



# Annual Audit Letter

*Year ending 31 March 2018*

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NHS North Somerset CCG

21 June 2018



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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 North Somerset 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'.

NHS Bristol CCG, NHS North Somerset CCG and NHS South Gloucestershire CCG merged to form NHS Bristol, North Somerset and South Gloucestershire CCG (BNSSG CCG) from the 1 April 2018

### Our work

We reported the detailed findings from our audit work to the newly formed BNSSG CCG's Audit Committee as those charged with governance in our Audit Findings Report on 24 May 2018.

### 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.

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<b>Materiality</b>	We determined materiality for the audit of the CCG's accounts to be £5,753,000, which is 2% of the CCG's prior year gross revenue expenditure.
<b>Financial Statements opinion</b>	<p>We gave an unqualified opinion on the CCG's financial statements on 24 May 2018.</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>Our review of the CCG's expenditure highlighted there had been a breach of the Revenue Resource Limit which gave rise to a qualified regularity opinion.</p>
<b>NHS Group consolidation template (WGA)</b>	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.
<b>Use of statutory powers</b>	We referred a matter to the Secretary of State, as required by section 30 of the Act, on 25 January 2018 because the CCG was planning to breach its revenue resource limit.

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# Executive Summary

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## 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 its arrangements to plan finances effectively and deliver financial savings which have resulted in a financial deficit at the year end. We recognise the scale of the challenge that the CCG faced in this respect and the progress it has made in improving these arrangements throughout the financial year.

We therefore qualified our value for money conclusion in our audit report to the members of the Governing Body on 24 May 2018.

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## Certificate

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

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## 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, delivering the accounts 4 days before the deadline, releasing your finance team for other work. We also used one team to deliver the audit across NHS Bristol CCG, NHS North Somerset CCG and NHS South Gloucestershire CCG reducing the need for multiple meeting with officers.

- 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 accounts and annual reporting

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**

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# Audit of the Accounts

## Our audit approach

### Materiality

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

We determined materiality for the audit of the CCG's accounts to be £5,753,000, which is 2% of the CCG's gross revenue expenditure. We used this benchmark as, in our view, users of the CCG's financial statements are most interested in where the CCG has spent its allocation in the year.

We also set a lower level of specific materiality of £10,000 for individual entries within the remuneration report due to public sensitivity.

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 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><b>Operating expenses – purchase of secondary healthcare</b>            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>Gained an understanding of the financial reporting processes used for the purchase of secondary healthcare and evaluated the design of the associated controls</p> <ul style="list-style-type: none"> <li>• substantively tested secondary healthcare costs</li> <li>• reviewed the Department of Health (DH) agreement of balances data and investigated any significant differences</li> <li>• considered the rationale for significant contract adjustments</li> <li>• reviewed post year end adjustments in the prior period for evidence of any reversals</li> </ul>	<p>Our audit work has not identified any issues in respect of the risk identified.</p>
<p><b>Management override of internal controls</b>            The CCG faced pressure to meet agreed targets, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.</p>	<ul style="list-style-type: none"> <li>• Gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness</li> <li>• Obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness.</li> <li>• Evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>	<p>Our audit work has not identified any issues in respect of the risk identified.</p>
<p><b>Going concern material uncertainty disclosures</b>            As auditors, we are required to obtain sufficient, appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern.</p>	<p>As part of our audit work we have;</p> <ul style="list-style-type: none"> <li>• Reviewed managements assessment of going concern provided to us, in conjunction with our knowledge and understanding of the CCG.</li> <li>• Reviewed the CCGs financial performance and submitted planning documents.</li> </ul>	<p>We did not identify any issues with the CCG’s use of the going concern assumption.</p>

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# Audit of the Accounts

## **Audit opinion**

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

Our review of the CCG's expenditure highlighted that the revenue resource limit for the year had been breached which gave rise to 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 newly established BNSSG CCG Audit Committee on 24 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. A single Annual Report the combined CCGs was initially provided with the draft accounts. Although we recognised that the three bodies have been operating in common for the majority of 2017/18 we agreed with officers that there was still a statutory requirement to provide a single Annual Governance Statement and Remuneration and Staff Report for each CCG.

A revised individual copy of the Annual Governance Statement and Remuneration and Staff report for NHS North Somerset CCG was provided to us on the 15 May 2018. This included salary and pension information for all relevant Directors and Members including the CCG's share of the relevant remuneration for any shared posts.

A number of presentational changes were made to the Annual Report to reflect inconsistencies and errors identified.

## **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 are also required to refer certain matters to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014. On 25 January 2018 we reported to the Secretary of State that we noted a breach of statutory duty as the CCG expected to breach its Revenue Resource Limit for the financial year.

## **Certificate of closure of the audit**

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

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# 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.

As part of our Audit Findings report agreed with the CCG in May 2018, we agreed recommendations to address our findings.

## Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for its arrangements to plan finances effectively and deliver financial savings which have resulted in a financial deficit at the year end, 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	How we responded to the risk	Findings and conclusions
<p><b>Financial planning and delivery of savings plans</b></p> <p>The CCG has put in place a savings plan of £22.4m to deliver its planned control total deficit of £11.2m. At the end of October 2017, it had identified that it was unlikely to deliver all of the planned savings required to deliver the control total and was forecasting a year end deficit of £19.3mm.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> <li>Reviewed the savings plan that the CCG has developed, recognising that some of these plans are interlinked with the savings plans of the neighbouring CCGs within the STP area.</li> <li>Assessed the effectiveness of the planning and monitoring of the specific schemes and the key reasons that these plans will not be fully delivered.</li> <li>Considered the mitigating actions taken by the CCG to address any deficiencies identified and deliver the best outcome at year end.</li> </ul>	<p><b>Conclusion</b></p> <p>We concluded that due to the financial deficit and weaknesses in the identification and delivery of savings, the CCG had weaknesses which have impacted on its arrangements to plan finances effectively.</p> <p><b>Key Findings</b></p> <ul style="list-style-type: none"> <li>The three CCG's of Bristol, North Somerset and South Gloucestershire (BNSSG) started to work together in preparation for a formal merger from 1 April 2018 and at month six submitted and agreed with NHS England a revised joint deficit of £29.9m plus net risk of £5.0m. A deficit of £7.4m was reported in North Somerset CCG's financial statements for the year ended 31 March 2018, resulting in an overall deficit of £28m across BNSSG CCGs, an improvement of £7m against the revised forecast of £34.95m submitted in month six.</li> <li>Savings of £9.8m (48%) for NHS North Somerset CCG were achieved against the planned savings target of £20.4m, resulting in an under delivery of £10.6m. The key reasons for under delivery were the late application of the capped expenditure process and insufficient time being available to develop robust savings plans to deliver the scale of savings required.</li> <li>Despite this, effective arrangements were established to monitor and oversee schemes and improvements to processes continued to be made during 2017/18. A Turnaround Steering Group and Programme Management Office (PMO) was in place during 2017/18 to oversee the System Financial Recovery Plan savings. Savings were delivered through control centres with allocated senior responsible officers. Verto Project Management software is used to track and monitor plans. Although scrutiny and challenge of savings plans was undertaken it was not always undertaken consistently with sufficient rigour. The Turnaround Steering Group is now chaired by the Deputy Director of Finance providing additional scrutiny and challenge of savings plans.</li> <li>A savings programme for the newly established BNSSG CCG of £37m for 2018/19 is required to achieve the £10m deficit control total submitted and agreed with NHSE. This would allow access to £10m of Commissioner Sustainability Funds that would see a breakeven financial position in year. Savings programmes of £37m have been identified and are being monitored and reviewed by the PMO. Not all plans are yet supported by sufficiently detailed tasks and milestones to give confidence in delivery.</li> <li>The CCG's three year recovery plan will bring the new combined CCG back into a balanced position by 2020/21.</li> </ul>

# Value for Money arrangements

## Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Working with Partners</b></p> <p>The CCG needs to work effectively with its key partners to deliver sustainable health services for the local population. If the arrangements are not effective, then planned efficiencies may not be realised and</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> <li>Reviewed the arrangements that the CCG has in working with its partners, considering the operational arrangements of the three CCGs (Bristol, North Somerset and South Gloucestershire) working in common to deliver the optimum outcome.</li> <li>Reviewed the arrangements that the CCG has implemented in working with its providers within the STP area to ensure that common goals and plans are identified and worked towards and that system wide thinking and action is being adopted to deliver sustainable health services across the area.</li> </ul>	<p><b>Conclusion</b></p> <p>There is sufficient evidence that providers and other partners are being engaged and that the wider issues are being addressed. However, it is currently unclear whether this approach will have a long lasting impact on performance or achieve a sustainable reduction in the deficit. Appropriate arrangements are in place to ensure common goals are identified and that action is being adopted to deliver sustainable health services across the area. We have therefore issued an unqualified conclusion for working with partners.</p> <p><b>Key Findings</b></p> <ul style="list-style-type: none"> <li>On 1 September 2016 NHS England gave legal directions which required the three CCG's of Bristol, North Somerset and South Gloucestershire (BNSSG) to work in partnership ahead of a statutory merger on 1 April 2018. Alongside this merger, the CCG's are part of the Sustainability and Transformation Plan (STP), now renamed Healthier Together, which requires the delivery of significant efficiency savings across the regional health economy.</li> <li>Bristol, North Somerset and South Gloucestershire (BNSSG) CCGs reported on, and were monitored against, a single control total in 2017-18 which reflects the new management structure and organisational alignment ahead of their formal merger from 1 April 2018. Control centres for each major area of expenditure across BNSSG were in place during 2017/18. Control centre leads were responsible for managing, supervising and controlling the day to day delivery of the control centre projects and tasks. A revised management, governance and operational structure was put in place in the months leading up to the merger.</li> <li>Task and Finish groups have been established which are aimed at achieving system-wide improvements by working across organisations. Groups include, mental health, outpatients, urgent care and optimising use of beds. The creation of these groups has required much closer working between health organisations to look at the main issues within 'the system' and how these can be addressed. The groups contain representatives from all health organisations. The work of these groups have been used to identify savings of £5m in 2018-19 in addition to £32m savings identified by the control centres to give a total target of £37m.</li> </ul>

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit.

There were no fees for the provision of non audit services.

## Reports issued

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

## Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit	39,000	39,000	45,000
<b>Total fees</b>	<b>39,000</b>	<b>39,000</b>	<b>45,000</b>

## 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. 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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