The Annual Audit Letter
for NHS Wyre Forest
Clinical Commissioning Group

Year ended 31 March 2016
August 2016

Engagement Lead
Phil Jones
Telephone 0121 232 5232
E Mail phil.w.jones@uk.gt.com

Audit Manager
Lorraine Noak
Telephone 0121 232 5407
E Mail lorraine.noak@uk.gt.com

Executive
Denise Mills
Telephone 0121 232 5306
E Mail denise.f.mills@uk.gt.com
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A Reports issued and fees
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Executive summary

Purpose of this letter
Our Annual Audit Letter (the Letter) summarises the key findings arising from the work that we have carried out at NHS Wyre Forest Clinical Commissioning Group (the CCG) for the year ended 31 March 2016.

The Letter is intended to provide a commentary on the results of our work to the CCG and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing the Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the CCG’s Audit Committee as those charged with governance in our Audit Findings Report on 20 May 2016.

Our responsibilities
We have carried out our audit in accordance with the NAO’s Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

• give an opinion on the CCG’s financial statements (section two)
• assess the CCG’s arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the CCG’s financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work
Financial statements opinion
We gave an unqualified opinion on the CCG’s financial statements on 20 May 2016.

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.

Based on our review of the CCG’s expenditure we gave an unqualified regularity opinion.

Use of statutory powers
We did not identify any matters which required us to exercise our additional statutory powers.
Value for money (VfM) conclusion
We were satisfied that the CCG put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our report on the financial statements on 20 May 2016.

Certificate
We certify that we have completed the audit of the accounts of NHS Wyre Forest CCG in accordance with the requirements of the Code of Audit Practice.

Working with the CCG
During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in May, delivering the accounts 7 days before the deadline, releasing your finance team for other work
- Improved financial processes – we worked with you to streamline your working paper processes resulting in a more efficient use of the finance team during the audit visit
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness We highlighted the need for a viable partnership working strategy to ensure the Worcestershire Health economy delivers going forward.
- Improving your annual reporting – we benchmarked your annual report and made recommendations for improvements in the following areas:
  - whether lay members appraise the Chair in his/her absence
  - whether lay members appraise the chief operating officer in his/her absence
  - including a summary of complaints
  - disclosure on the overall staff engagement survey score
  - ease of website access & navigation
  - Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
  - Supporting development – we facilitated quarterly meetings of Non Executive Directors from Trusts and CCGs to enable both informative and informal discussion.

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
August 2016
Audit of the accounts

Our audit approach

Materiality
In our audit of the CCG’s financial statements, we use the concept of materiality
to determine the nature, timing and extent of our work, and in evaluating the
results of our work. We define materiality as the size of the misstatement in the
financial statements that would lead a reasonably knowledgeable person to change
or influence their economic decisions.

We determined materiality for the audit of the CCG’s accounts to be £2,681,000
which is 2% of the CCG’s gross revenue expenditure. We used this benchmark as,
in our view, users of the CCG’s financial statements are most interested in where
the CCG has spent its allocation in the year.

We also determined a lower level of specific materiality for certain areas such as
Disclosure of the audit fee in the financial statements.
Agreed in total.
Disclosures of senior manager salaries and allowances in the remuneration
report.
Triviality £134k
Related party transactions disclosed in the financial statements.
Triviality £134k

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and
disclosures in the financial statements to give reasonable assurance that they are
free from material misstatement, whether caused by fraud or error.

This includes assessing whether:
• the accounting policies are appropriate, have been consistently applied and
  adequately disclosed;
• the significant accounting estimates made by management are reasonable;
  and
• the overall presentation of the financial statements gives a true and fair view.

We also read the annual report to check it is consistent with our understanding
of the CCG and with the accounts on which we give our opinion.

We conducted our audit in accordance with ISAs (UK and Ireland) and the
NAO Code of Audit Practice. We believe that the audit evidence we have
obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the CCG’s
business and is risk based. We identified key risks and set out on the next page
the work we performed in response to these risks and the results of our work.
Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>Work completed</th>
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<tbody>
<tr>
<td><strong>Accounting arrangements for the Better Care Fund (BCF)</strong>&lt;br&gt;On 1 April 2015, the CCG entered into a pooled budget arrangement with Worcestershire County Council and other CCGs to procure services from Worcestershire Health and Care Trust and Worcester Acute NHS Trust&lt;br&gt;The accounting arrangements for this are complex and there is a risk of material misstatement in the financial statements and the potential for irregular expenditure.</td>
<td>As part of our audit work we have:&lt;br&gt;• Reviewed the shared funding agreement and gained an understanding of the CCG’s assessment of where control lies and its accounting entries in respect of the Fund;&lt;br&gt;• Gained an understanding of the CCG’s controls over the BCF pooled budget; and&lt;br&gt;• Tested the accounting entries made by the CCG in respect of the BCF pooled budget to check they are consistent with our understanding of the arrangement.&lt;br&gt;• Checked that the transactions and balances recorded are consistent with those recorded by counterparty organisations.&lt;br&gt;&lt;br&gt;<strong>We did not identify any issues to report</strong></td>
</tr>
<tr>
<td><strong>Valuation of secondary healthcare expenditure</strong>&lt;br&gt;Over 66% of the CCG’s expenditure relates to contracts with NHS and Foundation hospital trusts.&lt;br&gt;Trusts invoice or mandate the CCG throughout the year for services provided, and at the year-end accrue for activity in the final quarter. Performance for the final quarter of the year are not agreed until after the accounts are produced for audit.&lt;br&gt;There is therefore a risk that expenditure on secondary healthcare income may be understated.</td>
<td>As part of our audit work we have:&lt;br&gt;• Gained an understanding of the CCG’s system for accounting for secondary healthcare expenditure and the controls in place;&lt;br&gt;• Checked the consistency of expenditure recorded by the CCG against income recorded by the trusts.&lt;br&gt;• Tested a sample of expenditure to supporting documents, including contracts and invoices, and to payments made.&lt;br&gt;• Checked payments made after the year end to ensure they were recorded in the correct financial year.&lt;br&gt;&lt;br&gt;<strong>We did not identify any issues to report</strong></td>
</tr>
</tbody>
</table>
Audit of the accounts

Audit opinion
We gave an unqualified opinion on the CCG's financial statements on 20 May 2016, in advance of the national deadline.

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.

Based on our review of the CCG's expenditure we gave an unqualified regularity opinion.

Preparation of the accounts
The CCG presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.
It should be noted that the improvement in the timeliness and quality of working paper ensured the audit was completed in the most effective and efficient manner.

Issues arising from the audit of the accounts
We reported the key issues from our audit to the CCG's Audit Committee on 20 May 2016.

In addition to the key audit risks reported above, we identified issues through our audit that we have asked the CCG's management to address for the next financial year: Issues reported as part of the Audit Findings Report can be seen at Appendix B

Annual Governance Statement and Annual Report
We are also required to review the CCG's Annual Governance Statement and Annual Report. The CCG provided these on a timely basis with the draft accounts with supporting documentation. We liaised closely with the CCG's Head of Governance to highlight some areas for improvement to better meet the requirements and to enhance this reporting to stakeholders. The CCG were then able to make these changes before the final documents were approved by the Audit Committee.

Whole of Government Accounts (WGA)
We submitted information to the NAO in respect of Whole of Government Accounts. No detailed work was required to be carried out but we provided a copy of the forms that underpin the accounts and our audit findings report as required.

Consolidation template
We also reported on the consistency of the accounts consolidation template provided to NHS England with the audited financial statements. We concluded that these were consistent.
Value for Money conclusion

**Background**
We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:
*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

**Key findings**
Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.
The key risks we identified and the work we performed are set out overleaf.

**Overall VfM conclusion**
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 2016.
## Value for Money conclusion

<table>
<thead>
<tr>
<th>Significant risk</th>
<th>Work to address</th>
<th>Findings and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Informed Decision Making</strong></td>
<td>We reviewed the CCG's arrangements for putting together and agreeing its budget, including identification of savings plans; and its arrangements for monitoring and managing delivery of its budget and savings plans for 2015/16.</td>
<td>The CCG's process for compiling its budget is based on a robust analysis of health needs in the locality. Savings plans as part of the QIPP process are subject to agreement by budget holders and agreed with providers as part of the contract negotiation process. Performance against budget, including delivery of savings plans against target, is reported monthly to the Finance Committee where it is subject to detailed challenge, and at a higher level to the Governing Body. <strong>We concluded that the CCG has proper arrangements to plan finances effectively and provide reliable financial reporting to support the delivery of its strategic priorities.</strong></td>
</tr>
<tr>
<td><strong>Resource Deployment</strong></td>
<td>We reviewed the CCG's arrangements for identifying, agreeing and monitoring its sustainability and operational plans, and communicating key findings to the Governing Body and Finance Committee.</td>
<td>The CCG has achieved all financial savings and targets required for 2015/2016. Although the future financial position has a high level of unmitigated risk a surplus budget has been set for the next five years and we have reviewed the assumptions in the plan for reasonableness. We are satisfied that the CCG has arrangements in place to secure financial sustainability although we recognise the level of risk attached to this and the need to monitor this in future periods. <strong>We concluded that, the CCG has robust monitoring in place and reporting to the Finance Committee occurs regularly and information passed to the Governing Body in a timely manner.</strong></td>
</tr>
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</table>
## Value for Money conclusion

<table>
<thead>
<tr>
<th>Significant risk</th>
<th>Work to address</th>
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</tr>
</thead>
</table>
| **Working with partners - Better Care Fund** | We reviewed the CCG's arrangements for working with other parties as part of the Better Care Partnership, its processes for managing risks arising from this, and how it monitors the effectiveness of the Partnership in delivering improvements to services. | We found that the CCG had established clear risk management processes around the Better Care Fund, including clear documentation and regular reporting. There was an established process for reporting on the results of the involvement with the Better Care Partnership. The arrangements in place are evolving but on balance we consider that the processes in place at the CCG are designed effectively and will ensure it can deliver value for money.  

On that basis we concluded that the risk was sufficiently mitigated and the CCG has proper arrangements to work with other parties to deliver strategic priorities. |
Value for Money conclusion

Looking forward

The CCG is required to deliver a one year Operational Plan and also a Five Year place based Sustainability and Transformation Plan (STP). The STP is prepared on a Herefordshire and Worcestershire footprint and is to show how local services will evolve and become sustainable over the next five years.

Since the conclusion of our audit the CCG has presented its first draft planning submission to NHS England, NHS Improvement and the Department of Health. This identified the key areas of focus emerging from the initial analysis. The final submission date for these plans has been revised to allow development of a plan that has local population input and engagement and to develop a more refined plan. It is anticipated that submission will be made in September 2016.

The CCG needs to be fully involved in the process of challenging, refining and developing these plans, including the activity planning and financial modelling, if this is to be soundly based and an effective mechanism to transform services across the local health economy.

The CCG is working increasingly closely with NHS Redditch & Bromsgrove CCG and NHS South Worcester CCG, to make the best use of management capacity and to achieve better economies of scale. The CCG recognises how critical this local integration and efficiency is at a time when it is carefully balancing its financial pressures with the need to invest in the transformation of services.

Worcester Acute Hospitals NHS Trust has agreed to be part of the Sustainability and Transformation Fund programme. This is a non recurrent financial support that is being provided directly to Trusts in return for delivery of agreed performance improvement. As a result of the Trust participating in this programme the CCG will not be able to levy penalties or fines for contractual breaches.

Discussions are being finalised to implement a GP local primary care contract. The Wyre Forest 'Bundle' is a local contract for practices to be delivered alongside the national GMS contract.

In all of these areas, we highlight the importance of the CCG engaging its wider membership in the transformation of local healthcare services.
Working with the CCG

Our work with you in 2015/16
We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit 7 days before the deadline. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Improved financial processes – during the year we reviewed your financial systems and processes including expenditure on secondary healthcare, primary healthcare. We worked with you to streamline your audit processes including detailed requirements for working papers and earlier testing of journals and contract expenditure.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for review of the use of section 75 agreements

- Improving your annual reporting – we benchmarked your annual report and made recommendations for improvements in the following areas
  - independence of lay members
  - whether lay members appraise the Chair in his/her absence
  - whether lay members appraise the chief operating officer in his/her absence
  - including a summary of complaints
  - disclosure on the overall staff engagement survey score
  - ease of website access & navigation

The 2015/16 Annual Report has shown improvements in these areas.

Sharing our insight – we provided regular audit committee updates covering best practice. Areas we covered included The Five year Forward View, TDA quarterly reports, Better Care Fund, Manual for Accounts, NAO Code of Practice, Lessons learned from Mid Staffordshire. We also shared our thought leadership reports on Finance and Governance and Mental Health collaboration.

Providing training – we provided your teams with training on financial accounts and annual reporting. A dedicated Better Care Fund workshop was attended by all members of the Worcestershire Pooled Budget arrangement.

Supporting development – we provided workshops for the Governing Body and Audit Committee on Governance. We also ran events for NEDs emerging issues and allowed for informal discussion with NEDs from other health organisations.

Providing information – we shared the information from our data analytics team highlighting health conditions and lifestyle needs in your area.
Working with the CCG

Working with you in 2016/17

We will continue to work with you and support you over the next financial year.

Nationally we are planning the following events:

• Health and Social Care Integration – we are working with the Manchester authorities so that we are able to share insight into how best to integrate health and social care. We will share the outcome of our work early in 2017
• Thought leadership – we are preparing thought leadership reports on Future of Primary Care and on NHS commercial structures
• Audit updates - we will continue to provide regular audit committee updates covering best practice and emerging issues in the sector
• Providing training – we will continue to provide financial accounts and annual reporting training
• Improving your annual reporting – we will benchmark your annual report and highlight potential areas for improvement
• Providing insight – we will update our Health and Well Being analysis and share our information on key health conditions and lifestyle needs in your area

Locally our focus will be on:

• An efficient audit – continuing to deliver an efficient audit
• Improved financial processes
• Understanding your operational health – we will focus our value for money conclusion work on partnership working and resource deployment
• Supporting development
• Support outside of the audit – our advisory team are available to advise you on governance and joint working
Grant Thornton in Health

We are proud of our position as the largest supplier of external audit services to the NHS and the contribution we make to the challenges it faces. Here are some of our credentials showing how we deliver on this responsibility.

Our client base and delivery

- We are the largest supplier of external audit services to the NHS
- We audit over 120 NHS organisations
- 99% of 2015/16 audit reports were issued by the national deadline
- Our clients scored us 8 out of 10 or higher

Our connections

- We meet regularly with and second people to the Department of Health, CQC, NHS Improvement and NHS England
- We work closely with local government and blue light services
- We work with the Think Tanks and legal firms to develop workshops and good practice
- We provide thought leadership, seminars and training to support our clients and to provide solutions.
- In 2016 we issued reports on Mental Health Collaboration, and NHS governance and finance.
- We will publish reviews on the Future of Primary Care and on NHS commercial structures later this year.

Our quality

- We fully meet the criteria for appointment as external auditors.
- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing.
- We are fully compliant with ethical standards.
- We have passed all external quality inspections including QAD and AQRT.

Our support for the sector

- We are sponsors for HFMA and work with the provider faculty, mental health faculty and commissioning faculty. We regularly speak at HFMA events to share best practice and solutions.
- We provide auditor briefings into what is happening with department policy, sector regulation, and at other NHS organisations to help support our clients.
- We provide Key Issues Bulletins that summarise what is happening in the sector.
- We hold regular 'free to access' financial reporting and other training sessions for finance staff to ensure they have the latest technical guidance.

Our technical support

- We are members of all of the key NAO, ICAEW, and HFMA technical forums.
- We have specialists leads for Public Sector Audit quality and Public Sector technical.
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas.
- Local teams are supported on information technology by specialist IT auditors.
- We use specialist audit software to identify and assess audit risk.

Our people

- We have over 30 engagement leads accredited by ICAEW to issue NHS audit reports.
- We have over 300 public sector specialists.
- We invest heavily in our people including technical and personal development training.
- We invest in the future of the public sector and employ over 80 Public Sector trainee accountants.
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.

### Fees

<table>
<thead>
<tr>
<th></th>
<th>Planned £</th>
<th>Actual fees £</th>
<th>2014/15 fees £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory audit</td>
<td>45,000</td>
<td>45,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Total fees</td>
<td>45,000</td>
<td>45,000</td>
<td>60,000</td>
</tr>
</tbody>
</table>

### Fees for other services

<table>
<thead>
<tr>
<th>Service</th>
<th>Fees £</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>Nil</td>
</tr>
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</table>

### Reports issued

<table>
<thead>
<tr>
<th>Report</th>
<th>Date issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Plan</td>
<td>February 2016</td>
</tr>
<tr>
<td>Audit Findings Report</td>
<td>May 2016</td>
</tr>
<tr>
<td>Annual Audit Letter</td>
<td>July 2016</td>
</tr>
</tbody>
</table>
## Appendix B: Action plan

**Priority**
- **High** - Significant effect on control system
- **Medium** - Effect on control system
- **Low** - Best practice

<table>
<thead>
<tr>
<th>Rec No.</th>
<th>Recommendation</th>
<th>Priority</th>
<th>Management response</th>
<th>Implementation date &amp; responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No third party assurance is gained over the information provided by the Integrated Commissioning Officers Executive Group. In relation to Section 75 spend, discussions are held with budget holders to mitigate the uncertainty, but it would be good practice and is recommended in the Manual for Accounts that a third party gives assurance over the figures provided.</td>
<td>Medium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Accounting for underspends/overspends on the Section 75 agreements as notified by Integrated Commissioning Officers Executive Group. There are numerous entries within receivables and payables relating to the same balance. Although testing has shown that the final figure is correct, the accounting methodology is cumbersome, and numerous entries can lead to mistakes.</td>
<td>Medium</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix B: Action plan

**Priority**

**High** - Significant effect on control system  
**Medium** - Effect on control system  
**Low** - Best practice

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<th>Implementation date &amp; responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Review of the operating expenditure postings has shown that there are a significant number of credit entries that have arisen due to the miscoding of contracts and invoices. Work undertaken has shown that controls are in place and operating to identify the miscoding's in order for the correction to be performed. However we would recommend that a closer review of the initial postings should be undertaken.</td>
<td>Medium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>There are numerous Section 75 projects in place at the CCG. Some of these are funded by NHS monies only and could be delivered by various other methods. We would recommend that a review of Section 75 agreements are undertaken to ensure the best method is being applied.</td>
<td>Medium</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>