



# Annual Audit Letter 2016-17

**NHS East Leicestershire and Rutland Clinical  
Commissioning Group**

26 July 2017

# Contents

The contacts at KPMG  
in connection with this  
report are:

**John Cornett**  
Engagement Lead  
KPMG LLP (UK)

Tel: 0116 256 6064  
john.cornett@kpmg.co.uk

**Kerry Sharma**  
Assistant Manager  
Tel: 0115 936 3652  
kerry.sharma@kpmg.co.uk

	Page
<b>Introduction</b>	3
<b>Headlines</b>	6
<b>Appendices</b>	
A. Summary of our reports issued	10

This report is addressed to NHS East Leicestershire and Rutland 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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett, the engagement lead to the CCG, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 6948981, or by email to [andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



# Introduction

# Introduction

## Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2016-17 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.

In the letter we highlight areas of good performance and also provide recommendations to help the CCG improve performance where appropriate. 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:

<b>Financial Statements including the regularity opinion and Governance Statement</b>	<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"><li>— 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;</li><li>— report by exception if the CCG has not complied with the requirements of NHS England in the preparation of its Governance Statement; and</li><li>— 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.</li></ul>
<b>Value for Money arrangements</b>	<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 Governing Body and Audit Committee to present our audit findings, broaden our knowledge of the CCG and provide insight into 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;
- providing a final accounts workshop in conjunction with the East Midlands Branch of the HFMA; 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

The scale fee set by Public Sector Audit Appointments Ltd (PSAA) for 2016/17 was £52,500 excluding VAT. This was the fee agreed at the start of the year with the CCGs Audit Committee. In our ISA260 report to the CCG's 22 May Audit Committee meeting we referred to the additional work we needed to carry out in relation to the significant opinion risks for the year relating to the difficulties in auditing the Co-commissioning expenditure.

We are applying to the PSAA for a fee variation of an additional £2,364, excluding VAT, to cover the total cost of this work.

We have also completed the following piece of work for the CCG during the year:

### Risk Management workshop for governing body members

We facilitated a development workshop with the Governing Body of the CCG to enhance their understanding of the risk management and assurance framework, specifically focussing on the Governing Body's roles and responsibilities in respect of the framework.

The fee for this work was £2,375 excluding VAT.

## Acknowledgement

This is our last Annual Audit Letter to the CCG and we would like to take this opportunity to thank the officers of the CCG and the members of the Audit Committee for their support throughout the two years of our audit appointment.



# Headlines

# Headlines

This section summarises the key messages from our work during 2016-17.

<b>Overall financial results and other key messages</b>	<p>The CCG's total revenue allocation for 2016/17 was £411.1m. Despite the financial challenges you faced during the year you reported that you spent within your 2016/17 revenue resource allocations for programme and administration costs and made a financial surplus of £7.7m for the year and so met your statutory financial duties.</p> <p>All CCGs have to make savings by implementing Quality, Improvement, Productivity and Prevention (QIPP) plans. For 2016/17 you faced a challenging QIPP target of £18 million, but were able to report that you over-achieved it by 2%. The CCG recognises delivery of the planned QIPP savings for 2017/18 (£15.2m) and beyond as a key risk and an essential part of ensuring financial balance going forward. In order to have some flexibility and contingency around QIPP savings the CCG has identified, to date, QIPP savings of £17.5 million for 2017/18, this should help you mitigate the risk of ensuring financial balance in 17/18. Work is underway to secure these savings including working with partners. Delivery of the financial plan and the associated cost reduction and productivity targets represents a significant challenge to the CCG.</p> <p>The 2017/18 QIPP target totals £54 million across the Leicester, Leicestershire and Rutland health economy, presents challenges both in terms of meeting financial targets and achieving efficiencies through better working with partners. The Better Care Together programme is key as it enables partnership working between all the CCGs across Leicestershire and Rutland, providers, both County Councils and the City Council. This collaborative working and sharing of ideas has helped to identify schemes totalling £48 million towards that £54 million total, and could help to further deliver efficiencies and generate the required level of savings in future years.</p>
<b>Value for Money (VFM) conclusion</b>	<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. Based on the findings of our work, we have nothing to report.</p>

# Headlines (cont.)

<b>VFM conclusion risk areas</b>	<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. We reviewed the CCG's arrangements against the criterion set by the National Audit Office to determine whether in all significant respects, there were proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The scope of our work included monitoring the CCG's financial performance and its QIPP arrangements, as well as assessing the arrangements for submitting future plans and working with partners regarding the Leicester, Leicestershire and Rutland STP.</p> <p>We identified in our Audit Plan significant risks regarding you meeting your statutory financial duties, delivery of your savings plans and your medium term financial sustainability. We completed the planned further work in relation to these risks and did not identify any issues in our work which gave rise to a modification of our value for money conclusion.</p>
<b>Financial Statements audit opinion</b>	<p>We issued an unqualified opinion on the CCG's accounts on 31 May 2017. 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 and 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, and we again received helpful support and co-operation from the finance team during the audit.</p>
<b>Financial statements audit work undertaken</b>	<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 £8m (2015/16: £7.5m).</p> <p>We identified the following risks of material misstatement in the financial statements as part of our External Audit Plan 2016-17:</p> <p><u>Agreement of balances</u> - The valuation of balances with providers, including disputed balances, is a key judgement area. We reviewed management's arrangements over the agreement of balances with other NHS organisations. We were satisfied that all material balances had been satisfactorily agreed.</p> <p><u>Accounting for Co-commissioning expenditure</u> – in 2016-17 expenditure on co-commissioning started being recorded within the CCG's own ledger, but the quality of the data remains dependent on external systems and processes operated on NHS England's behalf by NHS Digital and Capita Business Services Limited. We reviewed the co-commissioning arrangements to ensure they are in accordance with relevant guidance and accounting standards. This included:</p> <ul style="list-style-type: none"><li>■ testing the arrangements in place at the CCG to obtain assurance over the co-commissioning expenditure by NHS England and testing the CCG's procedures for ensuring co-commissioning balances are correct.</li><li>■ reviewing the service auditor reports provided by NHS Digital and Capita Business Services Limited, and carrying out any additional work required in order to provide us with the necessary external audit assurances over the expenditure contained within your accounts.</li></ul> <p>We were satisfied that the co-commissioning expenditure had been properly accounted for.</p>

# Headlines (cont.)

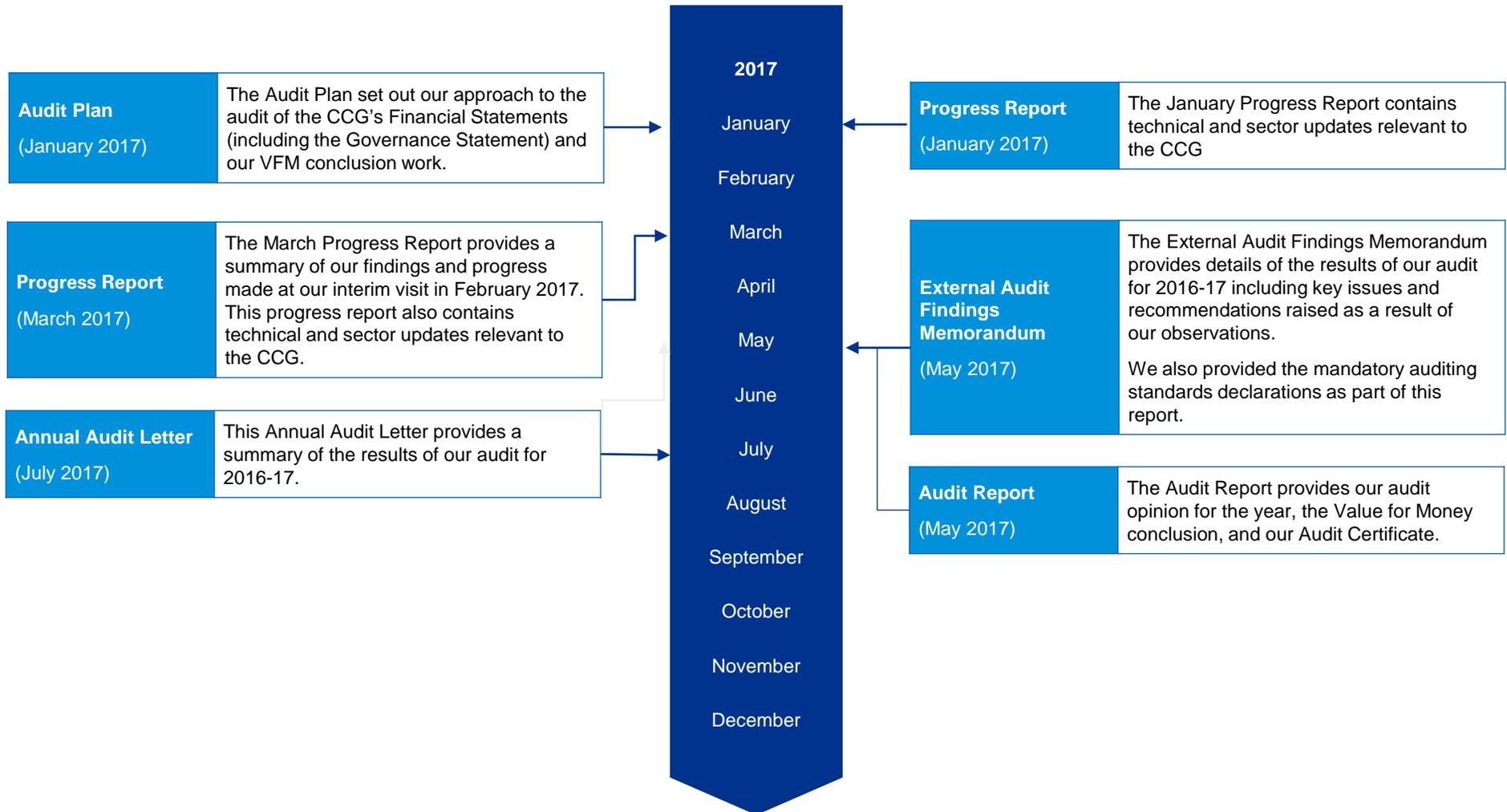
<b>Regularity Opinion</b>	<p>We are required to form a view on the regularity of the CCG's income and expenditure i.e. that the expenditure and income included in the CCG's financial statements has been applied to the purposes intended by Parliament and the financial transactions in the financial statements 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>
<b>Annual Governance Statement</b>	<p>We confirmed that the CCG complied with the NHS Commissioning Board requirements in the preparation of the CCG's Annual Governance Statement.</p>
<b>Recommendations</b>	<p>We are pleased to report that there are no high risk recommendations arising from our 2016-17 audit work and there are no outstanding agreed high priority audit recommendations from the prior year.</p>
<b>Public Interest Reporting</b>	<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 2016-17.</p>



# Appendices

## Appendix B

# Summary of our reports issued





© 2017 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International. | Create Graphics: CRT061249A