The Annual Audit Letter
for NHS Shropshire Clinical Commissioning Group

Year ended 31 March 2015
July 2015

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Section 1: Executive summary
Executive summary

**Purpose of this letter**
Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at NHS Shropshire Clinical Commissioning Group (the CCG) for the year ended 31 March 2015:

- auditing the accounts (section two)
- assessing the CCG’s arrangements for securing economy, efficiency and effectiveness in its use of resources (section three).

The Letter is intended to communicate key messages to the CCG and external stakeholders, including members of the public.

We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 26 May 2015.

**Responsibilities of the external auditors and the CCG**
This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and of Audited Bodies, Local NHS bodies issued by the Audit Commission in April 2014 (Statement-of-responsibilities-NHS-April-2014.pdf).

The CCG is responsible for preparing and publishing its financial statements accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with our Audit Plan issued in March 2015 and is conducted in accordance with the Audit Commission's Code of Audit Practice (the Code), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

**Audit conclusions**
The audit conclusions we have provided in relation to our 2014/15 audit are as follows:

**Financial statements opinion**
We provided an unqualified opinion on the financial statements which give a true and fair view of the CCG's financial position as at 31 March 2015 and of net expenditure recorded by the CCG for the year.

We also provided a separate opinion on the Accounts Consolidation Template (ACT) which confirmed the consistency of the figures in the ACT with the audited financial statements.

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. We are pleased to report that, based on our review of the CCG's expenditure, we gave an unqualified regularity opinion.
The Remuneration Report subject to audit had not been prepared properly in accordance with requirements as it did not include the required pensions disclosures. This was because this information had not been supplied by the NHS Pensions Agency. Our opinion was therefore qualified in this respect.

**Value for money (VfM)** – We provided an unqualified conclusion in respect of the CCG’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

**Key areas for the CCGs attention**

This was only the second year of operation of the CCG and it has continued to build on the arrangements it put in place in the first year in relation to governance, internal control and performance management.

The CCG met all its statutory financial targets in 2014/15, including declaring a surplus of £3.6 million. To help achieve this position, the CCG received additional external income, some of which is repayable. The CCG set a significant savings target (QIPP) of £8.6m in 2014/15 but achieved around 85% of this.

2015/16 will present an even greater financial challenge. The CCG’s original financial plan forecast the achievement of a target surplus of £3.5 million. Financial pressures are being realised and the budget for the year is currently being revised. This needs to be finalised and reported promptly.

This original budget included a QIPP requirement of £9.4m, but this has risen to £13.8m. There is now a high risk that the CCG will make a deficit in the current financial year and will need to take urgent action to mitigate the size of this deficit.

In addition to the significant financial issues, the CCG also faces a number of other challenges in 2015/16 including taking on primary care commissioning from 1 April 2015 and addressing performance issues in commissioning support services. These are discussed in more detail on page 9.

**Acknowledgments**

This Letter has been agreed with the Chief Finance Officer.

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
July 2015
Section 2: Audit of the accounts
Audit of the accounts

Audit opinion
The key findings of our audit of the accounts are summarised below:

Preparation of the accounts
The CCG presented us with draft accounts in accordance with the national deadline. Appropriate working papers were made available from the start of the audit fieldwork. The audit went fairly smoothly which was an improvement on the previous year.

Issues arising from the audit of the accounts
We did not identify any material errors in the accounts. But the major issue from the audit related to differences emerging from our review of the NHS agreement to balances exercise. Our audit work identified the following variances in the NHS agreement of balances (AoB) process:

- The CCG reporting £1,700k less expenditure with Shrewsbury and Telford Hospitals NHS Trust (SATH) compared with the figure being reported by the Trust.
- The CCG reporting £300k less expenditure with the Robert Jones and Agnes Hunt NHS Foundation Trust (RJ&AH), compared with the figure being reported by the Foundation Trust.
- The CCG reporting income of £359k from NHS England in Birmingham and the Black Country relating to specialised commissioning, which is not being reported by NHS England.
- The CCG anticipating receivables of £273k from North Staffs CCG, that the other CCG has not accepted.

There were also mismatches on receivables and payables with SATH and RJ&AH which may be linked to the mismatches in expenditure above. We recommended that these were resolved promptly as they could have a serious impact on the CCG’s future financial position. Progress has been made but these are still being finally resolved.

The following additional issues arose:

- The statements were amended to show prior year comparators for notes 4,13 and 38 and to correct the external audit fee.
- Note 39-events after closure-was amended to include narrative in respect of the new primary care commissioning responsibilities.
- The CCG also agreed a number of further amendments to improve the disclosures in and presentation of the Accounts such as, improving notes in relation to pension costs disclosures and amending for information on staff sickness information and revising the performance against statutory targets note (note 42) to bring it in line with national guidance.
- Our testing of 2015/16 payments to ensure that there has been a proper cut-off of expenditure in the 2014/15 accounts identified one error. We were satisfied that this has only had a trifling impact on your accounts. However we recommended that the CCG should look at the nature of this error to see what lessons can be learnt for the cut off process in 2015/16

Annual Governance Statement and Annual Report
We reviewed the Governance Statement and the Annual Report and made some recommendations to improve presentation and to bring it in line with mandatory guidance.
Audit of the accounts (continued)

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to ‘those charged with governance’. We presented our report to both the Audit Committee on 26 May 2015 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the CCG’s 2014/15 accounts on 27 May 2015, meeting the deadline set by NHS England, which was a week earlier than last year. Our opinion confirms that the accounts give a true and fair view of the CCG’s financial position as at 31 March 2015 and of the net expenditure recorded by the CCG for the year.

We also issued unqualified opinions on regularity and on the Accounts Consolidation Template.

The Remuneration Report subject to audit had not been prepared properly in accordance with requirements as it did not include the required pensions disclosures. This was because this information had not been supplied by the NHS Pensions Agency. Our opinion was therefore qualified in this respect.
Financial performance 2014/15

The CCG’s Performance against its financial targets is set out in the table below:

<table>
<thead>
<tr>
<th></th>
<th>Target £000s</th>
<th>Actual £000s</th>
<th>Met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure not to exceed</td>
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<td>373,459</td>
<td>Yes</td>
</tr>
<tr>
<td>income</td>
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<td></td>
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<td>Capital resource use does not</td>
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</tr>
<tr>
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<tr>
<td>direction</td>
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<tr>
<td>Capital resource use on</td>
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<td>0</td>
<td>Yes</td>
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<tr>
<td>specified matters(s) does not</td>
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<tr>
<td>exceed the amount specified in</td>
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<tr>
<td>Directions</td>
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<tr>
<td>Revenue resource use on</td>
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<td>Directions</td>
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<tr>
<td>Capital resource use does not</td>
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<td>exceed the amount specified in</td>
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<tr>
<td>direction</td>
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<tr>
<td>Revenue administration</td>
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<td>6,791</td>
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<tr>
<td>resource use does not exceed</td>
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<tr>
<td>the amount specified in</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Directions</td>
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Looking forward

The CCG faces a number of challenges in 2015/16:

QIPP / financial position

The major challenge which the CCG faces is the 2015/16 financial plan. Even though the original plan set out how the CCG would achieve an NHS England target surplus of £3.5 million, this plan is currently being revised to take account of significant emerging pressures. As a result there is a high risk that the CCG will make a deficit in 2015/16. The challenges include:

• pressures across providers and in particular referral to treatment times, continuing health care and the recognised pressures within the prescribing budget;
• due to emerging financial pressures, the QIPP challenge for 2015-16 is now £13.8 million. This is an extremely high level compared to other CCGs and as this has recently increased significantly, this further raises doubts on the likelihood that schemes will fully deliver financial savings in the year; and
• ensuring there is appropriate contingency in the plan for unexpected events.

Primary Care Commissioning

The CCG has been approved under delegated commissioning arrangements which have seen it assuming full responsibility for contractual GP performance and budget management from 1 April 2015. The indicative budget that was to transfer from NHSE to the CCG has now been confirmed as £40 million. The challenges include:

• management capacity due to the need to restructure and build skills and knowledge in the CCG team; and
• relationships with the membership when the CCG is managing the performance of GPs and resolving any conflicts of interest.

Commissioning Support Unit (CSU)

The CCG has experienced service delivery issues from the commissioning support services it receives in part due to high levels of staff vacancies. As a result the CCG put the CSU under a three month trial period and an action plan was put in place. Although progress was made across many issues in the action plan, a capacity and capability review alongside an assessment of current vacancies has led to a refresh of the plan.
Section 3: Value for Money
Value for Money

Value for money conclusion
The Code of Audit Practice 2010 (the Code) describes the CCG’s responsibilities to put in place proper arrangements to:
• secure economy, efficiency and effectiveness in its use of resources;
• ensure proper stewardship and governance; and
• review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

In 2014/15 we are required to give our VFM conclusion based on two criteria specified by the Audit Commission. These criteria are:

The CCG has proper arrangements in place for securing financial resilience. The CCG has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The CCG has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The CCG is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings
Securing financial resilience
We have undertaken a review which considered the CCG’s arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:
• Financial governance;
• Financial planning; and
• Financial control

2014/15 was a challenging year for the CCG as a result of cost pressures that were not factored into the financial plan. The main pressure which materialised during 2014/15 was as a result of the local interpretation of the national identification rules for specialised services. Additional reporting to the Governing Body and QPR was instigated and an informal recovery plan put in place to respond to this.

The CCG declared a surplus of £3.6m at 31 March 2015. To help achieve this position, the CCG received additional external income, some of which is repayable. The CCG set a significant savings target (QIPP) of £8.6m in 2014/15 but achieved around 85% of this.

2015/16 will present an even greater financial challenge. The CCG's original financial plan forecast the achievement of a target surplus of £3.5 million. Significant financial pressures are already emerging, and the budget for the year is currently being revised. This original budget included a QIPP requirement of £9.4m, but this has risen to £13.8m. There is now a high risk that the CCG will make a deficit in the current financial year.
Value for Money

The CCG has engaged experienced project management capacity for the QIPP programme as well as a turnaround director. The CCG is meeting frequently to monitor the position. The delivery of the financial position and the QIPP will need to be monitored extremely closely in 2015/16.

Challenging economy, efficiency and effectiveness
We have reviewed whether the CCG has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

The CCG has continued to build on the foundations it established last year. The CCG's vision and priorities are clearly articulated in its Operational Plan. The CCG used the CCG outcome indicator set in developing this plan. The CCG carried out a self-assessment of its effectiveness with external support and drew up an action plan. The Audit and Governance Committee has been enhanced by an additional lay member in the year and has been proactive in challenging the effectiveness of structures and governance arrangements. The CCG recognised at an early stage the risks of not properly managing potential conflicts of interest and developed appropriate arrangements to address this. This will be particularly important in the protection of the CCG's reputation as the CCG takes on the commissioning of primary care in 2015/16.

Management of the CCG's commissioning contracts is critical to ensure financial stability and delivery of the CCG's objectives. The CCG has established sound governance and performance management arrangements to enable it to understand and govern its affairs including a robust assurance framework.

Throughout 2014/15 regular contract monitoring sessions have been held with providers and the CCG has been working together to resolve issues. The CCG has taken a lead role in the NHS Future Fit programme and made significant progress, including publishing a proposed clinical model to shape the whole care system in Shropshire.

The CCG has been active in managing problems with the CSU and has considered options to deal with service performance issues caused by a large level of vacancies within the team. A three month trial period for a remedial action plan was put in place. The CCG is now considering what action it now needs to take. The CCG has held a number of "Board to Board" meetings with other organisations in the Health Economy to develop partnership working and there are collaboration agreements in place between health, local government and other stakeholders.

The Better Care Fund plan was approved in November 2015 and the focus now is on the delivery of the plan. Work continues in developing governance arrangements underpinning this plan and this will be important to get right.

Overall VfM conclusion
On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the CCG put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.
Appendices
Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

<table>
<thead>
<tr>
<th>Fees</th>
<th>Planned £</th>
<th>Actual fees £</th>
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<tbody>
<tr>
<td>Statutory audit</td>
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<td>70,000</td>
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<tr>
<td>Total fees</td>
<td>70,000</td>
<td>70,000</td>
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<table>
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<tr>
<th>Fees for other services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service</td>
</tr>
<tr>
<td>Governing Body Board effectiveness self assessment and workshop</td>
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<table>
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<tr>
<th>Reports issued</th>
<th>Date issued</th>
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<td>Audit Plan</td>
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<td>February 2015</td>
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<td>Audit Findings Report</td>
<td>May 2015</td>
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