

The Annual Audit Letter for NHS Bristol, North Somerset and South Gloucestershire CCG

Year ended 31 March 2019

24 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 Bristol, North Somerset and South Gloucestershire 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, Governance and Risk Committee as those charged with governance in our Audit Findings Report on 20 May 2019.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the CCG's financial statements and regularity assertion (section two)
- assess the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the CCG's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the CCG's financial statements to be £20m, which is 1.5% of the CCG's gross revenue expenditure.
Financial Statements opinion	<p>We gave an unqualified opinion on the CCG's financial statements on 28 May 2019.</p> <p>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.</p> <p>Based on our review of the CCG's expenditure we gave an unqualified regularity opinion.</p>
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 note a number of inconsistencies between the financial statements and the accounts consolidation schedules which we are required to report in our opinion on the consolidation schedules. These arose due to differences arising in opening balances following the merger of the predecessor CCGs on the 1 April 2018.
Use of statutory powers	We did not identify any matters which required us to exercise our statutory powers.

Executive Summary

Value for Money arrangements We were satisfied that the CCG put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for in relation to proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. NHS England acknowledge and we recognise that there have been a number of cost pressures in the system which are external to the CCG which have led to significant challenges in agreeing a balanced financial plan for 2019/20. We therefore qualified our value for money conclusion in our audit report to the members of the Governing Body on 28 May 2019.

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

Working with the CCG

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

- An efficient audit – we delivered an efficient audit with you in May ahead of the 29 May deadline.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need to ensure all savings plans for 2019/20 and future years have sufficiently developed plans and milestones to provide confidence of delivery.
- Improved accounts – we worked with you to determine the correct accounting treatment required to reflect the merger of three CCGs to form NHS Bristol, North Somerset and South Gloucestershire CCG on the 1 April 2018.
- Early review of your draft remuneration report to identify areas for improvement ahead of the audit.

- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports.
- Benchmarking of your Annual Report – as in previous years, we compared the content of your Annual Report against other CCGs and NHS organisations to assess the quality of your reporting and identify areas where improvements in disclosures could be considered.
- Providing training – we provided your teams with training on financial statements and annual reporting
- Support outside of the audit – our healthcare assurance team undertook a independent review of non elective short stay admissions data at North Bristol NHS Trust to ensure data was being recorded in line with national guidance.

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 £20m which is 1.5% 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 senior officer remuneration of £20k.

We set a lower threshold of £0.3m, above which we reported errors to the Audit, Governance and Risk 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
<p>Operating expenses – purchase of secondary healthcare</p> <p>A significant percentage of the CCG’s expenditure is on contracts for healthcare with NHS providers and non-NHS providers. 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 provider 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.</p> <p>We identified the accuracy and completeness of secondary healthcare expenditure – contract variations and the accuracy and completeness of associated payables and accruals, as significant risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • gained an understanding of the financial reporting processes used for the purchase of secondary healthcare and evaluated the design of the associated controls • substantively tested secondary healthcare costs including; • reviewed the Department of Health (DH) agreement of balances data and investigated any significant differences • considered the rationale for significant contract adjustments • reviewed post year end adjustments in the prior period for evidence of any reversals. 	<p>We noted a number of immaterial mismatches on the Agreement of Balances exercise.</p> <p>We reviewed the CCG’s position and obtained sufficient evidence to support the approach adopted by the CCG.</p> <p>We identified no further issues to report.</p>

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. 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.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we completed the following audit procedures;</p> <ul style="list-style-type: none"> • 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 	<p>We identified one journal that had been input and approved by the same officer. Testing of this journal provided assurance it was correct and reasonable.</p> <p>A recommendation was raised in respect of the authorisation of journals.</p> <p>Our audit work has not identified any other issues in respect of management override of controls</p>
<p>Opening balances</p> <p>NHS Bristol, North Somerset and South Gloucestershire CCG has been formed from the merger of three predecessor bodies. This creates a risk that the opening balances are materially misstated e.g. if internal payments have not been netted off.</p>	<p>As part of our audit work we have</p> <ul style="list-style-type: none"> • reviewed the process for transferring balances to the new organisation • mapped the closing balances from the 2017/18 general ledger to the opening balance position in the new ledger for 2018/19 to ensure accuracy and completeness of the financial information. Ensuring that any intra organisation transactions have been netted off. • reviewed the presentation of accounting entries in respect of opening balances transferred following merger 	<p>We requested that a number of presentational changes were made to the final version of the statement of accounts to ensure entries were disclosed in line with the guidance procedures for 'Clinical Commissioning Groups to apply for Constitution Change, Merger or Dissolution'. The guidance states that when a new CCG is formed, it must disclose a comparative Statement of Financial Position and related notes at the date of authorisation after recording the initial transfers by absorption from predecessor organisations.</p> <p>Our audit work did not identify any further issues in respect of opening balances of the new CCG.</p>

Audit of the Financial Statements

Audit opinion

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

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

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

Preparation of the financial statements

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

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the CCG's Audit, Governance and Risk Committee on 20 May 2019.

In addition to the key audit risks reported above, we identified the following issues throughout our audit that we have asked the CCG's management to address for the next financial year:

- One journal was input and authorised by the same officer.
- Immaterial overpayments to officers were identified during the audit, assurances were obtained that these overpayments will be recovered but this indicates weaknesses in payroll controls.
- Section 75 agreements between the CCG and Bristol City Council, South Gloucestershire Council and North Somerset Council were not formally signed on a timely basis.

- Variations to contracts with the CCG and South Western Ambulance Service NHS Foundation Trust and with North Somerset Community Partnership were not formally signed on a timely basis.

Recommendations in respect of the above issues were agreed with officers and reported in the Audit Findings Report.

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. We agreed with officers a number of improvements to the disclosure in respect of the 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 highlighted the following exceptions:

- Negative expenditure of £318k and £342k included in the Agreement of Balances toolkit relating to recharges which should have been excluded
- £1.4m of expenditure relating to the NHS South, Central and West Commissioning Support incorrectly excluded from the Agreement of Balances exercise

We also reported a number of inconsistencies between the financial statements and the accounts consolidation schedules. These arose due to differences arising in opening balances following the merger of the predecessor CCGs on the 1 April 2018.

Certificate of closure of the audit

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

Value for Money arrangements

Background

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

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

Key findings

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

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the CCG in May 2019, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matter we identified in respect of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of priorities and maintain statutory functions, 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	How we responded to the risk	Findings and conclusions
<p>Financial Sustainability The CCG's financial position and financial planning.</p> <p>The financial position of the CCG is considered a significant risk in 2018/19. The CCG has put in place a savings plan of £37m to deliver its planned control total of a £10m deficit.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> - Reviewed the outturn position and financial recovery plans as well as the balance between recurrent and non recurrent steps taken in delivering outturn. - Reviewed the CCG's arrangements for putting together and agreeing budgets, including identification of savings plans and arrangements for monitoring and managing delivery of budget and savings plans for 2018/19. - Reviewed the arrangements for identifying, agreeing and monitoring operational plans for 2019/20. We considered the degree of financial risk in those plans and negotiations with NHS England. 	<ul style="list-style-type: none"> • The CCG agreed a financial plan with NHS England to deliver an in year deficit of £10m. This has been achieved and has enabled the CCG to access £10m of Commissioner Sustainability Funds, giving a break even position for the 2018/19 financial year. The CCG relied on a number of other non-recurrent measures to deliver the control total including the utilisation of reserves and additional non recurrent funding from NHS England (NHSE) • Eliminating the impact of the non-recurrent measures identifies that the underlying recurrent position is a deficit of £35m, which impacts significantly on the 2019-20 Operational Plan. • Efficiency savings of £37m were included within the 2018/19 operating plan. The CCG delivered £28.5m (77%) of these in-year. • The CCG's 2019/20 control total is break even, this represents a significant challenge to the CCG. At the time of the audit plans presented a £15m deficit and £5.1m of net unmitigated risk. The plan identifies £30.3m of savings and work continues to identify further areas to support the CCG and wider system's financial position. • A revised plan with a deficit of £12m and an overall savings target of £40.4m was submitted the NHS England on 23 May. An assessment of key risks and mitigations to the plan has been reported to the CCG Governing Body which demonstrates there is no longer any net unmitigated risk to delivery of the revised Annual plan. The revised plan still represents a significant challenge and is subject to agreement with NHSE. • NHS England acknowledge and we recognise that there have been a number of cost pressures in the system which are external to the CCG which have led to significant challenges in agreeing a balanced financial plan for 2019/20. <p>We concluded that there are weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p>

Value for Money arrangements

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Working in Partnership – STP</p> <p>The CCG is working with its key providers and other stakeholders to develop long term sustainable plans to meet the healthcare needs of the local population across the health economy. It is critical that all partners work effectively together to develop complementary plans that deliver quality care within the financial resources available. Given the financial challenge both with the CCG and many of the provider organisations, this requires a new way of working that breaks down traditional organisational boundaries and requires a more holistic approach.</p> <p>NHS England assessed the BNNSG STP as 'Needing Most Improvement'.</p>	<p>As part of our work we have reviewed the progress made by the CCG in working with its partners to develop longer term sustainable plan.</p>	<p>The Bristol, North Somerset and South Gloucestershire (BNSSG) STP is known as 'Healthier Together'. The area is working towards becoming a Wave Three Integrated Care System in 2020, and Healthier Together joined the Aspirant Integrated Care System Programme in September 2018, which has enabled the region to accelerate progress towards becoming an Integrated Care System. Healthier Together were selected by NHS England to participate in the programme having been recognised as a system making good progress with collaborative working.</p> <p>There has been greater dialogue and collaboration between partners than there has been in previous planning rounds and as a system, three priorities were identified early on in the process that the system-wide plan set out to address; financial sustainability, urgent care and workforce. These priorities are linked and referenced within the CCG's own operating plan. The System Delivery Oversight Group supported the footprint in developing the system-wide plan that was required in line with planning guidance, and this was submitted to regulators in advance of the national deadline in April 2019. For the three priority areas set out above, the system-wide plan articulates the challenge and the system's response, including how success will be measured and the risks to delivery of the priorities.</p> <p>Activity plans have been shared and collated for all key organisations within the STP as part of the system wide planning process, although gaps do still remain between commissioners and providers, including between the CCG and their main provider, North Bristol NHS Trust. System-wide capacity planning has also started, although again this is in it's early stages with an initial iteration drafted. There is agreement in principle to deliver a single system bed model for the winter of 2019/20, and this will be a key step in moving toward a system-wide delivery model.</p> <p>Whilst challenges are still present, the system has continued to progress STP plans, though in some cases more slowly than the system would have hoped.</p> <p>We concluded that the risk was sufficiently mitigated and the CCG has proper arrangements working with it's partners.</p>

Appendix 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	December 2018
Audit Findings Report	May 2019
Annual Audit Letter	June 2019

Fees

	Planned £	Actual £
Statutory audit	85,000	85,000
Mental Health Investment Standard (Note 1)	10,000 (estimated)	TBC
Annual Audit Letter	95,000	TBC

Note 1 – We anticipate that this work will be completed by the end of September and that the estimated fees will be £10,000 but a formal engagement has not yet been agreed.

Fees for non-audit services

Service	Fees £
Data quality – joint audit of non elective short stay admissions data at North Bristol NHS Trust	39,434

Non- audit services

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

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



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