



Annual Audit Letter

Year ending 31 March 2018

NHS Kernow Clinical Commissioning Group

8 June 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 Kernow 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 on 15 May 2018, and the Governing board on 22 May 2018.

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.

Our work

Materiality We determined materiality for the audit of the CCG's accounts to be £14,229,000, which is 1.8% of the CCG's gross revenue expenditure.

Financial Statements opinion We gave an unqualified opinion on the Trust's financial statements on 23 May 2018.

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 issues which gave rise to a qualified regularity opinion.

The CCG reported a deficit of £33.166 million 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, to break even on its commissioning budget.

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. We concluded that these were consistent.

Use of statutory powers We issued a s30 letter to the Secretary of State on 26 May 2017 to report that the CCG expected to breach its revenue resource limit for the year ending 31 March 2018.

No Section 30 report is necessary in 2018 as the CCG has set a budget that shows the CCG will meet its revenue resource limit in 2018/19.

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 the financial deficit in excess of the control total reported for 2017/18. We therefore qualified our value for money conclusion in our audit report to the members of the Governing Body on 22 May 2018.

Certificate

We certify that we have completed the audit of the accounts of NHS Kernow 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:

- An efficient audit – we delivered an efficient audit with you in May, delivering our opinion on the accounts before the deadline.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for improved arrangements for working with partners and other third parties.

- 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 and annual reporting

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
8 June 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 14,229,000, 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 the Remuneration report, Related Party Transactions and Exit packages.

We set a 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 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>We:</p> <ul style="list-style-type: none"> gained an understanding of the financial reporting processes used for the purchase of secondary healthcare and evaluate the design of the associated controls substantively tested secondary healthcare costs including a review of contracts. 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. 	<p>Our audit work did not identify any issues in respect of the purchase of secondary healthcare.</p>
<p>Management override of internal 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.</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"> a review of accounting estimates, judgements and decisions made by management testing of journal entries a review of unusual significant transactions. 	<p>Our audit work did not identified 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 identified any significant issues.</p>
<p>Going concern material uncertainty disclosures</p> <p>The CCG has reported a deficit for 2017/18 of £33.166 million and the financial plan for 2018/19 reports a deficit of £20m which is within the control total set by NHSE.</p>	<p>We have reviewed management’s assessment and the 2018/19 plan and the cash flows for 2018/19 and 2019/20</p>	<p>We have not identified any material uncertainties over the going concern basis for accounting, based on management’s assessment and our work on the financial plans for 2018/19.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 23 May 2018, in advance of the national deadline.

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.

We gave a qualified Regularity opinion, because the CCG reported a deficit of £33.166 million 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, to break even on its commissioning budget.

Preparation of the accounts

The CCG presented us with draft accounts 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 accounts

We reported the key issues from our audit to the CCG's Audit Committee on 15 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.

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. On 26 May 2017 we issued a Section 30 referral to the secretary of state for 2017/18, as we had reason to believe that the CCG would breach its Revenue Resource Limit (RRL) for the year ending 31 March 2018.

The CCG has reported a deficit of £33.166 million against its RRL of £770.2 million for 2017/18.

However the CCG is planning on a deficit of £20m for 2018/19 which meets the Control total accepted by NHSE. As a result there is no requirement to issue a further Section 30 report at this point in time.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of NHS Kernow 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.

Our review of the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources identified that the CCG has delivered a deficit of £33.2 million for the year ended 31 March 2018, £13.3m over control total agreed with NHS England.

This matter is considered a weaknesses in the CCGs arrangements for setting a sustainable budget with sufficient capacity to absorb emerging cost pressures, and is evidence of weaknesses in proper arrangements for sustainable resource deployment in 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 identified a significant savings requirement for 2017/18 and onwards that it needs to address in its medium term financial plan.</p> <p>The CCG did not meet its statutory duty in 2016/17, and we concluded, within last year's audit report that the CCG's arrangements for approving and controlling some expenditure to support its strategic priorities were inadequate.</p> <p>The CCG is forecasting future deficits in 2017/18 and over the life of its 2017/19 financial plan.</p>	<p>We:</p> <ul style="list-style-type: none"> • updated our understanding of the CCG's financial position; • considered management's plans for 2018/19; • reviewed cash flow projections for the two years to 31 May 2019; and • reviewed assumptions made as part of financial planning. 	<p>The CCG has made progress in delivery of savings and in achieving its financial balance.</p> <p>Plans are being put in place to deliver financial balance. The CCG is in a good position as it goes into 2018/19. Achievement of the control total set out in its plan will trigger £20m of Sustainability Funding and the CCG will achieve in-year balance in 2018/19.</p> <p>Ongoing plans forecast that by 2010/21 the CCG will have started to address its cumulative deficit position</p>
<p>Commissioning services effectively</p> <p>As part of the development of an accountable care system, The CCG is in discussions with its partners and NHS England regarding the most appropriate delivery of commissioning in Cornwall.</p> <p>The intention is to establish an "integrated, strategic commissioning function" based in Cornwall that will commission services from one or more "accountable care partnerships" based around the existing NHS providers.</p> <p>There is increased co-operation and communication between all the STP partners and NHSE to establish more effective commissioning arrangements and to deliver financial balance by 2021.</p>	<p>We:</p> <ul style="list-style-type: none"> • gained an understanding of the progress towards the establishment of effective STP; • interviewed staff; and • considered formal reports to the governing body. 	<p>Partnership working is therefore progressing towards a whole system method of care.</p> <p>The CCG and local provider Trusts are working closely together in line with the principles agreed in the three year 'Financial Framework', as well as leading work with the Council to improve the value achieved from the Better Care Fund and other section 75 agreements</p> <p>However, consultation is ongoing and arrangements are at an early stage, the CCG will need to continue its drive and focus in the next year.</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	20 March 2018
Audit Findings Report	15 May 2018
Annual Audit Letter	8 June 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit	52,500	52,500	71,250

Fees for non-audit services

Service	Fees £
External review of clinical coding at 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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