



Annual Audit Letter

Year ending 31 March 2018

NHS Northern, Eastern and Western Devon Clinical Commissioning Group

4 July 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at NHS Northern, Eastern and Western Devon Clinical Commissioning Group (the CCG) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the CCG and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the CCG's Audit Committee as those charged with governance in our Audit Findings Report on 24 May 2018.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the CCG's financial statements and regularity assertion (section two)
- assess the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the CCG's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the CCG's accounts to be £22.4m, which is 1.8% of the CCG's gross revenue expenditure.
Financial Statements opinion	<p>We gave an unqualified opinion on the CCG's financial statements on 29 May 2018, which was submitted to NHSE on 30 May 2018. This was one day after the statutory date stipulated by the NHSE. The delay arose due to the need for the audit team to consult on independence implications arising from work undertaken at Delt Shared Services Limited. The audit team has confirmed with the NHSE that this delay did not in any way reflect on the CCG or its accounts preparation.</p> <p>As well as an opinion on the financial statements, we are required to give a regularity opinion on whether expenditure has been incurred 'as intended by Parliament'. Failure to meet statutory financial targets automatically results in a qualified regularity opinion</p> <p>Our review of the CCG's expenditure highlighted the following issue which gave rise to a qualified regularity opinion</p> <ul style="list-style-type: none"> • The CCG reported an overspend of £49.9 million against its revenue resource limit in its financial statements for the year ending 31 March 2018, thereby breaching its duty under the National Health Service Act 2006, as amended by paragraph 223I of Section 27 of the Health and Social Care Act 2012.
NHS Group consolidation template (WGA)	We also reported on the consistency of the accounts consolidation template provided to NHS England with the audited financial statements. Our work identified one inconsistency. The CCG had explained the reason for this in its Consistency Statement.
Use of statutory powers	We referred a matter to the Secretary of State, as required by section 30 of the Act, on 1 May 2018 because the CCG had reported a breach of its revenue resource limit for the year end 31 March 2018.

Executive Summary

Value for Money arrangements

We were satisfied that the CCG put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for in relation to the weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. We therefore qualified our value for money conclusion in our audit report to the members of the Governing Body on 29 May 2018.

Certificate

We certify that we have completed the audit of the accounts of NHS Northern, Eastern and Western Devon CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Working with the CCG

During the year we have delivered a number of successful outcomes with you:

- Improved financial processes –we worked with you to improve your processes around the authorisation of journals
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial accounts via our accounts workshop
- Improving your annual reporting –we benchmarked your 2016/17 Annual Report to inform your preparation of the 2017/18 Annual Report
- Supporting development –we hold workshops for CCG Audit Committee Chairs which your Chair regularly attends.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the CCG's staff.

Grant Thornton UK LLP
July 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the CCG's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the CCG's accounts to be £22.4m, which is 1.8% of the CCG's gross revenue expenditure. We used this benchmark as, in our view, users of the CCG's financial statements are most interested in where the CCG has spent its allocation in the year.

We also set a lower level of specific materiality for senior officer remuneration of £11.4k.

We set a lower threshold of £300,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give sufficient assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and are adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Annual Report to check it is consistent with our understanding of the CCG and with the accounts included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the CCG's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Operating expenses – purchase of secondary healthcare</p> <p>A significant percentage of the CCG’s expenditure is on contracts for healthcare with NHS providers and non-NHS providers, such as operations and hospital care. This expenditure is recognised when the activity has been performed, with accruals raised at the year-end for completed activity for which an invoice has not been issued.</p> <p>We identified the accuracy and occurrence of contract variations as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> gained an understanding of the financial reporting processes used for the purchase of secondary healthcare and evaluated the design of the associated controls substantively tested secondary healthcare costs including contract expenditure, variations and non-contract costs reviewed the agreement of balances at year end 	<p>Our audit work did not identify any significant issues to report.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The CCG faces external pressure to meet agreed targets, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we completed:</p> <ul style="list-style-type: none"> review of accounting estimates, judgements and decisions made by management testing of journal entries review of unusual significant transactions review of significant related party transactions outside the normal course of business 	<p>Our audit work has not identified any issues in respect of management override of controls. However our journals work did identify two issues:</p> <ul style="list-style-type: none"> Senior finance officers (Locality Chief Finance Officers) are able to post journals. We confirmed that this had not occurred during the financial year, but the ability to post journals should be removed from senior finance officers. It is possible in the system for staff to approve journals that they have posted. A monthly check is in place to ensure this has not occurred but this is a weakness within the system that should be rectified.

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 29 May 2018, which was submitted to NHSE on 30 May 2018. This was one day after the statutory date stipulated by the NHSE. The delay arose due to the need for the audit team to consult on independence implications arising from work undertaken at Delt Shared Services Limited. The audit team has confirmed with the NHSE that this delay did not in any way reflect on the CCG or its accounts preparation.

As well as an opinion on the financial statements, we are required to give a regularity opinion on whether expenditure has been incurred 'as intended by Parliament'. Failure to meet statutory financial targets automatically results in a qualified regularity opinion.

Our review of the CCG's expenditure highlighted the following issue which gave rise to a qualified regularity opinion:

- The CCG reported a overspend of £49.9 million against its revenue resource limit in its financial statements for the year ending 31 March 2018, thereby breaching its duty under the National Health Service Act 2006, as amended by paragraph 223I of Section 27 of the Health and Social Care Act 2012.

Preparation of the accounts

The CCG presented us with draft accounts in accordance with the national deadline. The reconciliations in the working papers supporting the CCG's key provider contracts are not compiled in a consistent format and some of these were difficult to agree as a result. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the CCG's Audit Committee on 24 May 2018.

Annual Report, including the Governance Statement

We are also required to review the CCG's Annual Report and the Governance Statement included within the Annual Report. It provided these on a timely basis with the draft accounts with supporting evidence

Based on our review of the CCG's draft Annual Report and AGS we were satisfied that they were consistent with the audited financial statements. Additional disclosures were required in the Accountable Officer's statement to reflect the CCG's deficit position.

Whole of Government Accounts (WGA)

We issued a group return to the National Audit Office in respect of Whole of Government Accounts. Our work identified one inconsistency. In note 5 of the Accounts Consolidation Statement there is £567,000 on line 32, Inventories written down and consumed. On page 19 of the audited financial statements the Inventories written down and consumed is zero, and the amount is included within the Purchase of social care line. The CCG had explained the reason for this in its Consistency Statement.

Other statutory powers

We are also required to refer certain matters to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014. On 1 May 2018 we reported to the Secretary of State that NHS Northern, Eastern and Western Devon Clinical Commissioning Group's had breached of its revenue resource limit for the year ending 31 March 2018.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of NHS Northern, Eastern and Western Devon CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Value for Money arrangements

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the CCG in May 2018, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matter we identified below, the CCG put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

The CCG reported a deficit of £49.9 million in its financial statements for the year ended 31 March 2018, resulting in a cumulative deficit position of £170.5 million. The CCG has not yet succeeded in addressing the underlying deficit in its budget and has submitted a plan to NHS England that delivers a deficit of £20 million in 2018/19.

This matter identifies weaknesses in the CCG's arrangements for setting a sustainable budget with sufficient capacity to absorb emerging cost pressures.

This issue is evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Value for Money arrangements

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial Sustainability</p> <p>The CCG forecast deficit for 2017/18 at month 9 is £57.1m, which is line with the planned position. However NHS England are continuing to monitor against a control total of £17.4m so achievement of the planned position will represent an overspend of £39.7m against the control total. The CCG also has challenging savings plans to deliver in order to meet its planned position.</p>	<p>We reviewed the CCG's arrangements for identifying, agreeing and monitoring its sustainability and operational plans, and communicating key findings to the Governing Body and Finance Committee. We considered the medium term financial planning arrangements in place and progress with savings plans.</p>	<p>The year-end deficit was improved from the £57.1m planned position by the £5.8m release of the risk reserve and additional funds for category M drugs of £1.4m. This resulted in the final reported position being a deficit of £49.9m. The CCG achieved £43.7m of its QIPP savings target of £45.9m; a shortfall of £2.2m.</p> <p>The CCG has submitted its operational plan for 2018/19 to NHSE, which shows a planned deficit of £20m. Achievement of this control total would enable the CCG to access the Commissioner Sustainability Fund (CSF), which would lead to the CCG achieving break-even in 2018/19.</p> <p>The CCG will need to achieve efficiencies of £70.9m in 2018/19; £40.9m of these being cost and commissioning improvements and £6m of which are unidentified. The £29.9m balance is STP system-wide savings.</p> <p>The cumulative deficit position is £170.5m and the CCG is in the early stages of discussions with NHSE about how this would be repaid should breakeven be achieved.</p> <p>This matter identifies weaknesses in the CCG's arrangements for setting a sustainable budget.</p> <p>The CCG reported a deficit of £49.9m in its financial statements for the year ended 31 March 2018, resulting in a cumulative deficit position of £170.5m for the year ended 31 March 2018. The CCG has not yet succeeded in addressing the underlying deficit in its budget financial position and has prepared a plan that delivers a deficit of £20m in 2018/19.</p> <p>We concluded that this is evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p>
<p>Closer working with South Devon and Torbay CCG</p> <p>NEW Devon CCG has been working closely with South Devon and Torbay CCG which has led to the development of joint committee and governing body meetings. Director portfolios have also been realigned so that single directors have responsibility for areas across both bodies, with changes filtering down through other officers. These arrangements are still at an early stage with the alignment of the two CCGs at lower staff levels a key issue for the CCG.</p>	<p>We reviewed the progress being made in the governance arrangements for the close working between the two CCGs and considered the impact of the alignment of staff below Director level on the capacity of the CCG to continue to deliver business as normal.</p>	<p>Interim arrangements for the Executive structure were in place during formal consultations, with the final structure being agreed in April 2018. The consultation for the alignment of the rest of the CCG workforce started in April 2018 with the process beginning in June 2018.</p> <p>The CCG needs to ensure that appropriate governance arrangements are in place during this process and beyond. The main challenge for the CCG will be to ensure that it retains the capacity to continue to deliver its business as normal throughout this period of change and beyond.</p> <p>We concluded that the CCG has proper arrangements in place.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm there were no fees for the provision of non audit services.

Reports issued

Report	Date issued
Audit Plan	March 2018
Audit Findings Report	May 2018
Annual Audit Letter	June 2018

Fees

	Planned £	Actual fees £
Statutory audit	57,500	57,500
Total fees	57,500	57,500

Fees for non-audit services

Service	Fees £
None	Nil

Non- audit services

- We reported in our Audit Opinion that the firm had undertaken work of value of £1,250 at Delt Shared Services Limited, a joint venture partly controlled by the CCG, which fell within the list of prohibited services stipulated by the National Audit Office. We discussed and agreed this with the CCG and have confirmed that there is no impact on the auditor's independence



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