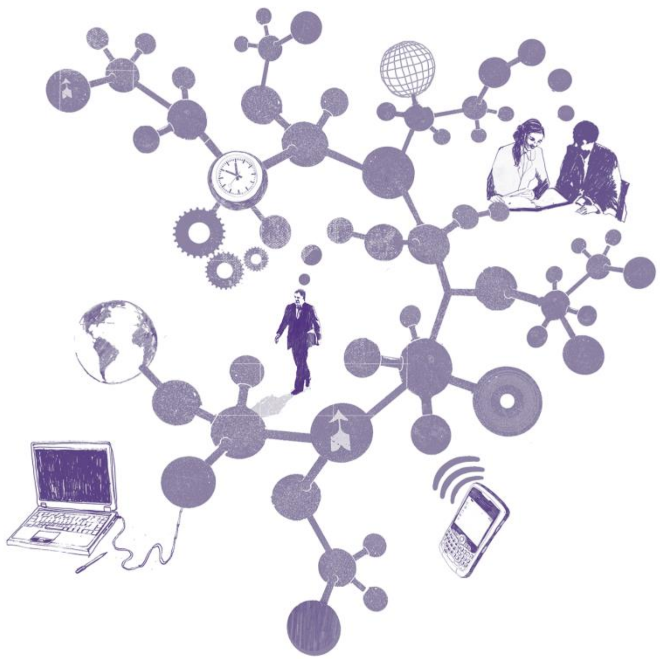
The Annual Audit Letter for NHS North Staffordshire Clinical Commissioning Group

Year ended 31 March 2017

26 July 2017



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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at North Staffordshire Clinical Commissioning Group (the CCG) for the year ended 31 March 2017.

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 Governing Body as those charged with governance in our Audit Findings Report on 30 May 2017.

Our 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 (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 and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the CCG's financial statements on 30 May 2017.

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.

Failure to meet statutory financial targets automatically results in a qualified regularity opinion. The CCG's net expenditure of £283,772k was £6,828k more than the amount specified in Directions. We therefore issued a qualified regularity opinion.

Consolidation template

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 referred a matter to the Secretary of State, as required by section 30 of the Act, on 3 April 2017 because the CCG was planning to breach its revenue resource limit.

Value for money (VfM) conclusion

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 CCG reported a deficit of £6.828 million in its financial statements for the year ending 31 March 2017.
- The CCG has not yet succeeded in addressing the underlying deficit in its budget and is forecasting a further deficit of £2.5 million for 2017-18.

These issues are evidence of 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 report on the financial statements on 30 May 2017.

Certificate

We certify that we have completed the audit of the accounts of North Staffordshire CCG in accordance with the requirements of the Code of Audit Practice.

Working with the CCG

An effective audit – we delivered the accounts audit before the deadline, working with your finance team.

Improved financial processes – we updated our assessment of controls and confirmed that the improvements in journals IT controls and journals that we discussed with you in prior years have been implemented.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Improving your annual reporting – we provided guidance, training and benchmarking information to help you to comply with the reporting requirements for your Financial Statements and your Annual Report and to report effectively to your stakeholders.

Sharing our insight – we provided regular audit committee updates covering best practice. We also carried out national research and produced reports and briefing on these topical issues to assist and inform the CCG with organisational innovation and development.

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 2017

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 £5,705,000, which is 2% 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 disclosures of senior manager salaries and allowances in the remuneration report and in our examination of related party transactions.

We set a lower threshold of £250,000, above which we reported errors to the Governing Body 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 reasonable 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 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 Ireland) 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 (continued)

These are the 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
1.	**The revenue cycles include fraudulent transactions** Under ISA (UK and Ireland) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. Auditors may rebut this presumption depending on the circumstances of the client.	We rebutted this presumption for the CCG because: • revenue does not primarily involve cash transactions • revenue is principally an allocation from NHS England We therefore did not consider this to be a significant risk for the CCG.	Our audit work did not identify any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	As part of our audit work we : • Obtained an understanding of the journal entry policies and procedures • Reviewed accounting estimates, judgments and decisions made by management • Tested journal entries • Reviewed unusual significant transactions	Our audit work did not identify any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries did not identify any significant issues.
3.	**Going Concern** The CCG is facing significant financial challenges and have forecast a significant deficit position for 2016/17. This raises doubts over the completeness and adequacy of the going concern disclosures in the accounts, particularly in relation to material uncertainty.	As part of our audit work we : • discussed the financial standing of the CCG with officers and reviewed management's assessment and supporting information, e.g. 2017/18 and 2018/19 budgets and cash flow forecasts • reviewed the disclosures on going concern and considered whether management's assessment that there are no material uncertainties (in relation to the future of the CCG and its anticipated cash flows), is reasonable.	We reviewed the Directors' assessment and were satisfied with management's assessment that the going concern basis was appropriate for the 2016/17 financial statements and that there were no material uncertainties and the disclosures within the financial statements were appropriate.

Audit of the accounts (continued)

These are the 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
4.	**Secondary Care Commissioning** A significant percentage of the CCG's expenditure is on contracts with NHS providers. 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. We identified the valuation of this expenditure as a risk requiring particular audit attention: • Activity variation adjustments to expenditure and payments made outside contracts not correct	As part of our audit work we: • documented our understanding of processes and controls over the secondary healthcare contracts and walked through key controls to assess whether those controls are operating effectively. • reviewed significant contracts and the reconciliation to the recorded expenditure in the financial statement. • tested a sample of transactions (including variations to contracts and other invoiced expenditure), checking to supporting evidence and that they are appropriately authorised, to ensure the activity occurred, the value is correct and that the transaction is accounted for in the correct accounting period • reviewed the results of the Department of Health agreement of balance exercise and investigated the reasons for any significant differences with counterparties.	The matters arising from this work and on which we reported, were the differences arising in comparing the CCG's expenditure with the income reported by the Trusts providing those services. We noted a difference with University Hospital of North Midlands, that at the time of the audit, remained in dispute and was unresolved. We reported this mismatch (a difference of £1.164m) and highlighted that this could mean the CCG's expenditure was understated if these were not settled in the CCGs favour.

Audit of the accounts (continued)

Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 30 May 2017, 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. The CCG's net expenditure of £283,772k was £6,828k more than the amount specified in Directions. We therefore issued a qualified regularity opinion.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the CCG's Governing Body on 30 May 2017:

- We identified no adjustments affecting the CCG's comprehensive net expenditure position.
- We recommended a number of adjustments to disclosure notes to improve the presentation of the financial statements.

Annual Governance Statement and Annual Report

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

We identified some adjustments to the Remuneration and Staff Report, where specific elements are subject to audit.

The CCG made some other improvements to the Annual Governance Statement and Annual Report in response to our review.

Whole of Government Accounts (WGA)

We issued a 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 3 April 2017 we reported to the Secretary of State that the CCG was planning to breach its revenue resource limit.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2016 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.

These issues are recognised by, and are a clear focus of, the CCG's management with arrangements in place including:

- External reporting - frequent escalation meetings with NHS England
- Internal monitoring and reporting - detailed monitoring to the Finance and Performance Committee, including finance reports, QIPP progress and updates on escalation meetings with NHS England
- Systems and processes and dedicated Project Management Office
- Working with external consultants to identify further cost reductions
- Using NHS RightCare to identify opportunities for service changes

With this in mind, we have not included detailed recommendations in this report.

Overall VfM 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 2017.

We qualified our value for money conclusion on the basis that:

- The CCG reported a deficit of £6.828 million in its financial statements for the year ending 31 March 2017.
- The CCG has not yet succeeded in addressing the underlying deficit in its budget and is forecasting a further deficit of £2.5 million for 2017-18.

We concluded that this issue was evidence of 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 report on the financial statements on 30 May 2017.

Value for Money conclusion (continued)

Significant risk as per the Audit Plan	Work to address	Findings and conclusions
Financial outturn The CCG is forecasting that it will incur an overspend of £8.59 million against its resource limit of £276 million in 2016/17.	We reviewed the CCG's arrangements monitoring and managing delivery of its budget and savings plans for 2016/17.	The Control Total at the beginning of 2016/17 and reflected in the budget for that year was an in year deficit budget of £1.66m resulting in a cumulative deficit budget of £5.875m. Throughout the year, the CCG have clearly reported the unmitigated risks to the forecast position. The forecast was held at the original control total up until the reporting to the November meeting of the Governing Body. This was as a result of the CCG having agreed a revised outturn position as part of the assurance process with NHS England at month 6. This was to achieve a cumulative deficit position of £8.59m (before the release of the 1% retained reserve). The forecast at month 11 was to meet this revised outturn although the CCG reported the risk of £0.9m described as emerging pressures within operational performance predominately within the acute sector, and the continued risk attached to the ongoing negotiations for a year end settlement with the main provider. The year end position was a deficit of £9.578m before release of the 1% reserve (£2.75m) which has resulted in a reported year end deficit of £6.828m. This position exceed the deficit forecast at month 11 by £0.99 million. This movement compares to a net risk of £0.9m previously reported to NHS England. The variation is reported to relate primarily to the outcome of two issues: • result of arbitration to various contractual challenges • result of arbitration to pay for bed capacity that continued to be accessed at a Community Hospital. The planned and actual deficits do not meet the requirement to meet the financial duty to maintain expenditure within the allocated RRL and deliver a mandated planning requirement of 1% surplus. **On the basis that the CCG has been unable to reduce expenditure as planned resulting in the deterioration of the deficit in 2016/17, we concluded that there were weaknesses in the CCG's arrangements for managing delivery of its budget and savings plans for 2016/17 and therefore planning its finances effectively to support the sustainable delivery of strategic priorities.**

Value for Money conclusion (continued)

Significant risk as per the Audit Plan	Work to address	Findings and conclusions
Financial sustainability The CCG has identified a savings gap in its financial projections for 2017/18 (as at the December submission) that it needs to address in its medium term financial plan.	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 and Performance Committee.	The two north Staffordshire CCGs have performed well on their QIPP programme. Month 12 QIPP delivery was reported at £20.1m (North Staffs £8.2m, Stoke on Trent £11.9m) against an original plan of £21.8m (North Staffs £8.6m, Stoke on Trent £13.2m). This equates to a delivery of 92% against the overall QIPP programme in 2016/17. The CCG has budgeted for a deficit position of £2.5m in 2017/18. Whilst this would still lead to a breach of the CCG's key financial duty it is in line with the control totals for the CCG as part of the areas Sustainability and Transformation Plan. The longer term plan is for a surplus position in 2018/19 of £1.8 million, effectively returned to NHS England through a reduced Revenue Resource Limit in that year. Whilst this is a significant improvement, at this time the CCG has been unable to provide a two year financial plan that returns it to a cumulative position of surplus. The financial plan reflects QIPP of £11.9m at 4% of turnover (alongside QIPP of £17.7m for Stoke on Trent CCG). To achieve this the CCG have identified 26 QIPP schemes for 2017/18 across 6 theme areas, valued at £21.56m across the two CCGs (May forecast) with a further £8m of schemes in development. For the CCG to reach a position of financial balance for 2017/18 would require additional saving of £2.5m. This future QIPP is an increase on efficiencies in previous years. The CCG recognises that traditional QIPP schemes alone will not deliver these savings and system wide changes through collaborative working across Staffordshire via the STP will be required. The CCG now has a more established process and is more actively focussing on risk management of these schemes. The CCG acknowledges that a stronger performance as part of this financial recovery plan will rely upon improved processes to support this level of delivery. There remains risks associated with the delivery of the levels of QIPP, as these were not all agreed with providers and reflected in two year contracts . Robust contract management will be required to ensure that variations are identified and appropriate action is taken. **We therefore concluded that there were weaknesses in the CCG's arrangements for delivering financial sustainability and therefore weaknesses for planning its finances effectively to maintain its strategic functions.**

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2015/16 fees £
Statutory audit	48,750	48,750	48,750
S30 referral		1,000	
Total fees	**48,750**	**49,750**	**48,750**

Additional work has been carried out to make the required referral to the Secretary of State. Fees for this work are subject to approval by PSAA Ltd

Fees for other services

Service	Fees £
None	Nil

Non- audit services

No non-audit services were provided to the CCG in 2016/17

Reports issued

Report	Date issued
Audit committee progress report and emerging issues and developments	5 October 2016 3 January 2017
Audit Plan	10 March 2017
Informing the Audit Risk Assessment	9 March 2017
Audit Findings Report	26 May 2017
Annual Audit Letter	6 July 2017 (draft for comment) 26 July 2017 - finalised