



Annual Audit Letter 2017-18

NHS Newark and Sherwood Clinical Commissioning Group

August 2018

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This report is addressed to NHS Newark and Sherwood CCG (the CCG) and has been prepared for the sole use of the CCG. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.



Introduction

Introduction

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2017-18 audit at NHS Newark and Sherwood Clinical Commissioning Group (the CCG). Although this letter is addressed to the Members of the Governing Body of the CCG, it is also intended to communicate these issues to external stakeholders, such as members of the public. It is the responsibility of the CCG to publish this letter on the CCG's website.

We have reported all the issues in this letter to the CCG during the year and we have provided a list of our reports in Appendix A.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. Our main responsibility is to carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code) which requires us to report on:

Financial Statements including the regularity opinion and Governance Statement	<p>We provide an opinion on the CCG's financial statements. That is whether we believe the financial statements give a true and fair view of the financial affairs of the CCG and of the income and expenditure recorded during the year.</p> <p>We are also required to:</p> <ul style="list-style-type: none">— form a view on the regularity of the CCG's income and expenditure i.e. that the expenditure and income included in the CCG's financial statements has been applied to the purposes intended by Parliament and the financial transactions in the financial statements conform to the authorities which govern them;— report by exception if the CCG has not complied with the requirements of NHS England in the preparation of its Governance Statement; and— examine and report on the consistency of the schedules or returns prepared by the CCG for consolidation into the Whole of Government Accounts (WGA) with our other work.
Value for Money arrangements	<p>We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the CCG's use of resources.</p>

Introduction (cont.)

Adding value from the External Audit service

We have added value to the CCG from our service throughout the year through:

- attendance at meetings with members of the Governing Body and Audit Committee to present our audit findings, broaden our knowledge of the CCG and to provide insight from sector developments and examples of best practice;
- a proactive and pragmatic approach to issues arising in the production of the financial statements to ensure that our opinion is delivered on time; and
- maintaining a strong and effective working relationship with Internal Audit to maximise assurance to the Audit Committee, avoid duplication and provide value for money..

Fees

Our planned fee for 2017-18 was £35,133 (2016-17: £49,159) excluding VAT. However, as we have had to undertake further work around the regularity opinion, the value for money conclusion and the referral to the Secretary of State for Health we will charge an additional fee of £3,500. Therefore, the total audit fee for 2017/18 is £38,633.

Acknowledgement

We would like to take this opportunity to thank the officers of the CCG for their continued support throughout the year.



Headlines

Headlines

This section summarises the key messages from our work during 2017-18.

Financial Statements audit opinion	<p>We issued an unqualified opinion on the CCG's accounts on 25 May 2018. This means that we believe the accounts give a true and fair view of the financial affairs of the CCG and of the income and expenditure recorded during the year. There were no significant adjusted or unadjusted audit differences identified as part of the audit.</p> <p>The quality of the draft accounts and supporting working papers was good, and we again received helpful support and co-operation from the finance team during the audit.</p>
Financial statements audit work undertaken	<p>We are required to apply the concept of materiality in planning and performing our audit. We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. Our materiality for the audit was £3.2m (2016-17: £3.2m).</p> <p>We identified the following risks of material misstatement in the financial statements as part of our External Audit Plan 2017-18:</p> <p>Agreement of balances with providers - The valuation of balances with providers, including disputed balances, is a key judgement area and the values can be material. We were satisfied all material balances had been satisfactorily agreed.</p> <p>Regularity of income and expenditure and compliance with statutory financial duties – We are required to give an opinion on whether expenditure has been incurred as intended by Parliament and this is known as the regularity opinion. The requirements for an unqualified regularity opinion are for:</p> <ul style="list-style-type: none"> • Expenditure not to exceed income • Revenue resource use not to exceed the amount specified in Directions <p>We issued a qualified regularity opinion for 2017/18 as explained in more detail below</p>
Regularity Opinion	<p>We issued a qualified regularity opinion for 2017/18 because the CCG had exceeded its revenue resource limit specified by the Secretary of State for Health and Social Care under Section 223I(3) of the National Health Service Act 2012 for the 2017/18 financial year by £2.4 million and had incurred a cumulative deficit of £1.4 million as at 31 March 2018. We also referred this matter to the Secretary of State under s30 of the Local Audit and Accountability Act 2014.</p>
Governance Statement	<p>We confirmed that the CCG complied with NHS England requirements in the preparation of the CCG's Governance Statement.</p>
Whole of Government Accounts	<p>We issued an unqualified Auditor Statement on the Consolidation Schedules prepared by the CCG for consolidation into the Whole of Government Accounts with no exceptions.</p>

Headlines (cont.)

Value for Money (VFM) conclusion	<p>We are required to report to you if we are not satisfied that the CCG has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>In our Auditor's Report we gave a qualified 'except for' conclusion and drew attention to the CCG's breach of its specified 2017/18 Revenue Resource Limit in the context of the CCG's arrangements for securing sustainable resource deployment. The reported in-year deficit also highlighted that the CCG had significantly under-achieved against its original QIPP savings target of £16.038m</p> <p>Subject to these matters we were satisfied that in all significant respects the CCG had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018.</p>
VFM conclusion risk areas	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work identified the following significant risks:</p> <p>Sustainable resource deployment - Overspending against your budget and not achieving your statutory financial duties was identified as a key issue for us to take into account in considering your arrangements for sustainable resource deployment as part of our value for money conclusion assessment and 2017/18 has proved a challenging financial year for the CCG. The CCG had planned to break even but due to increased demand on services an in year deficit of £2.4m was delivered and cumulative year end deficit of £1.4m. The CCG was able to identify that the financial position would not be achievable during the year and steps were taken to address this with a financial recovery plan being submitted and approved by the NHS in December 2017, The financial position has been reported at each Governing Body meeting and monitored via the Turnaround Board showing that the CCG has arrangements in place to monitor targets, although this did not avoid the breach reported.</p> <p>During 2017/18 an original QIPP target of £16.038m was set. This was revised to £12.54m in the financial recovery plan. The actual QIPP achieved was £11.96m – a deficit of £0.58m against the revised target and significantly short of the original plan.</p> <p>Moving forward into 2018/19 the CCG must make savings of £11.8m (6.0%). These savings will be achieved only if there is a reduction in activity and demand in services much of which is outside of the CCG and GP control. This represents a challenging target which will require appropriate management throughout the year. In terms of approach and planning we have evidence that the CCG is taking appropriate steps to achieve QIPP targets and financial targets via the Turnaround Board and scheme delivery plans, however it is noted that approximately half of the planned savings are from new schemes or schemes that are currently in the pipeline which may prove challenging particularly as this year's original and revised targets were not achieved. We would like to point out that the monitoring of QIPP does not easily differentiate between the two mid Nottinghamshire CCGs which makes it difficult to see how schemes will be delivered and achieved for each separate statutory body. Moving forward reports on QIPP should show the plans for each CCG as a stand alone entity.</p> <p>The CCG participated in the development of the local Sustainability and Transformation Plan 2016-21. This looks at improving care and services making them as effective and efficient as possible. The bodies included in the plan are progressing. The Nottinghamshire STP was ranked in the July 2017 'dashboard' as 'Category 2 – advanced'.</p> <p>On the basis of our work with the exception of the CCG's management of its QIPP savings and the resultant breach in its revenue resource limit we are satisfied that in all significant respects Newark and Sherwood CCG has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for 2017/18. The issues highlighted have resulted in a qualified conclusion on VFM.</p>

Headlines (cont.)

Recommendations	We are pleased to report that there are no high priority recommendations arising from our 2017-18 audit work and there are no outstanding agreed high priority audit recommendations from prior years.
Public Interest Reporting	<p>We have a responsibility to consider whether there is a need to issue a public interest report or whether there are any issues which require referral to the Secretary of State for Health and Social Care.</p> <p>We did not issue a report in the public interest.</p> <p>Under section 30 of the Local Audit and Accountability Act 2014, the local auditor of the accounts of a CCG must refer the matter to the Secretary of State if the auditor believes that the CCG or an officer of the CCG is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency. We reported the CCG's breach of its 2017/18 specified Revenue Resource Limit resource limit to the Secretary of State, with a letter sent 23 May 2018.</p>



Appendices

Appendix A

Summary of our reports issued





The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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