

Auditor's Annual Report on NHS Devon Clinical Commissioning Group

Auditor's Annual Report 2021/2022

June 2022



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We are required under Section 21(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary



Value for money arrangements and key recommendation

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Clinical Commissioning Group (CCG) has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the CCG's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions for 2020/21 and 2021/22 are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgment		2021/22 Auditor Judgment		Direction of travel
Financial sustainability	Risk identified because of the CCG's significant cumulative deficit.		A significant weakness in arrangements identified and also an improvement recommendation made.		The significant weakness in arrangements identified in 2020/21 remains because of the Devon healthcare system's significant cumulative deficit position and a reliance on a significant savings plan which we consider may be at risk of not delivering.	↔
Governance	Risk identified over the governance procedures relating to the approval of S256 agreements		A significant weakness in arrangements identified and three improvement recommendations made.		No significant weaknesses in arrangements identified but three improvement recommendations made.	↑
Improving economy, efficiency and effectiveness	No risks of significant weakness identified		No significant weaknesses in arrangements identified, but two improvement recommendations made.		No significant weaknesses in arrangements identified.	↑

No significant weaknesses in arrangements identified or improvement recommendation made.
 No significant weaknesses in arrangements identified, but improvement recommendations made.
 Significant weaknesses in arrangements identified and key recommendations made.

Executive summary

Move to Integrated Care Boards

On 6 July 2021 the Health and Care Bill was introduced and was given Royal Assent on 28 April 2022. The Health and Care Act is aimed at removing barriers to integration, with NHS and local authorities having a duty to collaborate on the Health and Care agenda. From 1 July 2022, Integrated Care Boards (ICBs) will take on the commissioning functions and the assets and liabilities from the demising CCGs in their area. Arrangements within Devon ICB appear to be well-progressed with key governance structures established, readiness to operate statements, risk assessed critical paths and transition plan arrangements in place.

Financial sustainability



In our planning, we identified a risk of significant weakness in respect of the CCG's arrangements for financial sustainability following on from the key recommendation raised in 2020/21. The Devon healthcare system has a significant underlying historic deficit and under the NHS System Oversight Framework (SOF) 2021/22 has been placed into SOF4: this is categorised as "Very serious, complex issues manifesting as critical quality and/or finance concerns that require intensive support". The operational plan for 2022/23 submitted to NHS England on 20 June 2022 shows that the CCG plans to break even for the year, within an overall deficit plan of £18.2m for the system. In order to deliver the plan, the CCG needs to achieve savings and efficiencies of £36.5m and further £102.3m is required from provider sector organisations within the Devon system. At time of writing, of these total savings and efficiencies required, £11m (30%) for the CCG and £4.9m (4.8%) for the provider sector were classified as 'unidentified'. The plan submission also recognises an underlying recurrent deficit of £16m in the CCG and £157.1m in the provider sector. We have therefore concluded that there continues to be a significant weakness in system wide financial sustainability.

Our findings are set out on pages 9 - 11.



We have completed our audit of your financial statements and issued an unqualified audit opinion on 20 June 2022, following the Audit Committee meeting on 15 June 2022. Our findings are set out in further detail on page 23.



Executive summary



Governance

Following the work we completed in respect of 2020/21, we reported a significant weakness in arrangements over the governance procedures relating to the S256 agreements entered into by the CCG. (S256 agreement of the National Health Act allows CCGs to enter into agreements with Local Authorities to carry out activities with health benefits.) We subsequently raised this as a risk of significant weakness as part of our 2021/22 risk assessment. Our work confirmed that appropriate improvements to the governance arrangements for 2021/22 have been made. However, our review of the signed S256 agreements did identify some agreements that did not follow the governance arrangements. Given the value of these agreements was insignificant at £367,000 when compared to £55.5 million allocated overall, we are not reporting a significant weakness in this area.

Our findings and improvement recommendations are set out on pages 12 - 18.



Improving economy, efficiency and effectiveness

We did not identify any risks of significant weaknesses in the CCG's arrangements for improving economy, efficiency and effectiveness. Our further work confirmed this view, with no significant weaknesses in arrangements identified.

Our findings are set out on pages 19 – 20.

Key recommendation



Recommendation 1

The CCG, and going forwards the Integrated Care Board (ICB), should have a robust system-wide financial framework in place to ensure that financial sustainability is achieved in future years. This should include having a savings programme which is deliverable and supported by robust processes for ensuring schemes are identified and agreed on a timely basis.

Why/impact

Without a strong and robust financial framework in place, expenditure in excess of budget will further increase the system deficit.

Auditor judgement

The Devon healthcare system has a significant underlying historic deficit and the CCG (as the main Devon healthcare commissioner) has, prior to Covid-19, breached its statutory financial duties, with no firm plans to address this.

Summary findings

A draft operational plan was submitted to NHS England on 28 April 2022 in line with national requirements. The draft plan included a surplus of £10m at the CCG and a deficit of £114.9m in provider sector. Savings and efficiencies of £22.6m at the CCG and £96.2m in provider sector were required to deliver the plan. The total system deficit of £104.9m was not acceptable to NHS England and a national re-submission of plans was made on 20 June 2022.

The final operational plan for 2022/23 submitted to NHS England on 20 June shows that the CCG plans to break even for the year, within an overall deficit plan of £18.2m for the system. In order to deliver the plan, the CCG needs to achieve savings and efficiencies of £36.5m and further £102.3m is required from provider sector organisations within the Devon system. At time of writing, of these total savings and efficiencies required, £11m (30%) for the CCG and £4.9m (4.8%) for the provider sector were classified as 'unidentified'. The plan submission also recognises an underlying recurrent deficit of £16m in the CCG and £157.1m in the provider sector.

In addition to the recurrent underlying deficit at both the CCG and the wider Devon system, the CCG acknowledges an accumulated deficit from prior years of £246.2m. NHS England guidance to ICBs on revenue finance and contracting states that "the balance will be frozen and, as long as the system and ICB achieves break even for each of the following two years, will then be written off. ICBs would therefore be established with no outstanding obligation. ICBs failing to deliver this requirement will have this obligation reinstated at the end of the two-year period." The accumulated deficit remains a potential additional financial risk to the Devon system in this context.

Management Comments

We acknowledge the importance of the processes highlighted in the key recommendation that will be needed to secure delivery of the savings and efficiencies required for the 2022/23 operational plan and to deal with the remaining £18.2m deficit in that financial year. Linked to the requirements of exit from SOF4, the ICB is fully focussed on development of a financial planning and delivery process that deals with the recurrent underlying deficit identified in this report.

The range of recommendations that external auditors can make is explained in Appendix C.

Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements

Auditors are required by section 21 of the Local Audit and Accountability Act 2014 to express an opinion on the accounts that includes the auditor's view on whether the accounts: (i) present a true and fair view and comply with statutory requirements (ii) have been prepared in accordance with proper practices

We have completed our audit of the CCG's financial statements and issued an unqualified audit opinion on 20 June 2022, following the Audit Committee meeting on 15 June 2022. Our findings are set out in further detail on page 23.

Opinion on regularity

Auditors are required by section 21 of the Local Audit and Accountability Act 2014 to include in the opinion their view on the regularity of the CCG's income and expenditure, that is to say, that money provided by Parliament has been expended for the purposes intended by Parliament; resources authorised by Parliament to be used have been used for the purposes in relation to which the use was authorised; and that the financial transactions of the group are in accordance with any authority which is relevant to the transactions

We have completed our regularity work and found no issues to report. Our regularity opinion was issued on 20 June 2022 alongside the accounts opinion. Our findings are set out in further detail on page 23.

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body

Our audit work did not identify any issues that would require us to make statutory recommendations to the CCG.

Section 30 referral

Under Section 30 of the Local Audit and Accountability Act 2014, the auditor of an NHS body has a duty to consider whether there are any issues arising during their work that indicate possible or actual unlawful expenditure or action leading to a possible or actual loss or deficiency that should be referred to the Secretary of State, and/or relevant NHS regulatory body as appropriate

Our audit work did not identify any issues that would require us to make a Section 30 referral.

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

Our audit work has not identified any issues that would require us to make a Public Interest Report.



Securing economy, efficiency and effectiveness in the CCG's use of resources

All Clinical Commissioning Groups (CCGs) are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The CCG's responsibilities are set out in Appendix A.

CCGs report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial Sustainability

Arrangements for ensuring the CCG can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the CCG makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the CCG makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the CCG delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on the CCG's arrangements in each of these three areas, is set out on pages 9 to 20. Further detail on how we approached our work is included in Appendix B.

Financial sustainability



We considered how the CCG:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Overview

Following the work we completed in respect of 2020/21, we reported a significant weakness in arrangements over the financial sustainability of the CCG and raised a key recommendation. Our work in 2021/22 has focused on this following this up.

System Oversight Framework

Financial and non-financial performance of NHS provider organisations is reflected by the NHS System Oversight Framework (SOF). The framework looks at five themes:

- Quality of care
- Finance and use of resources
- Operational performance
- Strategic change
- Leadership and improvement capability (well-led).

Based on information from these themes, organisations are rated from SOF 1 to 4, where '4' reflects providers receiving the most support, and '1' reflects providers with maximum autonomy.

While CCGs are not currently subject to individual oversight rating, the healthcare system as a whole is rated based on individual providers' ratings.

NHSEI review this on a quarterly basis and by exception, where support needs may have changed, will trigger a review of this segment allocation. The segmentation decision includes factors such as governance arrangements, financial performance and quality of services and therefore confirms that NHSEI considers that the organisation has appropriate arrangements across these areas.

The Devon healthcare system has a significant underlying historic deficit and under the SOF 2021/22 was placed into SOF4 in July 2021. This is categorised as "Very serious, complex issues manifesting as critical quality and/or finance concerns that require intensive support".

This has resulted in closer working with NHSEI including the appointment of Turnaround Directors and weekly/monthly meetings with NHSEI as well as the need to develop an exit strategy to move out of SOF 4 rating.

The Devon ICS has ambitions to leave SOF4 by the end of quarter 3 2022/23, however, the exit strategy continues to be worked on by all partner organisations and the transformational change required is not expected to be delivered in 2022/23.

Discussions are currently ongoing between NHSEI and senior management of all the ICS bodies and the implications for the CCG and individual NHS trusts are not yet known.

We understand that NHSEI will also be carrying out a reset exercise during the latter part of 2022/23 which will seek to reset base budgets and remove COVID-19 funding as well as link to population numbers, in addition to requiring organisations to develop a medium-term financial plan. This may have funding implications for the ICS in the medium term.

Financial sustainability

As at March 2022, a number of key deliverables in the exit plan have been flagged as 'red' risk (NOT completed by the due date), which include:

- Project initiation documents for quick wins identifying when the savings will be realised with clear owners.
- Long-term financial plan produced that builds on the exit run rate and includes modelling of the financial implications of the transformation programmes.

In addition there are 'amber' ratings (concern whether the due date will be achieved) for:

- Sustained delivery against 22/23 plan in quarter 1 with a review date in quarter 2.
- Clinical Strategy document and roadmap produced.

It has been agreed with Chief Executive Officers that expenditure reviews will continue through 2022/23 and will be embedded in the new ICS governance to ensure that the benefits of the process including check and challenge are clearly evident.

There is a significant amount of work being done across the ICS with support from NHSEI. The key will be in delivering joined up working and transformational change if the ICS is going to move back to underlying financial balance. In addition to the recurrent underlying deficit at both the CCG and the wider Devon system, the CCG acknowledges an accumulated deficit from prior years of £246.2m. NHS England guidance to ICBs on revenue finance and contracting states that "the balance will be frozen and, as long as the system and ICB achieves break even for each of the following two years, will then be written off. ICBs would therefore be established with no outstanding obligation. ICBs failing to deliver this requirement will have this obligation reinstated at the end of the two-year period." The accumulated deficit remains a potential additional financial risk to the Devon system in this context.

2021/22 Outturn

The CCG set a breakeven budget for H1 (the first six months of 2021/22), and then a surplus target of £5.275m for H2 (second six months of the year). The CCG delivered its year end position of £5.275 million surplus following additional funding and also achieved its capital spend target of £0.4 million.

The outturn report to the May 2022 Finance and Performance Committee reported that the CCG delivered efficiency savings of £15.174 million, in line with plan for 2021/22, but only £1.050 million of these were on a recurrent basis.

The implication of this is that the financial pressure going forward for the ICB (which takes on the commissioning functions, assets and liabilities of Devon CCG) will increase given the low amount of recurrent savings delivered in 2021/22.

2022/23 ICS Financial Plans

The 2022/23 Devon healthcare system plan was developed and submitted to NHSEI in April 2022 in accordance with national requirements. The draft plan projected a £10m surplus at the CCG and a deficit of £114.9m in provider sector after delivery of savings and efficiencies of £22.5m at CCG and £96.3m in provider sector.

NHSEI rejected the ICS submission and a resubmission of financial plans was required in order to reduce the planned system deficit to a break-even position.

The revised plan projects a break-even position at the CCG and a deficit of £18.2m in the provider sector. The improvement in the overall system deficit from £114.9m to £18.2m (an improvement of £96.7m) has been achieved by an increase in funding allocation of £31m, net reduction in planned cost increases of £45.7m and additional savings and efficiencies of £20.0m. The resulting savings and efficiencies required stand at £36.5m for the CCG and £102.3m for provider sector. At time of writing, of the total savings and efficiencies required, £11m (30%) for the CCG and £4.9m (4.8%) for the provider sector were classified as 'unidentified'.

The CCG and the provider sector further recognise an underlying recurrent deficit in the system. This was independently verified pre-pandemic at £221.9m and is recorded in the plan submission to NHS England on 20 June 2022 at a total of £173.1m for the system, with £16m in the CCG and £157.1m in the provider sector. Actions to tackle the deficit are not yet embedded.

Financial sustainability

As part of the financial framework for 2022/23, all systems have been allocated non-recurrent monies to carry out elective activity equivalent to 104% of that delivered in 2019/20. If actual activity levels next year are less than this then funds will be clawed back on a 75% marginal cost basis. The ICS plan also flags risk around the use and impact of Elective Recovery Funding (£39 million) due to failure to deliver baseline 104% activity levels.

In 2022/23 when compared to its “fair share” Devon’s funding is 7.2% higher than the amount calculated from the national formula. A “convergence adjustment” of £23.5 million, or 1.2%, has then been applied to the allocation to bring it back closer to the “fair share” value.

The April 2022 plans include £118.8m of financial savings schemes, representing 4.9% of the initial ICB financial envelope. These consist of £96.3m Provider schemes and £22.5m ICB schemes. Savings schemes have been split into three targeted areas of:

- COVID-19 cost reduction (£27.2m);
- Productivity (£21.7m) which includes earning ERF; and
- The national efficiency cost reduction target of 1.1% plus an additional 1% stretch (£69.9m).

All savings schemes (based on the April 2022 submission) were rated and as at May 2022, these were reported as:

- Fully developed £18m (15%);
- Plans in progress £59.1m (50%);
- Opportunity £33.5m (28%); and
- Unidentified £8.2m (7%).

These are split recurrent £84.9m (71%) and non-recurrent £33.9m (29%).

This highlights that there is still significant work needed in order to get schemes to a fully developed stage and with 29% schemes on a non-recurrent basis, this will create further pressure in years to come.

It has also been reported that savings plan are back-loaded in 2022/23 with £7.7m (34%) of ICB schemes and £35.7m (37%) of provider schemes being rated as high risk.

In our view, this represents a significant financial challenge to Devon CCG and its successor the ICB and without genuine transformation in service delivery may not be delivered.

As a consequence of the above, we have concluded that a significant weakness exists over the financial sustainability of the CCG as part of the NHS Devon healthcare system. We have made a key recommendation which is set out on page 6.

Governance



We considered how the CCG:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Overview

Governance is the system by which the organisation is controlled and monitored to ensure that decisions can be made effectively and the relevant people within the organisation held to account.

Following the work we completed in respect of 2020/21, we reported a significant weakness in arrangements over the governance procedures relating to the S256 agreements entered into by the CCG. S256 agreement of the National Health Act allows CCGs to enter into agreements with Local Authorities to carry out activities with health benefits. We subsequently raised this as a risk of significant weakness as part of our 2021/22 risk assessment.

Our 2021/22 work has noted that improvements in the governance arrangements have been made and we have concluded that there is not a significant weakness in this area. Further detail is given below.

In other areas of governance, our work established that for 2021/22, the CCG had a well established and well understood governance framework in place and the overall arrangements for managing, monitoring and reporting risk were good. We noted robust arrangements in terms of committee structure, reporting via those structures, policies and procedures and assurance processes.

Overall, we have not identified any significant weaknesses in governance arrangements for 2021/22. We have raised three improvement recommendations to further strengthen the processes in place.

S256 Agreements

In the 2020/21 Auditor's Annual Report we noted that the S256 agreements which constituted a material amount of money (£20 million) should have been reviewed by the CCG's Audit Committee and then approved by the Governing Body but were not. We therefore recommended that the Governing Body and Audit Committee have appropriate oversight on significant financial and budgetary control measures and that these are also raised in advance with the external auditors (to enable accounting treatment to be discussed and agreed).

Conversations between the CCG and the external auditors did happen during the 2021/22 financial year and the details for new S256 agreements were discussed.

In February 2022, a paper was taken to the Finance and Performance Committee discussing the S256 agreements with Local Authorities for 2021/22. The Committee were asked to review the contents of the report and the accompanying S256 agreements and if satisfied with the agreements recommend that they be approved by the Governing Body which were subsequently approved.

Upon review of the signed S256 agreements, we noted that two of the agreements had not been formally signed off by the Local Authorities but were included in the Governing Body papers for approval. Subsequent to the Governing Body meeting, one of those agreements was established at a different value and changes to the value were made for two further agreements. There was also one new agreement, which had not been subject to the CCG's governance policies and procedures.

Governance

The value of these agreements was not material at £367,000 when compared to £55.5 million allocated overall. We are therefore not reporting a significant weakness in this area but have included an improvement point for action.

Risk Management and Internal Control

Risk Management

High level responsibilities for managing risk are documented within the CCG's Constitution, supported by Standing Financial Instructions. The Constitution is underpinned by the Governance handbook which outlines the Committee and oversight structure and accountability arrangements. This is further underpinned by a documented Risk Management Framework, which was approved in July 2021. Our review of the documented Risk Management Framework did not identify any gaps in arrangements. It includes the key elements for a robust approach to managing risk which includes the process for identifying, scoring, recording, reporting and monitoring risks which are clearly recorded and supported by defined roles and responsibilities. The framework is supported by standard scoring methodology, a risk escalation process, flowcharts to provide visual guidance and the CCG's risk appetite statement.

Risks are managed at four levels:

- The Board Assurance Framework (BAF) aligns strategic risks with the CCG's objectives. Our review of the BAF found it was well structured, clearly set out any gaps in assurances supported by actions to be taken. The summary provides a clear visual of inherent and current scoring with target scores linked to the CCG's agreed appetite. Our comparison with national benchmarking showed that risk categories aligned with other CCGs, however was on the higher end of number of risks. Benchmarking showed CCGs generally have between 5 and 32 risks on their BAF with an average of 12. Devon CCG is currently monitoring against 26;
- High level operational risks are recorded within a Corporate Risk Register. Corporate risks are reviewed by their relevant oversight group at each of their Committee meetings;
- Operational risks are recorded at Team level; and
- Individual project risk registers are maintained.

There are processes in place to ensure financial pressures or risks are identified, particularly within the wider health system. There are regular meetings with the ICS and any risks are brought back to the CCG by the Chief Finance Officer. Evidence of regular consideration can be demonstrated through the addition of a new risk - Risk 160: 2022/2023 Operational Plan, aligned to its corporate objectives "Achieve financial sustainability".

Our review of Committee and Governing Body minutes confirmed that monitoring and reporting had been provided in accordance with the Governance Framework.

Internal Control

Internal Audit and the Local Counter Fraud Service is provided by ASW Assurance. The Head of Internal Opinion for 2021/22 was issued with a "significant assurance" rating with no significant issues noted. Our review of the Internal Audit Reports issued during the year did not show evidence of significant gaps in internal control.

Budget Setting and Monitoring

For 2020/21 and 2021/22 the sector has been funded to a breakeven position via block funding and top-ups received from central government to allow focus on responding to the Covid-19 pandemic. The NHSEI 2021/22 guidance set out the financial regime for health economies for the first and second six months of the financial year, referred to as H1 and H2, and placed emphasis on collaborative working across systems in order to submit a system wide financial plan. We are satisfied that the planning process had been adhered to during 2021/22 and plan submissions were made in accordance with national requirements.

There has been limited progress on medium term financial planning beyond 2022/23 due to planning guidance only being released for a one-year timeframe. This is a similar situation across the sector and as such the CCG is not an outlier.

Our review of Governing Body and Finance and Performance Committee papers confirmed that effective processes and systems are in place to monitor the CCG's and system's financial performance against budget, and to communicate relevant, accurate and timely management information including non-financial information.

Governance

Finance and Performance Committee receive a monthly finance report and an Integrated Performance and Quality Report (IPQR) which covers a range of metrics to assess its efficiency, effectiveness and economy as well as the nationally targeted metrics it must collect and submit data on under the NHSI SOF. The IPQR covers a range of risks and priorities categorised by quality, performance, workforce and finance.

The planning guidance for 2022/23 was released in December 2021 confirming that the sector would no longer be funded in the same way as the previous year. The key differences are significant reductions in COVID-19 funding included in the initial income allocations, no top up funding when not breaking even and a focus on elective recovery for which additional Elective Recovery Funding (ERF) or return a portion of the funding based on whether activity is above or below the expected target of 104% of 2019/20 levels.

Our more detailed commentary in respect of 2022/23 planning is included within pages 9 – 11 of this report.

Informed Decision Making

We have confirmed that decision making at the top levels of the organisation is effective. We reported last year, that the CCG had appropriate leadership in place, led by its Governing Body and supported by an appropriate committee structure. We confirmed that these arrangements have largely remained the same during 2021/22 with the addition of a shadow ICB as the system prepares for full integration.

Committee reports use a standard template showing key recommendations and actions requested, impact on strategic objectives and reference to other documents or accompanying papers. A Register of Interests is maintained for all Governing Body members and members are required to declare interests in respect of individual agenda items at the start of every meeting.

We reviewed a sample of paper packs during the year and are satisfied that the process is effective. All reports were supported by the standard template clearly stating what was required from the Committee, for example, whether the report was being received for information and should be noted, or what action was being recommended. Subsequent minutes clearly show what action was taken or agreed. Overall, we concluded that information is timely, and note that a lag of a couple of months would be expected due to the need to collate information and due to the timetable of meetings being every 2/3 months.

There is an agreed forward plan of business and expected reports for each Committee. Deep dive reviews are also reported where there is a known or emerging risk or additional national requirement.

To ensure continuous effectiveness of its Committees, the CCG carries out annual self-assessment reviews. Effective committee meetings are a key part of an effective governance structure and provide evidence that the CCG Code of Governance principles are being met. This is particularly important to ensure that governance arrangements are robust. Undertaking such a review of effectiveness provides further assurance to the CCG Governing Body. We confirmed these had been undertaken by review of the reports and note that the Governing Body review outcomes will be taken forward for consideration for the ICB.

Stakeholder Engagement

Our review of minutes of the Governing Body and sub-committees demonstrates good stakeholder engagement on a range of topics and is consistent with the behaviour observed in the prior year. The CCG has an appropriate 'tone from the top' with the Accountable Officer providing in depth reporting to the Governing Body.

The CCG also engages with service users in a number of different ways including:

- Through 'Virtual Voices' which is an online panel of volunteer members established by the CCG in 2019 to provide views and feedback on NHS services and priorities.
- Involving people locally in commissioning: the communications and engagement team uses a wide variety of methods, including newsletters, social media and the public website.
- Healthwatch groups - the CCG communications and engagement team meet monthly with the three Healthwatch CEOs and quarterly with the CEOs and chairs.
- Patient Participation Groups (PPGs) - the CCG supports the work of Patient PPGs which are linked to individual GP practices. They support them to develop, promote important health issues, and enable patients and carers to influence their local care services work.

A review of papers showed evidence of where consultation and engagement had taken place or was expected to be undertaken.

The CCG has a Communications and Engagement strategy in place however this is dated 2019/20. An improvement recommendation has been made in respect of this.

Governance

Regulation and Legislation

We reported last year, that the CCG had good arrangements in place around compliance with legislation and regulatory safeguards. We confirmed that these arrangements have remained the same during 2021/22.

Each Committee has delegated responsibility for their area of business. Forward plans are used to ensure this is set out in advance. Each Committee is responsible for monitoring compliance and reports upwards to provide assurance to the Governing Body. This was evidenced through review of Governing Body and Committee reports.

The CCG has adopted a culture where staff know what is expected and is not expected of them and there are a number of policies in place to provide guidance and instruction. These include procedures for raising or reporting issues internally and externally. We confirmed the CCG has in place a Standards of Business Conduct Policy incorporating Declarations of Interest and Managing Conflicts of Interest and Gifts and Hospitality Policy.

Each year the CCG is required to have suitable security protocols and processes in place to enable it to successfully complete the NHS Data Security & Protection Toolkit (DSPT). The Toolkit is subject to Internal Audit review, however, due to the response to COVID-19 and the environment in which the CCGs were operating, NHS Digital agreed that while the Toolkit submission was still expected, there was not a requirement for Internal Audit assessment.

We concluded that there are appropriate data security processes in place and the CCG confirmed there had not been any data breaches reported in 2021/22, although there had been one breach within the system which had been reported in accordance with appropriate procedures. We noted that the CCG has a Confidentiality and Data Protection Act policy in place, although this was due for review in August 2020.

We were advised that the CCG had not entered into any compromise agreements during the year.

Our work has not identified any breaches of legislation or regulatory or professional standards during the year that has led to an investigation by any legal or regulatory body.



Improvement recommendations



Governance

Recommendation 1

The CCG and its successor body, the ICB, should ensure that all future S256 agreements are formally considered and approved by the appropriate governance committee and/or Board.

Why/impact

Governance procedures ensure that the CCG's transactions remain lawful. There is the possibility that by not following the correct procedures, the CCG could find that it enters into unlawful transactions.

Summary findings

We noted that appropriate improvements had been made to the approved S256 agreements since 2020/21. However, two of the agreements had not been formally signed off by the Local Authorities and one new agreement was created that was not subject to the CCG's own governance policies and procedures. The value of the agreements was insignificant at £367,000 when compared to the £55.5 million allocated overall but the CCG's own governance arrangements should still have been followed.

Management Comments

Under the Financial Limits of the Constitution and Governance Hand book of the CCG the amounts involved did not need to be signed off by the Governing Body and could be approved by the CFO. We believe therefore that the correct governance arrangements were followed for the variations and additional agreements.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Governance

Recommendation 2

As the ICB develops the system BAF, consideration should be given to the number of risks identified and included. There should be a focus on high level strategic risks.

Why/impact

There is a risk that Those Charged with Governance may not be able to meaningfully monitor or have the time to discuss each risk and the associated controls and actions in detail.

Summary findings

CCGs generally have between 5 and 32 risks on their BAF with an overall average of 12. Devon CCG is currently monitoring against 26 risks.

Management Comments

We believe the risks being monitored are appropriate at this time, but will review within the first 3 months of the ICB.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Governance

Recommendation 3

As part of the ICB governance arrangements development work, those policies which are to be adopted going forward should be reviewed and appropriately updated.

Why/impact

Out of date policies may not reflect the latest guidance or requirements. There is a risk that the CCG does not adhere to appropriate legislation, regulatory or professional standards.

Summary findings

We noted some of the CCG's policies had past their review dates. These included the Policy and Procedural Framework, Communications and Engagement Strategy, Confidentiality and Data Protection Act Policy and Procurement Policy for Clinical Healthcare Services and Non-Clinical Services.

Management Comments

The policies identified will be reviewed within the first 3 months of the ICB.



The range of recommendations that external auditors can make is explained in Appendix C.

Improving economy, efficiency and effectiveness



We considered how the CCG:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Overview

Ensuring the CCG achieves economy, effectiveness and efficiency involves ensuring arrangements are in place to use the available resources to achieve the overall objectives (effectiveness), achieving the maximum service levels with the available resources (efficiency) and balancing revenue and costs effectively in the process (economy).

Overall, we have not identified any weaknesses in the CCG's economy, effectiveness and efficiency arrangements for 2021/22.

Performance Reporting

We reported last year that the CCG had adequate performance monitoring arrangements in place. We noted that during 2021/22 the arrangements for performance reporting had been developed and strengthened. In the early part of the year a Performance and Quality report was provided for Governing Body oversight. During the latter part of the year, from February onwards, an Integrated Performance, Quality and Finance Report (IPQFR) was developed. The report includes escalation of key issues from Local Care Partnerships and system groups, highlights any significant risks and includes further detail on any areas requested by the Governing Body. This report includes system wide information to the Governing Body in addition to CCG level specific data.

NHSEI have not yet updated the benchmarking data to May 2022 and therefore we cannot determine how the CCG has performed in the last 12 months against the indicators in our benchmarking work.

However our review of the March 2022 IPQFR noted that it shows that the ICS compares well to the national position for the majority of indicators but there are a number where performance is lower or where there is significant variance across the system. These are subject to quarterly exception reporting providing further context and detail around the headline indicator, key actions and timescales for improvement and any issues for escalation.

The key issues faced by the system include delays in urgent care discharges due to poor community capacity and COVID-19 related staff absences. This has led to pressures in Emergency Departments due to reduced patient flow resulting in a stepping down of some planned procedures. However, while this is not dissimilar to the national picture we note the system is taking pro-active action to understand the implications of harm in relation long waits in elective pathways. In addition, and in response to ensuring the system addresses the COVID 19 backlog, an initial meeting with the Getting it Right First Time team has taken place and will re-convene in four months and review improvements that have been made.

Improving economy, efficiency and effectiveness

Quality Performance oversight is provided by the Quality Committee with upwards assurance reporting to the Governing Body. We noted that the system is developing a response into the full Ockenden Report and Devon providers have been implementing the seven IEAs (Immediate and Essential Actions) identified in the interim Ockenden Report. Review of Governing Body and Quality Committee papers shows that there is robust reporting to provide assurance. Following the initial report, each Trust submitted their evidence, assessing themselves against the IEAs. The Commissioning Support Units (CSU) provided a RAG rating comparing the evidence with the standards set in the report. The current position for each Trust was reported through providers in March with the outcome (comparison of the April 22 position against June 2021) reported to the Governing Body within the IPQFR. This shows there have been improvements in the majority of IEAs across all providers. We did note that there were still some areas reporting a Red RAG rated position, however there are processes in place for continuous monitoring and reporting through the IPQFR to provide assurance that appropriate action is being taken.

Partnership Working

We noted there has been regular reporting and updates from the Accountable Officer in respect of the ICS development and transition. Progress includes governance arrangements being developed with key roles being appointed, including the appointment of the ICB Chair. Place-based partnerships are in place (known as 'Local Care Partnerships' – LCPs) between the NHS, local councils, voluntary organisations, residents in communities, service users and carers. LCPs provide upwards assurance in respect of risk and activity to each of the CCG's Governing Body meetings.

An ICS Governance Task and Finish Group was set up in 2021, overseeing the development of the structure of the ICB. Key appointments were made in November 2021 to both the Chief Executive Officer and Chair. A shadow ICB was then set up to run in parallel with the CCG Governing Body, with members of the Shadow Board attending both meetings in order to ensure the handover process is as smooth as possible.

Procurement

The CCG has in place a Procurement Policy for Clinical Healthcare Services and Non-Clinical Services and for all supplies although it is noted that this is now due for review. The non-clinical work is currently being managed by the South Central and West Commissioning Support Unit (CSU) supplying the majority of the resource to undertake the procurements, although the contracting team remain available to support CCG staff as required, this may include referring the issue to the CSU.

There is no evidence that the CCG has failed to operate a fair procurement exercise. Procurement and commissioning activity is reported quarterly through Finance and Performance Committee (FPC). Our review of FPC paper packs provided evidence of robust procurement considerations including fully costed options appraisals at Outline Business Case approval stage.

Through our review of papers, we also identified examples of under performance issues being reported supported by actions to be taken to address these.

We noted that procurement and commissioning reporting includes activity against Single Action Waivers which are categorised by risk. (Single Action Waivers being where it has not been possible to get competitive quotes from suppliers for a product or service.) From our sample testing of these, we noted that all of those we reviewed had been approved by the Chief Finance Officer.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1.	The CCG should have a robust financial framework in place to ensure that financial sustainability is achieved in future years. This should include urgently addressing the recommendations raised in external reviews.	Key	June 2021	Due to the financial regime in which the CCG was operating during 2021/22 caused by the COVID-19 pandemic, additional funding was made available and the CCG delivered a surplus outturn. However, the Devon healthcare system has a significant underlying historic deficit and the underlying deficit position as at the end of 2019/20 in excess of £251.5m remains to be addressed.	No	We have concluded that a significant weakness still exists over the financial sustainability of the CCG as part of the NHS Devon System. We have made a key recommendation which is set out on page 6.
2.	We would recommend that as the ICS develops its financial plans that the savings process is reviewed and strengthened so that a robust savings plan is established that is supported by business cases and delivery monitored to ensure a satisfactory level of delivery is achieved.	Improvement	June 2021	In the 2019/20 value for money audit, we concluded that the underachievement of savings contributed to the deterioration of the financial position. The CCG and the provider sector recognises an underlying recurrent deficit in the system. This was independently verified pre-pandemic at £221.9m and is recorded in the plan submission to NHS England on 20 June 2022 at a total of £173.1m for the system, with £16m in the CCG and £157.1m in the provider sector.		
3	We recommend that the Governing Body and Audit Committee have appropriate oversight on significant financial and budgetary control measures and that these are also raised in advance with the External Auditor.	Improvement	June 2021	From our work carried out, including review of Governing Body and Audit Committee papers we have concluded that the Governing Body and Audit Committee have appropriate oversight on significant financial and budgetary control measures.	Yes	No
4	We recommend that the CCG retrospectively approves the S256 agreements in order that the correct governance procedures have been applied over these transactions. Additionally, we recommend that the CCG reviews other significant contracts entered into in 2020/21 to ensure that the correct governance have been followed.	Improvement	June 2021	Following legal advice taken by the CCG, the S256 agreements were re-signed and approved.	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5.	We would recommend that the CCG reviews its Constitution including the Scheme of Delegation, Standing Financial Instructions and the Standing Orders and ensures that there are no inconsistencies.	Improvement	June 2021	The Constitution including the Scheme of Delegation, Standing Financial Instructions and the Standing Orders have been reviewed and rewritten for the ICB.	Yes	No
6.	The CCG should introduce arrangements for a formal sign off of all budgets by each budget holder.	Improvement	June 2021	Due to the financial framework in place in 2021/22 this level of detail or control was not in place. However, this has been reinstated for 2022/23.	Yes	No
7.	We recommend that where variances are provided in the monthly performance reports, greater detail is presented to show the nature of the variance, the impact that it has on the CCG / System and a plan of action to address.	Improvement	June 2021	The monthly finance report and Integrated Performance, Quality & Finance Report (IPQR) is presented to the meetings of the Finance and Performance Committee and Governing Body, The IPQR has been further developed and improved during 2021/22.	Yes	No
8.	The CCG should consider maintaining a central register of open recommendations made by assurance providers or regulators.	Improvement	June 2021	The CCG maintains a central register of open audit recommendations and this is monitored by Audit Committee.	Yes	No

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified opinion on the CCG's financial statements on 20 June 2022.

Opinion on regularity

We issued our regularity opinion on 20 June 2022. Our regularity work found no breaches that we needed to report.

Other opinion/key findings

We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies were identified.

We are also required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been prepared properly in accordance with the requirements of the Act, directed by the Secretary of State with the consent of the Treasury.

We have audited the elements of the Remuneration Report and Staff Report, as required by the Code. We issued an unmodified opinion in this regard on 20 June 2022.

We also reported no significant issues in relation to the CCG's Annual Governance Statement and Annual Report.

Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which was published and reported to the CCG's Governing Body on 16 June 2022.

Whole of Government Accounts

To support the audit of the NHS England group accounts and the Whole of Government Accounts, we are required to examine and report on the consistency of the CCG's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Our work found no issues and we submitted our assurance statement to the NAO on 20 June 2022.

Preparation of the accounts

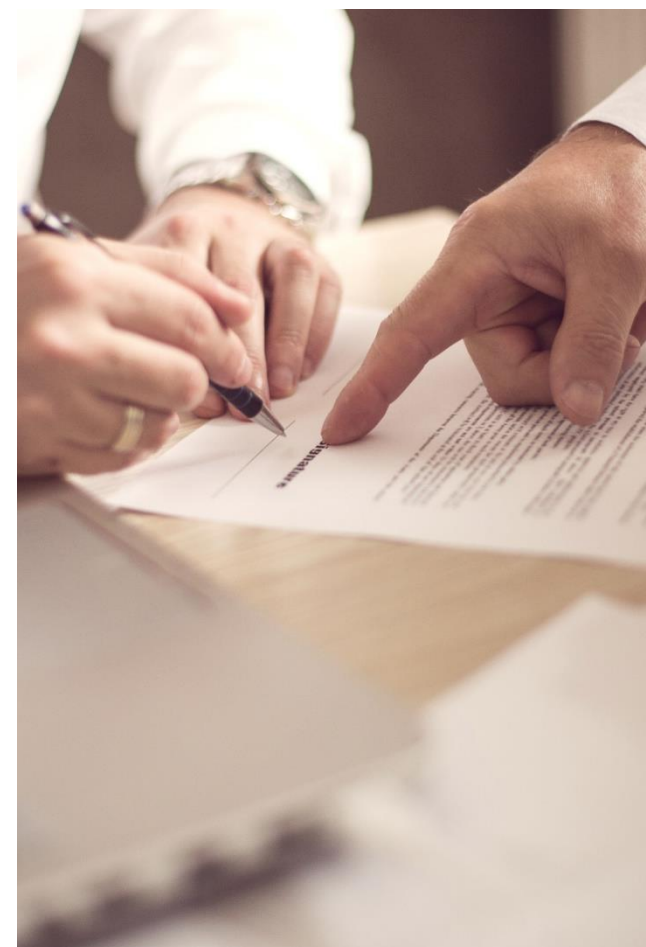
The CCG provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Issues arising from the accounts:

There were no significant issues reported as part of our financial statements audit.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



Appendices

Appendix A – Responsibilities of the CCG

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Accountable Officer is also responsible for ensuring the regularity of expenditure and income.

The Accountable Officer is required to comply with the Department of Health and Social Care Group Accounting Manual and prepare the financial statements on a going concern basis, unless the CCG is informed of the intention for dissolution without transfer of services or function to another entity. An organisation prepares accounts as a 'going concern' when it can reasonably expect to continue to function for the foreseeable future, usually regarded as at least the next 12 months.

The CCG is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was identified as a potential significant weakness, see page 3 for more details.	We considered how the CCG: - identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans - plans to bridge its funding gaps and identify achievable savings - plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities - ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system - identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.	Our work has identified a significant weakness in arrangements for 2021/22. See pages 9 - 11 for further details.	A significant weakness has been identified resulting in a key recommendation being raised.
Governance was identified as a potential significant weakness, see page 3 for more details.	We reviewed: - the governance arrangements in place for approving S256 agreements. - the Finance and Performance Committee papers and the accompanying S256 agreements, recommending approval. - Governing Body papers and minutes confirming approval of S256 agreements.	Our work noted two agreements had not been formally signed off by the Local Authorities and one new agreement which had not been subject to the CCG's governance policies and procedures. See page 12 for further details.	The value of the agreements was not material at £367,000 when compared to £55.5 million allocated overall. We are therefore not reporting a significant weakness in this area but have included an improvement point for action.

Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the CCG's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the CCG under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the CCG. We have defined these recommendations as 'key recommendations'.	Yes	Page 6
Improvement	These recommendations, if implemented should improve the arrangements in place at the CCG, but are not a result of identifying significant weaknesses in the CCG's arrangements.	Yes	Pages 16 - 18

