



The Annual Audit Letter for NHS Kernow Clinical Commissioning group

Year ended 31 March 2019

28 June 2019



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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 Kernow Clinical Commissioning Group (the CCG) for the year ended 31 March 2019.

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 21 May 2019.

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 financial statements to be £14,600,000, which is 1.8% of the CCG's operating expenditure.
Financial Statements opinion	We gave an unqualified opinion on the CCG's financial statements on 28 May 2019. 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'. Based on our review of the CCG's expenditure we gave an unqualified regularity opinion.
NHS Group consolidation template (WGA)	The CCG was a sampled component for the NAO consolidation. We also reported on the consistency of the financial statements consolidation template provided to NHS England with the audited financial statements. We concluded that these were consistent.
Use of statutory powers	We did not identify any matters which required us to exercise our statutory powers.

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:

On 11th December 2015, NHS Kernow CCG was issued with a performance rating of 'inadequate' by NHS England. The CCG has been in special measures direction since December 2015. The key areas identified as failing under the special measures regime include:

- ongoing challenges around emergency department performance; and
- four "not assured" ratings for performance, planning, finance and well led.

The CCG agreed a planned control total of a £10 million deficit for the year ending 31 March 2020 with NHS England, which included a savings plan target of £34 million. If this planned deficit is achieved the CCG will be entitled to £10 million of Commissioner Sustainability Funding, which would result in the CCG being able to report a breakeven position for the year. However, the CCG subsequently agreed to increase its spending and as a result it is not expecting to meet its 2019/20 control total and is forecasting a £17 million deficit for the year ended 31 March 2020.

The cumulative deficit for the CCG is expected to increase to £104.2m million at 31 March 2020, as shown within its 2019/20 finance plan submission.

Certificate We certified that we have completed the audit of the financial statements of NHS Kernow CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 28 May 2019.

Working with the CCG

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

- An efficient audit – we delivered an efficient audit with you in May, delivering the financial statements by the deadline.
- 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

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
June 2019

Audit of the Financial Statements

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 financial statements to be £14,600,000, which is 1.8% of the CCG's operating 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 Related parties (£300,000) and the Remuneration report (£50,000)

We set a lower threshold of £300,000, above which we would have reported any errors to the Audit Committee in our Audit Findings Report. No such errors were identified during our audit.

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 financial statements 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 Financial Statements

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>The revenue cycle includes fraudulent transactions</p> <p>We rebutted this presumed risk for the CCG because:</p> <ul style="list-style-type: none"> revenue does not primarily involve cash transactions funding is principally an allocation from NHS England which is not accounted for in the Statement of Comprehensive Net Expenditure <p>We therefore did not consider this to be a significant risk for NHS Kernow CCG.</p> <p>The additional resource limit received in year by the CCG from the CSF was not rebutted, as this was dependent on the CCG achieving its financial plan.</p>	<p>We:</p> <ul style="list-style-type: none"> reviewed and tested revenue recognition policies; and confirmed the Revenue Resource Limit Funding. 	<p>No significant issues were identified</p> <p>We recommended that the CCG include a disclosure as part of the parliamentary funding note to show the amount of CSF funding that was received in 2018/19. This figure was crucial to the CCG's ability to report a breakeven position. The CCG added a note to explain the receipt of the £20m CSF for 2018/19.</p>
<p>Operating expenses – purchase of secondary healthcare</p> <p>We identified the accuracy and occurrence of secondary healthcare expenditure – contract variations, and the existence of associated payables and accruals, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>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 a review of contract variations; reconciled these contracts through to the Ledger balances, and reviewed variation orders where applicable; substantively tested the balance of CHC costs which are invoice based and review arrangements and confirm the accounting treatment of the pooled budgets for the provision of secondary healthcare; and reviewed the NHS agreement of balances mismatch reports. 	<p>Contracts were agreed to the expenditure in the accounts and the reason and agreement of contract variations were tested without issue.</p> <p>The completeness of accruals for contracts and the April payments were reviewed.</p> <p>There are no issues to report in relation to this area.</p>

Audit of the Financial Statements

Significant Audit Risks

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Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>We identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none">• Reviewed the key accounting estimates (non-NHS accruals and prescribing), judgements and decisions made by management• Reviewed the significant judgements• tested journal entries; and• reviewed unusual significant transactions.	<p>Our audit work did not identify any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries did not identify any significant issues.</p> <p>We did recommend that management change the reference in the accounting policies regarding significant estimation uncertainty as the CCG does not have any entries that are so significant that they require being differentiated as a significant estimation uncertainty. The CCG amended this policy to make this clearer.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 28 May 2019.

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.

Based on our review of the CCG's expenditure we gave an unqualified regularity opinion.

Preparation of the financial statements

The CCG presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the CCG's Audit Committee on 21 May 2019.

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 financial statements with supporting evidence

Whole of Government Accounts (WGA)

We issued a group return to the National Audit Office in respect of Whole of Government Accounts, which did not identify any issues for the group auditor to consider.

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. We did not identify any matters which required us to exercise our statutory powers.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of NHS Kernow CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 28 May 2019.

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 risks where we concentrated our work.

The 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 2019, 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 2019.

On 11th December 2015, NHS Kernow CCG was issued with a performance rating of 'inadequate' by NHS England. The CCG has been in special measures direction since December 2015. The key areas identified as failing under the special measures regime include:

- ongoing challenges around emergency department performance; and
- four "not assured" ratings for performance, planning, finance and well led.

The CCG agreed a planned control total of a £10 million deficit for the year ending 31 March 2020 with NHS England, which included a savings plan target of £34 million. If this planned deficit is achieved the CCG will be entitled to £10 million of Commissioner Sustainability Funding, which would result in the CCG being able to report a breakeven position for the year. However, the CCG subsequently agreed to increase its spending and as a result it is not expecting to meet its 2019/20 control total and is forecasting a £17 million deficit for the year ended 31 March 2020.

The cumulative deficit for the CCG is expected to increase to £104.2 million at 31 March 2020, as shown within its 2019/20 finance plan submission.

Value for Money arrangements

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <p>There remains an underlying funding gap that the CCG needs to close and the need to continue to find savings will be increasingly challenging.</p>	<p>We:</p> <ul style="list-style-type: none"> Reviewed the CCG's financial out-turn for 2018/19; Analysed the CCG's financial plan for 2019/20 both original and revised; and Considered the CCG's identified QIPP savings plans. 	<p>The CCG is currently planning to exceed its control total in 2019/20. It is therefore planning a breach in its financial duties and is unable to contain spending within its current funding.</p> <p>The CCG planned deficit has increased as a result of wider health system collaborative working and to support the delivery of provider Trust control totals within the local health and care system. We recognise that the CCG continues to work closely with the local health economy to ensure that CIP and control totals are successfully delivered across the year.</p>
<p>Informed decision making</p> <p>The CCG remains in reformed special measures. However, improvement and progress against the set milestones is continuing. The CCG has not, as yet, had the sanctions removed.</p>	<p>We:</p> <ul style="list-style-type: none"> Reviewed the reporting of the CCGs actions and plans to address the required actions; and Considered the CCG's responses to the identified governance challenges. 	<p>This CCG is committed to move in the right direction. However, the fact that the CCG remains in special measures gave rise to the "except for" conclusion on the CCG's value for money arrangements</p>
<p>Working with partners</p> <p>The STP stocktake is underway however care home capacity across the County and nationally continues to be a challenge.</p>	<p>We:</p> <ul style="list-style-type: none"> Discussed progress with senior management; and Reviewed the reporting of progress across the STP partners. 	<p>Good progress continues to be made and we have seen more collaborative working across the health and social care economy. This includes decisions being made for the good of the wider economy rather than at an organisational level.</p> <p>A system wide review of governance, as initiated by the CCG is underway which can only enhance the foundations upon which the healthcare organisations across Cornwall and the Isles of Scilly have recently developed.</p> <p>Whilst governance structures remain in place it remains unclear what the outcomes by way of system wide performance are and the CCG continues to work closely with the provider Trusts within the system to identify these.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	31 March 2019
Audit Findings Report	21 May 2019
Annual Audit Letter	28 June 2019

Fees

	Planned fees £	Actual fees £	2017/18 fees £
Statutory audit	52,500	52,500	52,500
Mental Health Investment Standard	10,000	*	-
Total fees	62,500		52,500

The above fees are net of VAT

* Work will be undertaken in the Autumn, the final fee will be determined after completion.

Fees for non-audit services

Service	Fees £
External review of clinical coding at the Duchy Hospital.	32,100

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the CCG. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the CCG's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the CCG's policy on the allotment of non-audit work to your auditor.



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