



Annual Audit Letter 2015-16

NHS East Leicestershire and Rutland Clinical Commissioning Group

25 July 2016



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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.

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Introduction

Introduction

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2015-16 audit at NHS East Leicestershire and Rutland 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 Annual 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 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.</p> <p>We also confirm whether the CCG has complied with the requirements of the NHS Commissioning Board in the preparation of its Annual Governance Statement (AGS). We also confirm whether the balances you have prepared for consolidation into the Whole of Government Accounts (WGA) are not inconsistent with our other work.</p>
Value for Money conclusion	<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 our:

- Attendance at meetings with members of the 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; and
- A proactive and pragmatic approach to issues arising in the production of the financial statements, including the Annual Governance Statement, to ensure that our opinion is delivered on time.

Fees

Our final expected fee for 2015-16 is £54,800 excluding VAT (2014-15: £70,000). This is above the agreed fee at the start of the year because we incurred additional time to complete our work on primary care co-commissioning, as reported in our External Audit Findings 2015-16 report to the Audit Committee. We agreed an additional fee of £2,300, excluding VAT, with the Chief Finance Officer for this work, but this is still subject to final determination by the PSAA.

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 2015-16

Overall financial results and other key messages	<p>2015-16 was a challenging year for the CCG due to cost pressures and significant overspends on Acute referrals and Primary Care prescribing.</p> <p>The CCG set its <i>Quality, Innovation, Productivity and Prevention</i> (QIPP) challenge of £8.4m for 2015/2016. At Month 10 you had achieved £7.648m against the QIPP target of £8.367m and forecast achievement of £7.888m by the end of March 2016. The CCG achieved all of its statutory targets.</p> <p>Looking ahead, the CCG had a QIPP requirement of £16.738m to enable the CCG to meet its financial obligations for 2016/2017. This has now been increased to £18m due to the identification of further cost pressures whilst finalising a number of provider contracts. This value is 4.44% of the anticipated resources available to the CCG next year and as such presents a significant risk to the financial position of the organisation. To date the CCG has identified £13.712m of savings, and is currently working to identify areas to make the remaining savings requirement. The CCG is working closely with NHSE to identify areas for closing the remaining gap, including a review of governance arrangements for the QIPP programme, ensuring robust identification of schemes and appropriate confirmation and challenge by the committee structure. The CCG will be working with a critical friend from NHSE over the coming months to continue this work. The CCG continues to participate in the Better Care Fund across the Leicestershire and Rutland areas and has delegated responsibility for Primary Care Co-commissioning.</p>
Value for Money (VFM) conclusion	<p>We concluded that the CCG has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>

Headlines (cont.)

VFM conclusion risk areas

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 risk

Delivery of £8.4m of QIPP savings and medium term financial sustainability

Although your 2015/16 financial monitoring reports showed that you expected to meet your key financial targets for the year it was in part dependent on you meeting your QIPP target for the year of £8.4m.

We reviewed the CCG's arrangements against the criterion and concluded that in all significant respects, the CCG had proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We assessed the CCG's arrangements for delivering QIPP and reviewed progress against the target for the year. We reviewed with managers the CCGs arrangements for establishing the 2016/17 QIPP programme and the main areas of activity. At Month 10 you had achieved £7.648m against the QIPP target of £8.367m and forecast achievement of £7.888m by the end of March 2016, 94% of target.

The CCG has worked with providers to identify and deliver various projects that should generate recurring savings. The CCG has regularly monitored and reported progress of QIPP through the Governing Body and the newly established Finance and Performance Committee.

We assessed the arrangements established for progressing your 2016/17 operational plan, and the ways in which you are working with partners towards framing and agreeing the Leicestershire, Leicester and Rutland STP. The 2016/17 plan is challenging, with the identification of £3.9m QIPP savings still in progress out of a requirement of £16.7m at the time of the review, and some provider contracts required finalising, (page 7 shows the updated position). The CCG has identified the significant financial risks and is taking steps to ensure there are adequate mitigating arrangements in place. The Leicestershire, Leicester and Rutland health and local government bodies are working together within an agreed governance framework to develop an agreed STP by the June 2016 deadline.

Headlines (cont.)

Financial statements audit opinion	<p>We issued an unqualified opinion on the CCG's accounts on 27 May 2016. 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.</p> <p>There were no unadjusted audit differences.</p> <p>There were no significant matters which we were required to report to those charged with governance.</p> <p>We are pleased to report that the draft financial statements and working papers were of good quality. Throughout the year, both sides have proactively engaged to ensure potential issues are identified and resolved early, specifically in relation to the Annual Governance Statement, the accounting treatment for the BCF, key accounting policies, and related party transactions.</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 £7.5m.</p> <p>We identified the following risks of material misstatement in the financial statements as part of our External Audit Plan 2015-16:</p> <ul style="list-style-type: none">— Risk 1: Accounting for the Better Care Fund. The BCF came into operation on 1 April 2015 for the 2015-16 financial year, with £3.46 billion of NHS England's funding to CCGs ring-fenced for the establishment of the Fund. The CCG had pooled £14.687m of its resources with Leicestershire County Council along with West Leicestershire CCG, and a further £2.046m with Rutland County Council. The accounting treatment is complex, and there was a risk that BCF arrangements were not accounted for within the CCG's accounts in accordance with accounting requirements. We have reviewed the implications of the arrangements and considered the processes in place to ensure the information requirements for the CCG's financial statements are accurate and timely. We undertook a significant amount of this work with the finance team ahead of receiving the draft financial statements to ensure the approach to the accounting treatments was agreed. This was undertaken on a scheme by scheme basis to ensure that the appropriate accounting treatment was followed for each scheme and the BCF as a whole.— Risk 2: Accounting for co-commissioning of primary care. In May 2014, NHS England invited expressions of interest from CCGs to take an increased role in the commissioning of primary care services. East Leicestershire and Rutland CCG has assumed the full responsibility for commissioning general practice services, with all costs being identified by NHS England directly and subsequently input into the CCG's ledger. We reviewed the treatment of co-commissioning arrangements to ensure that they were in accordance with relevant guidance and accounting standards. We also relied on an external report on NHS England's systems. We had to undertake additional work on primary care co-commissioning in order to gain assurance on primary care transactions that have been directly entered into the CCG's financial records by NHS England. This included liaising directly with NHS England and agreeing a common audit approach across all external audit firms nationally. The additional work has resulted in an additional fee of £2,300 (excluding VAT).

Headlines (cont.)

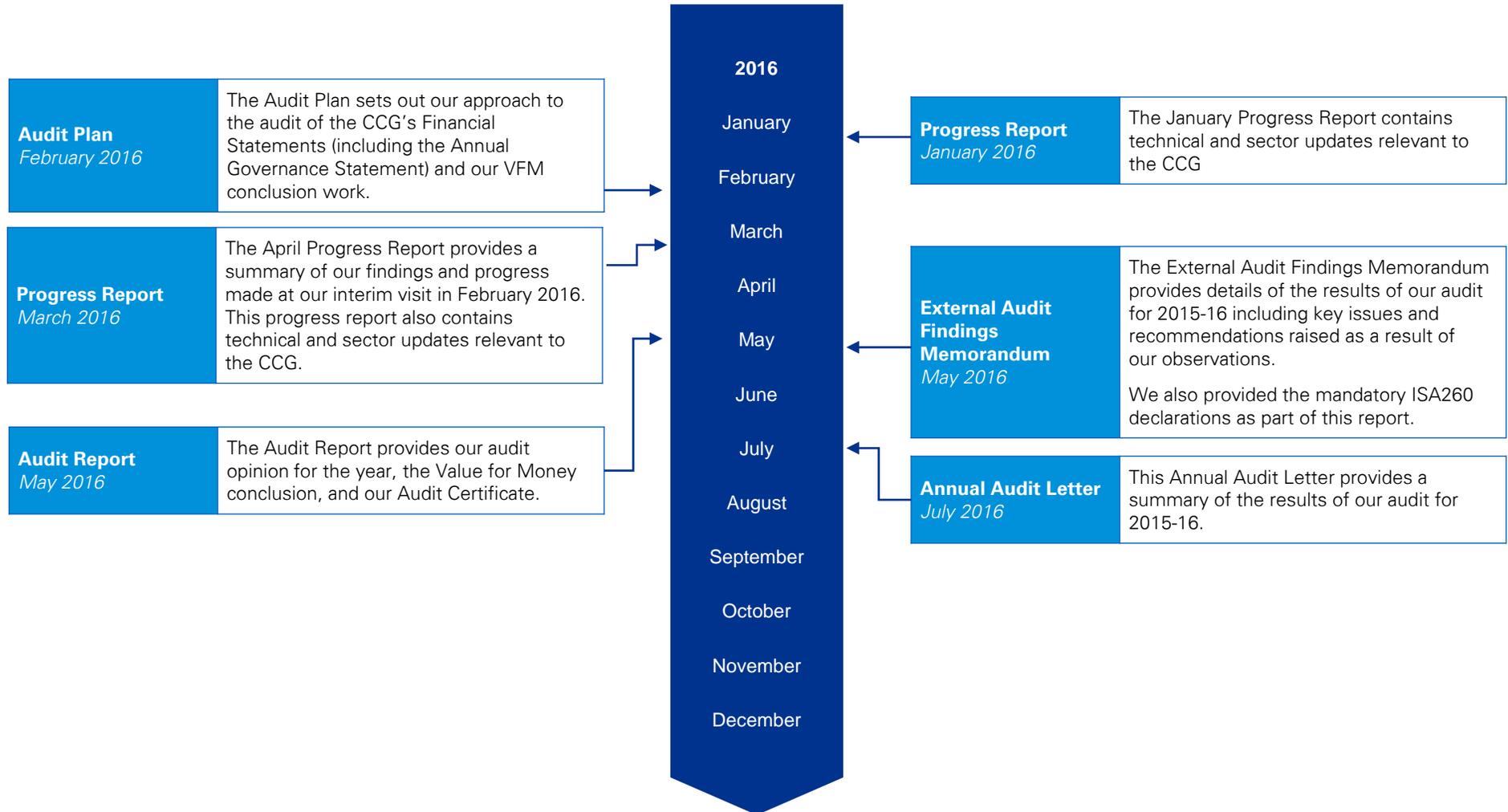
Regularity Opinion	<p>We are required to form a view on the regularity of the CCG's income and expenditure i.e. that the expenditure and income included in the CCG's financial statements has been applied to the purposes intended by Parliament and the financial transactions in the financial statements conform to the authorities which govern them.</p> <p>We reviewed the CCG's expenditure and income and in our opinion, in all material respects, it has been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.</p>
Annual Governance Statement	<p>We confirmed that the CCG complied with the NHS Commissioning Board requirements in the preparation of the CCG's Annual Governance Statement..</p>
Recommendations	<p>We are pleased to report that there are no recommendations arising from our 2015-16 audit work.</p>
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. We did not issue a report in the public interest or refer any matters to the Secretary of State in 2015-16.</p>



Appendices

Appendix A

Summary of our reports issued





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