risk Management and Assurance Framework

The table below details the work completed by Internal Audit on the CCG's Corporate Governance arrangements.

Audit	Assurance Rating
Corporate Governance: Part 1 Risk Management and Assurance Framework	Satisfactory
Managing Conflicts of Interest Annual review of Conflicts of Interest and Gifts and Hospitality arrangements, in accordance with NHS England requirements	Significant

Corporate Governance: Part 1 – Reported February 2018

In Quarter 2 of 2017/18 NEW Devon Clinical Commissioning Group and South Devon & Torbay Clinical Commissioning Group began aligning governance and management arrangements with the aim of working more closely together, reducing duplication of work and supporting consistent decision-making. As such an aligned audit of risk management and Assurance Framework, covering both CCG's arrangements, was undertaken.

The overall objective of the Part One Corporate Governance audit was to provide high level assurance that the CCGs' risk management and Assurance Framework arrangements are robust and operated effectively throughout 2017/18 and throughout the alignment process.

We concluded that, in general, the CCGs have made good progress in aligning governance and risk management arrangements in the year and that overall the CCGs' risk management arrangements and controls are appropriately designed and are operating as intended. There were however areas where alignment of risk management processes and supporting documentation needed to be completed and controls further strengthened. These areas are summarised below.

Risk Management Framework Policy

A joint Risk Management Framework Policy was being developed at the time of the audit incorporating elements from each of the CCGs' existing risk management policies. Our review of the draft Policy confirmed that it complies with national best practice guidance and the CCGs' Strategic Leadership Committee, Operational Leadership Group and Governing Body have been, and continue to be, appropriately involved in the development of the Policy.

At the time of the audit it was anticipated that the new Policy will be ready for Governing Body approval in July 2018.

Risk Registers

At the time of the audit the CCGs continued to operate separate Risk Registers. Whilst both registers are well-designed, comprehensive and incorporate most aspects considered good practice, the need for a joint Risk Register to support alignment of the CCGs' risk management arrangements was recognised and was being addressed. Progress was being made to develop a joint web-based Risk Register with implementation and testing of the new register expected in late February/early March 2018.

Assurance Framework

The CCGs' combined Assurance Framework (AF), which was first reported in November 2017, is effectively an extract from each of the CCGs' Risk Registers, for all risks scoring above 15 and categorised as 'Very High Level'. The current Risk Registers, and hence the AF, contain most of the key features recognised as good practice.

The AF information currently presented to the Governing Body as part of the combined Risk and Assurance Report, does not include details of controls, assurances, gaps in controls and assurances, or actions needed to address gaps in controls and/or assurances for all strategic level risks. We considered that the reporting of the AF to the Governing Body needs to be strengthened in order to enable it to fulfil its responsibilities, in respect of robustly overseeing the management of strategic level risks.

Following agreement of the CCGs' aligned corporate objectives we also recommended that a top down assessment of strategic level risks be undertaken and that any strategic level risks not currently captured should be included in the combined Risk Register and AF. As part of this process, we recommended that the CCGs should consider risks within the wider system/STP/integrated care system, which may impact achievement of the CCGs' strategic corporate objectives.

Managing Conflicts of Interest – Report March 2018

In 2013 NHS England issued statutory guidance for managing conflicts of interest within CCGs. The guidance was updated in 2016 and takes into account a number of developments including co-commissioning and the NAO's report on managing conflicts of interest within CCGs. One of the requirements of the guidance is that CCGs undertake an annual audit of conflicts of interest management as part of their internal audit plans.

The overall objective of this audit was to evaluate the design and operation of the CCGs arrangements and controls for managing conflicts of interest and gifts and hospitality, and ensuring compliance with NHS England's statutory Guidance on Managing Conflicts of Interest for CCGs.

Based on the findings of our work, we concluded that the arrangements and controls established by both CCGs to manage conflicts of interest, and gifts and hospitality, are appropriately designed and are operating effectively and as such, the arrangements comply with NHS England's updated statutory guidance for managing conflicts of interest within CCGs.

We noted that the CCGs have produced a combined policy that incorporates many of the recommendations that we made in the 2016/17 Internal Audit Report on Conflicts of Interest. We also highlighted one practice and a differing template that, although meet the Guidance, mean that the two CCGs have slightly different approaches. We therefore recommended that the CCGs take these into account and continue with the development of the conflicts of interest, gifts and hospitality system, so that there is one approach across the two CCGs.

Financial Controls Assurance

The table below details the work completed by Internal Audit on the CCG's Financial Management Systems.

Audit	Assurance Rating
Financial Systems Controls Covering financial policies and procedures, financial ledger, debtors, creditors and cash and bank controls.	Significant
Financial Management: Delivery of System Savings Covering governance around the CCG's System Savings Plans, management of savings projects and validation and reporting of savings delivered against plans.	Satisfactory

Financial Systems Controls – Reported February 2018

This audit was completed in January 2018. It evaluated the robustness of the CCG's key financial controls in respect of:

- Scheme of Delegation
- Financial Policies and Procedures
- Financial ledger
- Journals
- Key control account reconciliations
- Creditors
- Debtors
- Cash and bank

We concluded that the CCG continues to maintain robust financial controls in respect of the above areas. Processes and procedures are adequately designed and operated effectively throughout the year.

Financial Management: Delivery of System Savings – Reported May 2018

The objective of this review was to evaluate the robustness of the CCG's arrangements for delivery of the 2017/18 Financial Plan, focusing on delivery of the 2017/18 Savings Plan. More specifically the following control areas evaluated included:

- The governance arrangements for delivery and approval of the CCG's Financial Plan and Savings Plan.
- Clarity and consistency of reporting progress against Savings Plans and whether savings reported as being delivered are supported by entries in the financial ledger.
- The work of the CHC, IPP and Prescribing Control Centres, the Executive Committee, and the Finance Committee in supporting achievement of the 2017/18 savings target and their role in ensuring that appropriate actions are taken to address areas where planned savings are not being achieved.
- The monitoring of CHC, IPP and Prescribing projects to deliver required savings.

The CCG had a challenging QIPP savings target to achieve for the financial year 2017/18, totalling £45.948m as reported to NHS England.

We concluded that the governance, management arrangements and controls reviewed were in general appropriately designed and operated effectively during the year. The governance arrangements in place allowed for the successful delivery of the savings required and at Month 11 the CCG was forecasting a breakeven deficit position of £57.125m, cumulative deficit position of £177.671m. Post year end and subject to external audit verification, we understand that the CCG is reporting an improved year-end position of a £49.9m in year deficit, achieved through the release of 0.5% headroom funding of £5.787m and category M prescribing savings of £1.423m, these releases being nationally mandated by NHS England.

We raised a small number of areas where control could be strengthened including:

- Taking further steps to simplify the CCG's financial reporting to ensure that there is clarity regarding the overall message being presented so that that it is clear to the lay reader, particularly in relation to how deficit positions have been arrived at when there are a series of on-going changes.
- Ensuring that Governing Body and Finance Committee minutes reflect in sufficient detail the discussions and challenges made by members to ensure that the CCG is giving itself credit for and can evidence that a considered decision making process has been undertaken to support decisions or actions taken.

Third Party Assurances

ISAE3402 Third Party Assurance report in respect of Shared Business Services (SBS) – Finance & Accounting Services

The CCG purchases a range of financial support services, including its Oracle General Ledger system from Shared Business Services Ltd. An established routine is in place whereby third party assurance is provided within an Independent Service Auditor's ISAE 3402 third party assurance report, which informs the CCG's Annual Governance Statement.

We are satisfied that the 2017/18 Independent Service Auditor's report provided by PWC, dated 19th April 2018, provides sound assurance in respect of the services provided by NHS Shared Business Services which supports the CCG's Annual Governance Statement.

The key messages in the overall audit opinion Section I of the Report of the Independent Service Auditor are as follows:

- The accompanying process description in the report **fairly presents** the core services provided to Clients throughout the period 1 April 2017 to 31 March 2018.
- The controls related to the control objectives stated in the description were **suitably designed to provide reasonable assurance that the control objectives would be achieved** if the controls operated effectively throughout the period 1 April 2017 to 31 March 2018.
- The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period 1 April 2017 to 31 March 2018.

Detailed testing identified one minor area where the control was either not designed or operating efficiently, however this did not adversely impact upon the overall control environment.

ISAE3402 Third Party Assurance report in respect of Payroll General Controls operated by NHS Shared Business Services in respect of the Electronic Staff Record (ESR)

The CCG's payroll services are provided through a contractual arrangement with NHS Shared Business Services (NHS SBS). An established routine is in place whereby third party assurance is provided annually within an Independent Service Auditor's ISAE 3402 third party assurance report, which helps to inform the CCG's Annual Governance Statement on Internal Control. This covers the payroll general controls operated by NHS SBS in relation to the ESR.

We are satisfied that the 2017/18 Independent Service Auditor's report provided by PWC, dated 19th April 2018, provides sound assurance in respect of the services provided by SBS for the period between 1st April 2017 and 31st March 2018, which supports the CCG's Annual Governance Statement.

The audit work conducted by PWC covered the following area:

- Employment Services

The key messages in the overall audit opinion of the Report of the Independent Service Auditor are as follows:

- The accompanying process description **fairly presents** the service organisation activities that were designed and implemented throughout the period 1 April 2017 to 31 March 2018.
- The controls related to the control objectives stated in the description were **suitably designed to provide reasonable assurance that the specified control objectives would be achieved** if the described controls operated effectively throughout the period from 1 April 2017 to 31 March 2018.
- The controls tested which, together with the complementary user entity controls referred to in the scope paragraph of this Service Auditor's Report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from 1 April 2017 to 31 March 2018.

Detailed testing identified a number of areas where control was either not designed or operating efficiently:

- For four items tested out of 45 Starter/Leaver checklists, there was no evidence that the data was independently verified to source documentation by an independent pay clerk.
- For three items tested out of 45, there was no evidence of the '1 in 10 validation checks' being carried out.
- For four items tested out of 45, the required number of exceptions by value were not evidenced as having been checked against the source document.
- For one item tested out of 45, there was no evidence of the Injury Allowance calculation being checked by a senior Payroll Clerk or Team Leader.

ISAE 3402 Third Party Assurance report in respect of IT General Controls in respect of the Electronic Staff Record (ESR)

In common with all NHS bodies, the CCG utilises the Electronic Staff Record (ESR) for its HR functions. An established routine is in place whereby third party assurance is provided annually within an Independent Service Auditor's ISAE 3402 third party assurance report, which helps to inform the CCG's Annual Governance Statement on Internal Control. This covers the IT general controls operated by IBM UK in relation to the ESR. Additionally there are certain controls related to the NHS General Ledger Interface, which are the responsibility of the NHS ESR Central Team which support the organisation's Annual Governance Statement.

The 2017-18 Independent Service Auditor's report provided by PricewaterhouseCoopers, dated 16th May 2018, provides reasonable assurance in respect of the IT general controls predominantly operated by IBM UK in relation to the national Electronic Staff Record and the controls operated by the NHS ESR Central Control Team.

The audit work conducted by PricewaterhouseCoopers covered the following six areas:

- Change Management;
- Logical Security;
- Problem Management and Performance and Capacity Planning;
- Physical Security and Environmental Controls;
- Computer Operations; and
- Payslip Distribution.

The key messages in the overall audit opinion of the Report of Independent Service Auditor are as follows:

- The controls described in the report were **suitably designed** to provide reasonable assurance that the related control objectives would be achieved if the described controls operated effectively throughout the period from 1 April 2017 to 31 March 2018 and customers applied the complementary customer controls contemplated in the design of NHS ESR Programme.
- The controls tested, which were those necessary to provide reasonable assurance that the related control objectives were achieved, operated effectively throughout the period from 1 April 2017 to 31 March 2018. There were no areas where controls were either not designed or operating efficiently.

Corporate Assurance

The table below details the work completed by Internal Audit on the CCG's Corporate Assurance areas.

Audit	Assurance Rating
High Cost Panel An evaluation of the effectiveness of the CCG's High Cost Panel	N/A
Individual Patient Placements An evaluation of the CCG's arrangements for managing and monitoring services commissioned in respect of Individual Patient Placements (IPP), and delivery of IPP savings plans.	Limited*

* Assurance rating at the time of the audit

Follow-up work subsequently undertaken provides assurance that IPP/Responsible Commissioner controls have been strengthened and risks are now more robustly managed.

High Cost Panel – Reported in September 2017

The CCG's Chief Nursing Officer and Chief Finance Officer commissioned Internal Audit to undertake a high level review of the CCG's High Cost Panel (HCP) arrangements due to the financial risk associated with high cost packages of care.

The purpose of the HCP is to review and approve individual packages of care with an estimated cost of between £1,500 and £5,000 per week.

The overall objective of this review was to provide assurance that the HCP is effective in its role of scrutinising and approving high costs packages of care, and that appropriate systems and processes are in place for the implementation of actions and decisions made and agreed by the panel.

Based on the findings of our work we concluded that whilst the HCP is effective in its role of scrutinising and challenging high cost cases that are presented for consideration, there was a lack of confidence in the robustness of arrangements and controls outside of panel, especially those for ensuring that the decisions of the panel were carried through. Areas where control needed to be strengthened included:

- Reviewing and updating the HCP's Terms of Reference.
- Defining and documenting the processes that should be in operation outside of panel, in respect of the management and control of packages of care, funding approval processes, and recording and monitoring the decisions and actions of the HCP.
- Updating the CCG's Scheme of Delegation to appropriately cover high cost packages of care approval rules, in and outside of the CCG.
- Establishing systems that enable the decisions and instructions of the HCP to be efficiently recorded and monitored.
- Ensuring the accuracy of commitments on CareTrack, especially following a panel decision being made
- Assessing the adequacy of resources needed to strengthen control in the above areas.

Individual Patient Placements – Reported October 2017

The Chief Finance Officer and Chief Nursing Officer commissioned Internal Audit to undertake a high level review of Individual Patient Placements (IPP) arrangements within the CCG, due to emerging risks regarding IPP expenditure and responsible commissioner controls.

The objective of this review was to provide assurance that the CCG has appropriate systems and controls in place for providing safe and high quality Individual Patient Placements whilst ensuring that the IPP budget is effectively managed. This work focused on Adult IPP and s117 aftercare arrangements.

Based on the work undertaken, it was evident that considerable resources had been directed towards strengthening IPP management and control arrangements since the previous audit of this area in 2015/16. Key developments included the establishment of an IPP Control Centre to oversee delivery of the IPP Improvement Programme and Recovery Plan, and development of an IPP Dashboard, enabling better monitoring of IPP activity and expenditure.

Whilst some progress had been made to strengthen arrangements there continued to be risks within the system and areas where limited progress has been made to strengthen control. These included:

- The need to complete the review of all potential responsible commissioner cases and establish a systematic and robust debt management system to recover related debt.
- Negotiation and agreement of arrangements for controlling IPP budgets with providers and commissioning partners.
- Reviewing and prioritising the actions set out in the current IPP Improvement Programme and strengthening Executive leadership and oversight.
- Establishing a clearer IPP QIPP Plan which identifies how the £3m IPP savings target will be achieved.
- The need for the CCG to be assured that placement reviews, covering quality, safety and value for money etc, are being robustly undertaken by providers, for all IPP cases the CCG is responsible for.

We therefore concluded that there were significant weaknesses in the design and operation of IPP and Responsible Commissioner arrangements and controls which threatened achievement of the CCG's objectives and plans in this area.

A total of 13 recommendations were made in the IPP/Responsible Commissioner audit report, 10 of which were rated 'High' risk. The 13 recommendations resulted in 29 actions being agreed. A **limited assurance** rating was awarded.

IPP/Responsible Commissioner and HCP Deep Dive Follow-Ups – Reported December 2017

The Audit Committee requested that a deep dive follow-up of the recommendations arising from the IPP and HCP reviews be undertaken by Internal Audit.

As part of this follow-up, we met with the Continuing Healthcare Programme Manager and members of the IPP Control Centre and reviewed updates provided, as well as supporting documentation to evidence progress.

Based on the results of the deep dive, and a further follow-up exercise completed in February 2018, assurance was provided that good progress had been made to address the majority of the recommendations arising from the HCP and the IPP/Responsible Commissioner audits.

In respect of IPP, particular strengthening of arrangements and controls was seen in the following areas:

- More systematic review and follow-up of IPP Responsible Commissioner cases.
- More robust and senior oversight and scrutiny of the IPP Improvement Programme and the IPP QIPP Plan.
- More robust assurance regarding review of placements and packages of care by providers and better scrutiny of review data by the CCG.

In respect of the HCP arrangements, controls had been strengthened in the following ways:

- The Terms of Reference of the HCP had been updated and made more robust.
- A HCP Standard Operating Procedure had been written and communicated out to all relevant officers.
- Training had been provided to CCG and provider staff regarding the work of the HCP.
- High cost case and HCP recording and monitoring systems had been strengthened.

We have continued to follow-up outstanding actions from the IPP/Responsible Commissioner and the HCP audits. At the time of issuing the final opinion statement all but one of the 29 agreed IPP/Responsible Commissioner actions had been addressed in full and therefore closed and all of the 19 HCP actions had been addressed and closed.

Other Work

Information Governance Toolkit V14.1 Review – Reported March 2018

We undertook a compliance review of the CCG's evidence to support the Information Governance Toolkit (V14.1) self-assessment. As this was a compliance review no assurance rating was provided, however the review provided an assessment on the evidence presented at a point in time, ie in March 2018, for ten toolkit requirements. The CCG's Information Governance (IG) team has a structured approach to reviewing and updating the evidence in the IG Toolkit. This approach operates throughout the year and this review constituted part of that process.

We reported that evidence provided in support of four requirements examined needed to be refreshed for the year end submission in order to achieve Level Two compliance. The remaining six requirements achieved compliance at Level Two.

Follow-Up of Recommendations

In respect of the audits undertaken during the year, recommendations have been agreed with management to address gaps in control and assurance. Internal Audit has monitored the status of these recommendations over the year, reporting directly to the Audit Committee on those recommendations which are outstanding on an on-going basis. No significant matters have been brought to the CCG's attention in respect of our follow-up findings in the year.

Jenny McCall
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Audit South West