The Annual Audit Letter for NHS South Devon and Torbay CCG

Year ended 31 March 2019

13 June 2019

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at NHS South Devon and Torbay Clinical Commissioning Group (the CCG) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the CCG and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the CCG's Audit Committee as those charged with governance in our Audit Findings Report on 23 May 2019.

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 financial statements to be £7,993k, which is 1.8% of the CCG’s total operating expenditure.
Financial Statements opinion	We gave an unqualified opinion on the CCG's financial statements on 24 May 2019. The opinion included an Emphasis of Matter paragraph regarding the demise of the CCG as it merged with NHS Northern, Eastern and Western Devon CCG forming the NHS Devon CCG on 1 April 2019. As well as an opinion on the financial statements, we are required to give a regularity opinion on whether expenditure has been incurred 'as intended by Parliament'. Failure to meet statutory financial targets automatically results in a qualified regularity opinion. Based on our review of the CCG's expenditure, we gave an unqualified regularity opinion.
NHS Group consolidation template (WGA)	We also reported on the consistency of the financial statements consolidation template provided to NHS England with the audited financial statements. We concluded that these were consistent.
Use of statutory powers	We did not identify any matters which required us to exercise our statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the CCG put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the members of the Governing Body (of NHS Devon CCG) on 24 May 2019.
Certificate	We certified that we have completed the audit of the financial statements of NHS South Devon and Torbay CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 24 May 2019.

Working with the CCG

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

- An efficient audit – we delivered an efficient audit with you in May
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial statements.
- Improving your annual reporting – we benchmarked your 2017/18 Annual Report to inform your preparation of the 2018/19 Annual Report
- Supporting development – we hold workshops for CCG Audit Committee Chairs, which your Chair regularly attends.

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

Grant Thornton UK LLP
June 2019

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the CCG's financial statements to be £7,993k, which is 1.8% of the CCG’s total operating expenditure. We used this benchmark as, in our view, users of the CCG's financial statements are most interested in where the CCG has spent its allocation in the year.

We also set a lower level of specific materiality for senior officer remuneration at £20,800.

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

The scope of our audit

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

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

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

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

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

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

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Secondary healthcare expenditure – contract variations 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 primarily derived through block contracts that are agreed up front for a predetermined cost or level of activity. Contract variations are agreed with the supplier throughout the year to recognise demand and price adjustments against the agreed contracts. Costs related to contract variations are recognised when the adjustment has been agreed with the provider, with accruals raised at the year-end for completed activity for which an invoice has not been issued. We identified the accuracy of secondary healthcare expenditure – contract variations, and the completeness of associated payables and accruals, as a significant risk.	We carried out the following work: • gained an understanding of the financial reporting processes used for the purchase of secondary healthcare and evaluate the design of the associated controls • agreed all significant contract annual expenditure to signed annual contracts • agreed, on a sample basis, invoices for variations to secondary healthcare contracts to supporting evidence • using the Department of Health and Social Care mismatch report, we investigated unmatched expenditure and payable balances with NHS bodies over the NAO £300k threshold, corroborating the unmatched balances used by the CCG to supporting evidence • agreed, on a sample basis, payable and accrual balances relating to secondary healthcare to supporting evidence.	There were no issues to report.
Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The CCG faces external pressures to meet agreed targets, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.	We carried out the following work: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.	We identified a change to the estimation process for the prescribing accrual and concluded that the changes made were appropriate. There were no other issues to report.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 24 May 2019.

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

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

Preparation of the financial statements

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

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the CCG's Audit Committee on 23 May 2019.

Annual Report, including the Governance Statement

We are also required to review the CCG's Annual Report and the Governance Statement included within the Annual Report. It provided these on a timely basis with the draft financial statements with supporting evidence. Minor amendments only were needed to the draft remuneration report included within the Annual Report.

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 have not exercised any of our additional statutory powers or duties.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of NHS South Devon and Torbay CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 24 May 2019.

Value for Money arrangements

Background

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

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

Key findings

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

The risks we identified and the work we performed are set out overleaf and our findings were reported to the Audit Committee in May 2019.

Overall Value for Money conclusion

We are satisfied that in all significant respects the CCG put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money arrangements

Value for Money Risks

Risks identified in our audit plan	Findings	Conclusions
Financial sustainability The CCG forecast for 2018/19 at month 8 is £5m deficit, which is line with the planned position. If the CCG delivers the planned position they will receive Commissioning Sustainability Funding (CSF) that will enable them to breakeven in the year. However, the CCG has challenging savings plans to deliver in order to meet its planned position and has an accumulated deficit of £14.5m that it still needs to address.	The CCG reports to the Finance and Performance Committee, which meets monthly. The Committee is a joint one for both South Devon & Torbay and Northern, Eastern and Western (NEW) Devon CCGs as they have been running committees in common for some time in the run up to the formal merger between the two bodies on 1 April 2019. The Financial Performance report for both CCGs is a standing item on the agenda of Finance and Performance Committee. The CCG has consistently reported being on target to meet its control total of £5m deficit throughout the year, although the risks and mitigations have fluctuated reflecting the pressures at different points and the actions being taken by the CCG to address them. This position has been reported as met at 31/3/19, with that enabling the CCG to breakeven in the year due to £5m of CSF monies being received. The outturn position includes a £1.5m overspend on Devon Partnership Trust, which is due to out of area mental health placements. This was offset by an underspend on running costs and use of the contingency fund. The CCG's underlying deficit therefore remains unchanged at £14.5m. The CCG had a QIPP savings target of £7.8m in 2018/19. A slight underperformance was being reported throughout the year and the final position was savings of £6.9m achieved (89%). The shortfall was mainly due to savings not being achieved in the independent sector (£500k) and Acute (250K).	NHS South Devon and Torbay CCG has appropriate arrangements in place for identifying, agreeing and monitoring its sustainability and operational plans, and communicating key findings to the Governing Body and Finance Committee. The CCG met its control total for 2018/19 and has achieved breakeven via the receipt of CSF monies.

Value for Money arrangements

Value for Money Risks

Risks identified in our audit plan	Findings	Conclusions
Merger with NEW Devon CCG The CCG has been working closely with NEW Devon CCG with single governing body and committee meetings fully established, a single executive team, and all staff now aligned. The CCG is now moving towards formal merger. There is a risk over the capacity of the CCG to carry out the work necessary for the merger, while continuing to deliver the day job in challenging circumstances.	The Governing Bodies in July 2018 highlighted that they did not want the merger process to divert management attention into bureaucracy or be at the expense of taking forward the change programme and delivery of the Operational Plan. As a result, a Merger and Transitions Team was established which included senior decision makers from across the combined CCG workforce with a dedicated management resource. The CCGs set up a Devon CCGs' Transition Sub Committee in January 2019, which was tasked with supporting and overseeing the transition merger programmes of work towards establishment of NHS Devon CCG, and assisting the two CCGs in ensuring that statutory functions and key regulator requirements were considered and developed in line with national guidance. The Audit Committee in Common meeting was nominated as the body to receive reports and assurance over the merger process. Each meeting from September 2018 received an update report on the latest position, along with any associated risks and mitigations. The mitigating actions were reported to each meeting and robust challenge was made by the Audit Committee on these actions.	The CCGs set up a process for supporting and overseeing the merger process, with appropriate governance arrangements in place. The Devon CCGs' Transition Sub Committee covered the detailed work streams with the Audit Committee in Common receiving updates throughout to gain assurance and provide challenge to Executives. The merger process was completed, and the merged NHS Devon CCG commenced on 1 April 2019. South Devon & Torbay CCG achieved its control total for the year. This supports the reported position that business as usual was delivered by the two CCGs during this challenging period.

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	Dec 2018
Audit Findings Report	May 2019
Annual Audit Letter	June 2019

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	48,500	48,500	47,500
Mental Health Investment Standard *	10,000	10,000	--
Total fees	**58,500**	**58,500**	**47,500**

* - work to be undertaken in August / Sept 2019

Fees for non-audit services

Service	Fees £
Mental Health Investment Standard Compliance Statement	10,000

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.