



Annual Audit Letter

Year ending 31 March 2020

NHS Herefordshire Clinical Commissioning Group

27 July 2020



Contents



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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 the Clinical Commissioning Group (the CCG) for the year ended 31 March 2020. The CCG ceased to exist as a new merged body, Herefordshire and Worcestershire CCG was established on 1 April 2020 and as a result this letter will be presented to the new body.

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.

Our work

| | |
|--|---|
| Materiality | We determined materiality for the audit of the CCG's accounts to be £5.3 million, which is 1.9% of gross expenditure year . |
| Financial Statements opinion | <p>We gave an unqualified opinion on the CCG's financial statements on 25 June 2020. 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.</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'. Based on our review of the CCG's expenditure we gave a qualified regularity opinion.</p> |
| 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 issued a Section 30 Report to the Secretary of State, dated 5 May 2020 as the CCG breached its breakeven duty for the year ending 31 March 2020. |
| Value for Money arrangements | <p>We were satisfied that the CCG put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except in relation to sustainable resource deployment: planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. This reflects:</p> <ul style="list-style-type: none">• the inability to deliver to its budget for 2019/20 recording a deficit of (£4.865m), £4.985m off the surplus target of £120k for 2019/20.• that the CCG underdelivered its QIPP target of £12.5m (4.5% expenditure) by £5.7m. <p>Indicating weakness in the CCG's arrangements for setting a sustainable budget with sufficient capacity to absorb emerging cost pressures.</p> |
| Certificate | We certify that we have completed the audit of the accounts the CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice. |
| 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. The CCG provided these on a timely basis with the draft financial statements with supporting evidence. There were no issues. |

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), and
- 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

Working with the CCG

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the CCG. Given the unprecedented operational challenge for CCG, the Department of Health and Social Care (DHSC) extended the deadline for preparation of the financial statements up to 27 April 2020, with flexibility to extend to 11 May 2020, and the date for audited financial statements to 25 June 2020.

Restrictions for non-essential travel has meant both CCG and audit teams have had to adapt to new remote working arrangements such as remote access to financial systems, video calling and different means to verifying the completeness and accuracy of information produced by the entity.

Despite these challenges, the CCG submitted their accounts in line with the revised submission dates and is keeping up to date with emerging guidance in relation to the requirements impacted by the pandemic.

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

- An efficient audit – we streamlined the audit process to work across the four former CCGs in Herefordshire and Worcestershire, ensuring that our way of working reflected your joint way of working.
- Sharing our insight – we provided regular audit committee updates and also CCG Key Issues Bulletins covering best practice. We also responded to several ad hoc requests for good practice in different areas.
- Providing training – we provided your teams with training on financial accounts and annual reporting.
- Benchmarking information – we provided benchmarking on your annual report compared to other CCGs
- Opportunities to network-we ran several events in our Birmingham office for lay members on a variety of topics.

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

Grant Thornton UK LLP
July 2020

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 £5.3 million, which is 1.9% of gross expenditure year . 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 salaries and allowances of £100,000 and also for pensions benefits of £250,000.

We set a lower threshold of £265,000, 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>The revenue cycle includes fraudulent transactions (rebutted)</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We have rebutted this presumed risk for the CCG because:</p> <ul style="list-style-type: none">• revenue does not primarily involve cash transactions• revenue is principally an allocation from NHS England• the culture and ethical framework of CCGs, including this CCG, mean that all forms of fraud are seen as unacceptable | <p>We therefore do not consider this to be a significant risk for the CCG.</p> <p>We considered the assessment detailed in the audit plan was still appropriate.</p> | <p>Our audit work did not identify any issues in respect of revenue recognition or that the rebuttal was incorrect.</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>To address this risk we:</p> <ul style="list-style-type: none">• evaluated the design effectiveness of management controls over journals• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness• evaluated the rationale for any changes in accounting policies or significant unusual transactions• obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness and corroboration including those after the draft accounts stage where applicable | <p>Our audit work did not identify any issues in respect of management override of controls.</p> |

Audit of the Accounts

Significant Audit Risks

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|--|--|
| <p>Covid – 19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>To address this risk we:</p> <ul style="list-style-type: none"> • Worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic • Evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • Discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence. | <p>We did not identify any material issues impacting on our audit responsibilities</p> |

Audit of the Accounts

Significant Audit Risks

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|--|
| <p>Secondary healthcare expenditure – contract variations</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 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.</p> <p>We consider the risk to relate to the potential understatement of expenditure and thus have identified the accuracy and completeness of associated payables and accruals, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>To address this risk we:</p> <ul style="list-style-type: none">• 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 (over performance materiality) to contract annual expenditure to signed annual contracts• Agreed, on a sample basis, invoices for variations to secondary healthcare contracts to supporting evidence• Used the DHSC mismatch report, to will investigate unmatched expenditure and payable balances with NHS bodies over the NAO £0.3m 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• The completeness of accruals for contracts and the April payments have been reviewed. | <p>We did not identify any material issues impacting on our audit responsibilities</p> |

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 25 June 2020.

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; and
- to form a view as to whether other information published with the financial statements, is consistent with our knowledge of the CCG and the financial statements we have audited.

As a result of our audit work we report that the failure of the CCG to meet its statutory duty to contain its spending within its resource limit has given rise to a qualified regularity opinion. The CCG has exceeded the revenue resources specified under directions and has not met the terms of its regularity responsibility to keep its expenditure in line with the purposes intended by Parliament.

We therefore gave a qualified 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.

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.

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 5 May 2020 we reported to the Secretary of State that the CCG breached its breakeven duty and revenue resource limit for the year ending 31 March 2020.

Whole of Government Accounts (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.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of the CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 25 June 2020.

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 April 2020 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 is set out overleaf.

Overall Value for Money conclusion

We are satisfied that, NHS Herefordshire CCG has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for in relation to sustainable resource deployment: planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. This reflects:

- the inability to deliver to its budget for 2019/20 recording a deficit of (£4.865m), £4.985m off the surplus target of £120k for 2019/20.
- that the CCG underdelivered its QIPP target of £12.5m (4.5% expenditure) by £5.7m.

Indicating weakness in the CCG's arrangements for setting a sustainable budget with sufficient capacity to absorb emerging cost pressures

Value for Money arrangements

Key Value for Money Risk

| Risk identified in our audit plan | | Findings |
|--|---|---|
| <p>Sustainable resource deployment:</p> <p><i>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions:</i></p> <p>The CCG is forecasting to deliver a balanced position in 2019/20 and has set itself a challenging savings (QIPP) target to achieve this. The CCG has an underlying deficit which will be carried forward into the new merged CCG.</p> <p>We will gain an understanding of what steps the CCG has taken to manage its financial position. We will review the CCG's arrangements for pulling together and agreeing a financial plan for the new merged CCG including the identification and delivery of savings plans. This will include how findings are communicated to the Governing Body and Finance Committee.</p> | <p>2019/20 financial management</p> <p>The CCG has worked with Wye Valley Trust and the Worcestershire CCGs, together with regulators and other providers to manage the financial position on a system wide basis.</p> <p>The Herefordshire CCG budget of £120k surplus was predicated on the delivery of £12.5m of QIPP (4.5% of gross expenditure), in addition to £8m of unmitigated risk. The CCG submitted a deficit plan that it felt was more realistic and deliverable. As a result, from the outset, the CCG in all its internal and external reporting, highlighted that the surplus budget contained £8m of unmitigated risk (of which £7.2 related to the contract with WVT) and concerns about delivery were also known to NHSEI at the outset.</p> <p>In May 2019 a Financial Recovery Board (FRB) was established to support delivery of the financial recovery plan. The FRB has met regularly, and reported to Governing Body and other sub-committees as appropriate. These reports set out the challenges and actions being taken to address specific areas, such as elective care.</p> <p>The overall closing in-year position for 2019/20 was:</p> <ul style="list-style-type: none"> • a £4.865m deficit position, £4.985m off plan. • a cumulative deficit at 1 April 2019 was £6.75m (£4.08m at 1 April 2018 and £2.67m at 1 April 2017). • under delivery of QIPP by £5.732m <p>The outturn will add further to the pressures of the newly established Herefordshire and Worcestershire CCG.</p> | <p>Auditor view</p> <p>The inability to deliver the budget is evidence of weaknesses in the CCG's arrangements to deliver sustainable resource deployment. As a result we will be issuing an 'except for' VFM conclusion stating that in our view the CCG did not have arrangements in place to deliver sustainable resource deployment.</p> |

Value for Money arrangements

Key Value for Money Risk

| Risk identified in our audit plan | | Findings and conclusions |
|--|---|--------------------------|
| <p>Sustainable resource deployment (continued):</p> | <p>2020/21 and beyond – A Forward plan Herefordshire and Worcestershire CCGs</p> <p>With effect from 1 April 2020 NHS Redditch and Bromsgrove CCG became part of the new single NHS Herefordshire and Worcestershire CCG.</p> <p>In the run up to the merger CCG finance staff worked with NHSE/I's regional finance team to develop the Finance Strategy for 2020/21. The development of the draft Strategy was reviewed at a series of NHSEI merger checkpoint meetings with the CCGs. Feedback was given at each meeting to help ensure the new Finance Strategy delivered against the key objectives. NHSEI officers were involved throughout, providing challenge and feedback. However, there is an inherent risk in bringing four CCGs together, not least delivery of the challenging combined financial plan, which will necessitate hitting the ground running.</p> <p>The 2020/21 draft financial plan for the new merged CCG was forecasting a break even position. There was however, recognition of the sizeable cumulative and underlying deficit associated with the demising Herefordshire CCG and the pressure this would place on new organisation going forward.</p> <p>Whilst the combined indicative financial plan for the new enlarged CCG for 2020/21 was based on appropriate assumptions and had importantly involved NHSEI who signed off them off in February, further work was identified. Continued efforts will be required to ensure a smooth transition to the new body and further closer working across the wider health economy will be necessary to ensure these challenging financial targets are realised.</p> <p>Covid-19</p> <p>Following the outset of the Covid-19 pandemic in mid-March, NHS England suspended the 2020/21 planning process across all trusts and commissioners in England and introduced a four-month block contract agreement through to the end of July 2020.</p> | |

Value for Money arrangements

Key Value for Money Risk

| Risk identified in our audit plan | | Findings and conclusions |
|---|---|---|
| <p><i>Working with partners and other third parties: commissioning services effectively to support the delivery of strategic priorities</i></p> <p>At our planning stage we highlighted a risk that the CCG and the Trust did not have adequate contracting arrangements in place to address the financial and operational risks in the local health economy.</p> <p>Whilst we had been told that relationships have improved this year, we followed up the concerns raised in our 2018/19 VFM report. We did this in conjunction with the Wye Valley Trust (WVT) auditor, assessed the progress made in working collaboratively to facilitate the delivery of the wider aspirations of the system.</p> | <p>We found that there was evidence of significant improvements in collaboration and system working between WVT and HCCG evident in the second half of the 2019/20 financial year. Management of both WVT and the CCG reported improved working relationships and this view is supported by NHSEI.</p> <p>Evidence of this improvement included:</p> <ul style="list-style-type: none"> • production of a system level recovery plan, with weekly meetings to discuss actions and monitor position for the financial year and wider system savings plans, • more action orientated discussions on system collaboration through the One Herefordshire strategy group and Herefordshire and Worcestershire STP planning group • closer working between the organisational board members to improve transparency and understanding of issues impacting on system delivery and finances • establishment of £25m cost out system programme with allocated executive leads and teams identified to support delivery. <p>Following the month 9 review of the forecast outturn position for the system, a year end deal was also agreed also that the historical £8m invoice from 2018/19 would be written off. This agreement demonstrated considerable progress which had been achieved in system working during 2019/20 by drawing lines under previous contentious issues and agreeing collaboratively a financial position which would maximise funding for patients in Herefordshire.</p> <p>Prior to the outbreak of the Covid-19 pandemic, planning for 2020/21 was progressed however there remained a £7m gap between the WVT and the latest CCG position. The difference related to assumptions around growth in activity, RTT trajectory, finalisation of QIPP and delivery of Lucentis services. The expectation was that this gap would be closed in line with the national planning timetable.</p> <p>These remain long standing issues with WVT that the new merged CCG will need to resolve. Proposals include a move towards a more collaborative contractual model across the STP whereby incentives are aligned and risks shared.</p> <p>Given the improvements in partnership working and contractual relationships over the last 6 months of 2019/20, we now consider that both the Trust and Herefordshire CCG had adequate arrangements in place for working with partners. We do, however, believe that once the current de-risked block arrangements introduced as a result of the Covid-19 pandemic unwinds, that progress needs to be maintained and embedded. This includes continuing to resolve and current differences in planning assumptions and genuinely delivering greater partnership working across the system that transforms the way health and social care is delivered and provides a sustainable operational and financial footing for acute and community services in Herefordshire.</p> | <p>We are satisfied that there is sufficient evidence to conclude that the identified risk has been mitigated and that there are appropriate arrangements in place for partnership working between the CCG and its main provider.</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 | February 2020 |
| Audit Plan Addendum | April 2020 |
| Audit Findings Report | June 2020 |

Fees

| | Planned £ | Actual fees £ |
|-------------------|---------------|------------------|
| Statutory audit | 42,025 | 42,025 |
| Total fees | 42,025 | 42,025 |

Fees for non-audit services

| Service | Fees £ |
|---|--------|
| Mental Health Investment Standard (2018/19) | 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.

