



Annual Audit Letter

Year ending 31 March 2018

NHS West Hampshire CCG

26 June 2018



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Your key Grant Thornton team members are:

Peter Barber

Director

T: 0117 305 7897

peter.a.barber@uk.gt.com

Sam Harding

Senior Manager

T: 0117 305 7874

sam.g.harding@uk.gt.com

Aditi Chandramouli

Audit Executive

T: 0117 305 7643

E: Aditi.chandramouli@uk.gt.com

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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 West Hampshire Clinical Commissioning Group (the CCG) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the CCG and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the CCG's Audit Committee as those charged with governance in our Audit Findings Report on 23 May 2018.

Our work

Materiality	We determined materiality for the audit of the CCG's accounts to be £14.504 million, which is 1.9% of the CCG's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the CCG's financial statements on 23 May 2018. We issued a qualified regularity opinion as the CCG's expenditure exceeded in year income.
NHS Group consolidation template (WGA)	We also reported on the consistency of the accounts consolidation template provided to NHS England with the audited financial statements. We concluded that these were consistent.
Use of statutory powers	We referred a matter to the Secretary of State, as required by section 30 of the Act, on 17 May 2018, because the CCG breached the requirement for in year expenditure not to exceed income.

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.

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 on 23 May 2018.

Certificate

We certify that we have completed the audit of the accounts of NHS West Hampshire CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Working with the CCG

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

- An efficient audit – we delivered an efficient audit with you in May.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness
- Worked with your finance team to identify areas where the financial statements presentation could be streamlined, including the removal of accounting policies where you had no material transactions.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports.

- Annual report – we benchmarked your 2016/17 annual report to identify areas for improvement in 2017/18
- Governance – we provide audit committee Chair's events during the year for Hampshire and the Isle of Wight enabling Chair's to network and discuss topical issues.

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 2018

Audit of the Accounts

Our audit approach

Materiality

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

We determined materiality for the audit of the CCG's accounts to be £14.504 million, which is 1.9% 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 salary disclosures.

We set a lower threshold of £300k, 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 accounts included in the Annual Report on which we gave our opinion.

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

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

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

Audit of the Accounts

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>We have rebutted this presumed risk for NHS West Hampshire CCG because:</p> <ul style="list-style-type: none"> • revenue does not primarily involve cash transactions • revenue is principally an allocation from NHS England <p>We therefore do not consider this to be a significant risk for NHS West Hampshire CCG.</p>	<p>As we were able to rebut this presumed risk, no specific audit procedures were required.</p>
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The CCG faces pressure to meet external targets, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions • review of significant related party transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular, the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>Our work has identified a system function that allows the Chief Finance Officer to post journals. From our review, we confirmed that no journals were posted by the Chief Finance Officer in 2017/18. However, in line with best practice, we reported this issue to the Audit Committee.</p>

Audit of the Accounts

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Operating expenses – purchase of secondary healthcare</p> <p>A significant percentage of the CCG's expenditure is on contracts for healthcare with NHS providers and non-NHS providers, such as operations and hospital care. This expenditure is recognised when the activity has been performed, with accruals raised at the year-end for completed activity for which an invoice has not been issued.</p> <p>We identified the accuracy and occurrence of contract variations as a risk requiring special audit consideration.</p>	<p>We have undertaken the following work in relation to this risk</p> <ul style="list-style-type: none">▪ documentation of our understanding of processes and key controls over the transaction cycle▪ walkthrough of the key systems to confirm our understanding▪ agreement of significant contracts to signed contracts and contract variations▪ testing of the residual balance to ensure that variations and non-contracted activity has been treated correctly▪ review of agreement of balances reports.	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit of the Accounts

Audit opinion

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

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

As the CCG's in year expenditure exceeded income, we issued a qualified regularity opinion.

Preparation of the accounts

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

Issues arising from the audit of the accounts

We reported the key issues from our audit to the CCG's Audit Committee on 23 May 2018.

Annual Report, including the Governance Statement

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

Other statutory powers

We are also required to refer certain matters to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014. On 17 May 2018 we reported to the Secretary of State that the CCG breached the requirement for in year expenditure not to exceed income.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of NHS West Hampshire CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Value for Money arrangements

Background

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

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

Key findings

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

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

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 2018.

Value for Money arrangements

Key Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<p>Risk -Sustainable resource deployment</p> <p>The NHS continues to experience challenging financial conditions with an increasing number of CCGs reporting that they will not achieve their financial plan. The CCG is reporting that it will achieve a balanced position at year end, but has reported a £3.4 million adverse position at month 6, with significant risks to delivery including a £6.7 million under delivery of the QIPP (Quality, Innovation, Productivity and Prevention) programme.</p>	<p>2017/18 Financial Outturn and delivery of savings plans</p> <p>In 2017/18 NHS West Hampshire CCG planned to deliver an in year surplus of £1.8 million in addition to the £7.1 million retained surplus brought forward from previous years. Due to sustained financial pressures in-year, the CCG ended 2017/18 with an in-year deficit of £5.6 million reducing its cumulative surplus to £1.5 million at 31 March 2018. The in-year position was achieved after the release, by NHS England, of the system risk reserve (0.5% (£3.3m)) and the provision for higher cost drugs of £0.6m. This explains the reduction in the forecast deficit between Q3 and outturn.</p> <p>Overall the in-year closing position was £7.4 million off plan, less than 1% of gross expenditure and the requirement introduced this year for CCGs to be assessed against in year performance means that on this basis, the CCG ended the year recording a deficit. In accordance with Section 30 of the Local Audit and Accountability Act 2014, and Section 223(H) of the Health and Social Care Act 2012, a report was issued to the Secretary of State on 17 May 2018 reflecting this.</p> <p>The 2017/18 outturn position reflects the significant financial challenges inherent in a demand led service. Early in the year it became apparent that the main acute providers including Southampton University NHS Foundation Trust, Hampshire Hospitals NHS Foundation Trust and other independent providers were over performing. This combined with increasing costs for continuing healthcare provision and medicines management, including no cheaper stock available medicines, resulted in further overspends against budget.</p> <p>In terms of in-year financial monitoring, there was early identification of slippage against plan, which was reported monthly at Board meetings and discussed in more detail at the Finance and Performance Committee. The Audit Committee was also informed through the Finance Update paper. The CCG identified and worked towards reducing the projected deficit, QIPP savings were RAG rated and a financial recovery plan was implemented. At M9 the CCG was reporting an adverse position of £9.9 million against plan and although mitigations were put in place, the CCG was not able to recover the overspend position.</p> <p>In 2017-18, the CCG needed to achieve a challenging savings target of £31.6 million, based on seven performance areas. This was 4.2% of total spend and at a similar level to previous years. One of the main factors behind the adverse financial position was £9.7 million (31%) of these planned savings not being delivered, a significant deterioration from the previous year when 96% of savings were achieved.</p> <p>The CCG's Internal Auditor's undertook a review of the QIPP programme in November 2017 and reported their findings to Audit Committee, this concluded that:</p> <ul style="list-style-type: none"> • the CCG has good processes and governance arrangements for the management, monitoring and reporting of QIPP delivery: and • there are good governance, monitoring and reporting arrangements underpinning QIPP delivery. Monthly monitoring of the QIPP programme is undertaken via the Finance and Performance Committee and the Governing Body.

Value for Money arrangements

Key Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<p>Risk -Sustainable resource deployment</p> <p>The future financial sustainability of the delivery of health care requires a new and system wide approach. The CCG is part of the Hampshire and Isle of Wight Sustainability and Transformation Partnership (STP) and local delivery System (LDS), progressing a number of actions to address these issues.</p> <p>We will continue to monitor the CCG's financial position as the year progresses and review progress of the STP and LDS.</p>	<p>2018/19 financial planning</p> <p>Although the CCG begins 2018/19 with a reduced cumulative surplus of £1.5 million (as in year break-even was not achieved in 2017/18), it has been set a deficit planning control total of a £2.2m for 2018/19. However, access to centrally funded support from the Commissioner Sustainability Fund has been made available that will result in a break even position in 2018/19, should the control total be delivered. The 2018/19 financial plan submission to NHS England on 30 April 2018 is consistent with the planning requirements and has regard to continuing financial pressures within the acute sector.</p> <p>The financial plan includes significant QIPP savings of £27.4m (4%), this is a lower level than targeted in 2017/18. At the beginning of the financial year the CCG had unidentified savings total £5.5 million, this had reduced to £3.6 million at the time of our review in early May. Delivery of this level of savings represents a significant risk to the CCG and any slippage is likely to result in the control total being missed and the CCG moving into a cumulative deficit position. The CCG has identified that there is net risk of £5.9m associated with delivering the plan. As at early May 2018 contract discussions with the main provider trusts continue with the heads of terms being agreed, but contracts not yet signed.</p>

Value for Money arrangements

Key Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<p>Risk -Sustainable resource deployment</p> <p>The future financial sustainability of the delivery of health care requires a new and system wide approach. The CCG is part of the Hampshire and Isle of Wight Sustainability and Transformation Partnership (STP) and local delivery System (LDS), progressing a number of actions to address these issues.</p> <p>We will continue to monitor the CCG's financial position as the year progresses and review progress of the STP and LDS.</p>	<p>It is acknowledged that the future financial sustainability of healthcare across West Hampshire requires a new and system wide approach with all responsible bodies in an area working together to effect efficiencies and improvements in care delivered to the local population.</p> <p>The CCG is part of the Hampshire and Isle of Wight Sustainability and Transformation Partnership (STP), the STP plan was published in November 2016 and has been assessed by NHS England in July 2017 as making progress. This is the third of the four category ratings. The Plan identified that if no action was taken to change the way services are delivered and address rising demand, NHS organisations across Hampshire and Isle of Wight would have a financial gap of £577 million by 2020/21 between the money received and what is needed. In addition there is significant pressure on the local authority care system.</p> <p>Recognising that the STP covers a large geographical area with a diverse range of patient need, transformation is being effected on a smaller scale through Local Delivery Systems (LDS), whose objectives are aligned to those of the wider STP. The CCG's area covers the South West Hampshire and the North and mid Hampshire LDSs. LDSs have been established to ensure local implementation of the six core programmes for a defined population through collaborative working. Although progress has started to be made, the STP has a significant challenge to effect the transformation and change to deliver sustainable healthcare in the area.</p> <p>The CCG is heavily reliant on effective working with its STP/LDS partners to deliver their financial turnaround as well as improve the finances across the whole health economy. The CCG continues to work with partners on various projects to realise savings and it is recognised that it is reliant on the targets of the STP being met and for partners to deliver to plan to achieve its own savings targets. We have reviewed the CCG's engagement and reporting of STP activities with no issues identified.</p> <p>Conclusion</p> <p>Overall we have concluded that the arrangements in place for financial sustainability are adequate and reasonable actions are in place for the STP. We do, however, recognise that significant pressures remain within the system and continued close in year monitoring and timely corrective action will be required to ensure budgets are delivered and service redesign with partners implemented.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	March 2018
Audit Findings Report	May 2018
Annual Audit Letter	June 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit	48,000	48,000	
Total fees	48,000	48,000	

Fees for non-audit services

Service	Fees £
None	Nil

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. No non-audit services were identified.



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