The Annual Audit Letter
for NHS South Worcestershire Clinical Commissioning Group

Year ended 31 March 2015
July 2015

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### Appendices

A. Reports issued and fees
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 South Worcestershire 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](mailto:)).

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.
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 solid arrangements it put in place in the first year in relation to governance, internal control, financial and performance management.

The CCG met all its statutory financial targets in 2014/15, including achieving a surplus of £3.1 million in line with revised forecasts in previous months. The CCG's financial plan sets out how it will achieve a surplus of £3.3m in 2015/16 and has been approved by NHS England.

The CCG faces a number of challenges in 2015/16 including taking on primary care commissioning from 1 April 2015, the delivery of the QIPP and financial targets and procuring commissioning support services. These are discussed in more detail on page 8.

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
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. The draft accounts were of a very good quality. Appropriate working papers were made available from the start of the audit fieldwork and officers responded quickly to any additional requests. The audit went smoothly which was a further 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 following issues arose:
- From review of the NHS agreement to balances exercise, expenditure with Worcestershire Acute NHS Trust's accounts was £3.1 million lower than that shown in Worcestershire Acute Trust's accounts.
- The statement of financial position presentation of a £1.37m prepayment to Worcestershire County Council needed to be amended.
- The CCG did not account for an estimated £1.4m pre-payment to Worcestershire Acute Hospital for maternity services which were paid for in 2014/15 but not delivered until 2015/16. The CCG decided not to adjust for this as it was not material.
- 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 the going concern, critical judgements and key sources of estimation uncertainty; revising the performance against statutory targets note (note 42) to bring it in line with national guidance; and including the brought forward balance in the Statement of in Taxpayers’ Equity.

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.

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 the Audit Committee on 21 May 2015 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the CCG's 2014/15 accounts on 22 May 2015, meeting the deadline set by NHS England, which was almost two weeks 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. Our Audit made no references to any other matters or reports by exception.
Section 2: Audit of the accounts

01. Executive summary

02. Audit of the accounts

03. Value for Money
Significant findings

In 2014/15 the CCG delivered all its statutory targets and achieved its target surplus.

<table>
<thead>
<tr>
<th>Target £000s</th>
<th>Actual £000s</th>
<th>Met?</th>
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<tbody>
<tr>
<td>Expenditure not to exceed income</td>
<td>327,773</td>
<td>324,209</td>
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<tr>
<td>Capital resource use does not exceed the amount specified in direction</td>
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<tr>
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<tr>
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<td>0</td>
</tr>
<tr>
<td>Revenue resource use on specified matters(s) does not exceed the amount specified in Directions</td>
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<tr>
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<td>7,099</td>
<td>6,927</td>
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In 2014/15 the CCG delivered all its statutory targets and achieved its target surplus.

Looking forward

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

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 budget to transfer from NHSE to the CCG has now been confirmed as £43.5million. The challenges include:

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

QIPP / financial position

For 2015/16, the CCG has set a £3.3m surplus budget based on assumptions that are in line with NHS England planning guidance and takes into account demand led pressures on services. The challenges include:

- pressures across providers, continuing health care and the recognised pressures within the prescribing budget;
- the QIPP challenge for 2015-16 is £ 7.6million of which £2m is currently rated as high risk.

Commissioning Support Unit (CSU)

The CCG has decided to bring some services currently provided by the CSU such as continuing care in–house in collaboration with other Worcestershire CCGs. New specifications are being developed to inform the procurement of future requirements for the other support services provided by the CSU using the Lead Provider Framework. Re-procurement of CSU services will take place later in 2015 to take effect from 1 April 2016 and it has been decided that this will be on the basis of collaborative procurement with the other Worcestershire CCGs. These actions should help address the service quality issues which have arisen in some of the services provided.
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

The CCG has sound financial arrangements in place and in 2014/15 the CCG achieved its planned surplus of £3.1m. The CCG set a QIPP target of £9m and achieved an estimated 77% of this. This was improved delivery than in 2013/14. The Quality Performance and Resources (QPR) Committee has closely monitored the delivery of the QIPP plan and where there has been under-performance, it has ensured that mitigating plans were developed. The main areas of non delivery are similar to the previous year, i.e. prescribing and the Worcestershire Acute contract but management is confident that performance in these areas will be stronger in 2015/16. Improved QIPP monitoring arrangements have also been put in pace for 2015/16. 2015/16 will present a greater financial challenge not least because of the very significant financial pressures which exist in the wider health economy and the financial plan sets out how the CCG will deliver a surplus of £3.3 million. This includes a QIPP requirement of £7.6m, of which £2 million is rated by the CCG as high or very high risk. The delivery of the QIPP and the contract with Worcestershire Acute will need to be closely monitored in 2015/16.
Value for Money

Challenging economy, efficiency and effectiveness
We have reviewed whether the CCG has prioritised its resources to take account of the tighter financial 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 solid foundations it established following its creation in the last financial year. The CCG’s vision and priorities are clearly articulated. The CCG has carried out a self-assessment of organisational effectiveness through a variety of mechanisms and has drawn up an organisational plan for 2014/15. The Audit Committee 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.

Notable successes for the CCG included the operation of integrated care teams, the GP in the Ambulance Scheme and work in care homes which all reduced activity and cost. Throughout 2014/15 regular contract monitoring sessions have been held with providers and the CCG have been working together to resolve issues. The contract with Worcestershire Acute remains challenging. This was overspent significantly in 2014/15.

The CCG has worked well with its other local CCGs including in the Urgent Services Review and Acute Services Review. The CCG has been proactive in managing problems with the CSU. It has decided to bring some services in-house in collaboration with other Worcestershire CCGs and to re-procure other CSU services using the national framework contract. The Better Care Fund plan has been positively endorsed by partners and NHS England. 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>
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<th>Actual fees £</th>
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<tr>
<td>Total fees</td>
<td>70,000</td>
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</table>

<table>
<thead>
<tr>
<th>Report</th>
<th>Date issued</th>
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<tr>
<td>Audit Plan</td>
<td>February 2015</td>
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<tr>
<td>Benchmarking your annual report</td>
<td>February 2015</td>
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<tr>
<td>Audit Findings Report</td>
<td>May 2015</td>
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<tr>
<td>Annual Audit Letter</td>
<td>July 2015</td>
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<table>
<thead>
<tr>
<th>Fees for other services</th>
<th>Fees £</th>
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</thead>
<tbody>
<tr>
<td>Tax assistance</td>
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