



The Annual Audit Letter for NHS Birmingham and Solihull CCG

Year ended 31 March 2019

26 June 2019



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at NHS Birmingham and Solihull Clinical Commissioning Group (the CCG) for the year ended 31 March 2019.

This 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 this 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 and Risk Committee, as those charged with governance, in our Audit Findings Report on 21 May 2019.

Our work

Materiality We determined materiality for the audit of the CCG's accounts to be £35,000,000, which is 1.86% of gross expenditure.

Financial Statements opinion We gave an unqualified opinion on the CCG's financial statements on 28 May 2019.

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'.

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

NHS Group consolidation template (WGA) 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 apart from some differences in how some transactions relating to opening balances from the predecessor CCGs had to be treated in the template accounts.

Use of statutory powers We did not identify any matters which required us to exercise our statutory powers.

Value for Money arrangements 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 audit report to the members of the Governing Body on 28 May 2019.

Certificate We certified that we have completed the audit of the financial statements of NHS Birmingham and Solihull CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 28 May 2019.

Respective 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 and regularity assertion (section two), and
- 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) (ISAs) and other guidance issued by the NAO.

Executive Summary

Events after the audit opinion

Since we completed our audit work, the CCG has been asked by NHS England to re-set its financial plan target for 2019/20 at £4.6m above its control total which is a breakeven position. The CCG has accepted this. As a result the CCG's QIPP requirement has increased by £4.6m to £64.4m which equates to 3.4% of annual expenditure.

The increase has been factored into an updated financial plan for 2019/20. This means that the CCG now has an additional unidentified QIPP requirement of £4.6m. As we noted in our VFM conclusion issued in May (see page 9) the total QIPP requirement of 3% identified then would be demanding but was not out of line with the CCG sector. The rise to 3.4% is still within the ranges of QIPP programmes we are seeing and our overall view that it has arrangements in place to enable it to do so is unchanged. The CCG's plan will need to be very closely monitored in the year and corrective action taken if necessary.

Working with the CCG

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

- An efficient audit – despite this being the first year for the new CCG, we delivered an efficient final accounts audit with you in May, delivering the audit report on the accounts before the deadline. We streamlined the audit process to ensure earlier reporting to the Audit and Risk Committee.
- We discussed at an early stage the most appropriate way to account for the merger and this involved discussions with NHSE. Our discussions lead to NHSE issuing a frequently asked question.
- Sharing our insight – we provided regular audit committee updates and also CCG Key Issues Bulletins covering best practice. We also responded to several ad hoc requests for good practice in different areas.
- Providing training – we provided your teams with training on financial accounts and annual reporting.
- Benchmarking information – we provided benchmarking on your annual report compared to other CCGs
- Opportunities to network-we ran several events in our Birmingham office for lay members on a variety of topics such as financial resilience, vertical integration in the NHS, the new model hospital and issues for year end accounts.

We would like to record our appreciation for the excellent assistance and co-operation provided to us during our audit by the CCG's staff.

Grant Thornton UK LLP
26 June 2019

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 £35,000,000, which is 1.86% of gross expenditure year . 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 set a lower level of specific materiality for salaries and allowances of £100,000 and also for pensions benefits of £250,000.

We set a lower threshold of £300,000, above which we reported errors to the Audit and Risk Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give sufficient 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 are 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 remainder of the Annual Report to check it is consistent with our understanding of the CCG and with the accounts included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) 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 overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>As such there is a risk that expenditure is recognised in the accounts for activity not completed in the period or agreed with providers.</p>	<p>We have rebutted this presumed risk for the CCG because:</p> <ul style="list-style-type: none"> • revenue does not primarily involve cash transactions • revenue is principally an allocation from NHS England • the culture and ethical framework of CCGs, including this CCG, mean that all forms of fraud are seen as unacceptable <p>We therefore did not consider this to be a significant risk for the CCG.</p>	<p>Our audit work did not identify any issues in respect of revenue recognition or that the rebuttal was incorrect.</p>
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The CCG faces pressure to meet external targets, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness • evaluated the rationale for any changes in accounting policies or significant unusual transactions • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness and corroboration including those after the draft accounts stage where applicable 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p>Operating expenses – purchase of secondary healthcare</p> <p>A significant percentage of the CCG’s expenditure is on contracts for healthcare with NHS providers and non-NHS providers, such as operations and hospital care. This expenditure is recognised when the activity has been performed, with accruals raised at the year-end for completed activity for which an invoice has not been issued.</p> <p>We identified the accuracy and occurrence of contract variations as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> ▪ gained an understanding of the financial reporting processes used for the purchase of secondary healthcare and evaluated the design of the associated controls ▪ substantively tested secondary healthcare costs including: confirming annual amounts to signed annual contracts and testing a sample of variations to contracts and other supporting evidence. ▪ used the DHSC mismatch report, to investigate unmatched expenditure and payable balances with NHS bodies over the NAO £0.3m threshold, corroborating the unmatched balances used by the CCG to supporting evidence ▪ agreed on a sample basis, payable and accrual balances relating to secondary healthcare to supporting evidence. 	<p>Our audit work did not identify any significant issues in respect of the occurrence and accuracy of secondary healthcare purchases.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 28 May 2019.

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 financial statements

The CCG presented us with draft financial statements 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.

Annual Report, including the Governance Statement

We are also required to review the CCG's Annual Report and the Governance Statement included within the Annual Report. It provided these on a timely basis with the draft financial statements with supporting evidence

Whole of Government Accounts (WGA)

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 apart from some differences in how some transactions relating to opening balances from the predecessor CCGs had to be treated in the template accounts.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of NHS Birmingham and Solihull CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 28 May 2019.

Value for Money arrangements

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 Value for Money 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 2019.

Value for Money arrangements

Key Value for Money Risk

Risk identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The three predecessor CCGs in the Sustainability and Transformation Plan (STP) had been working closely together for some time including appointing a shared management team and the use of committees in common. On 1 April 2018 the three CCGs merged to create the largest CCG in the country with expenditure of over £1.8 billion. The CCG has continued to manage the transition and embed different ways of working during the year.</p> <p>The local health economy is experiencing a number of challenges. The CCG is recognising pressure in A&E activity, achievement of the 62-day cancer target, delivery of the Referral to Treatment (RTT) standard and capacity and access to Birmingham Mental Health Services, particularly for children, and the associated impact this may have for younger people.</p> <p>NHS Birmingham and Solihull CCG is forecasting achieving its control total in 2018/19 by delivering a deficit of £3.59 million. This involves delivering a challenging Quality, Innovation, Productivity & Prevention (QIPP) programme totalling £58.6 million. Non-recurrent solutions will be required to deliver this total. This will mean the CCG has a brought forward cumulative surplus of £34 million as at 31 March 2019 which is £17.6m above the 1% target level.</p> <p>The draft financial plan for 2019/20 reflects growth in the CCG's core financial allocation of 5.63% and growth in the primary care allocation of 6.24%. However, the anticipated growth in activity in contracts, together with the impact of price inflation, particularly in the national tariff used by NHS providers, means that financial pressure will remain in 2019/20 and estimated QIPP savings of £56.2m (2.9% of allocation) will need to be delivered to achieve the financial plan.</p> <p>We proposed to review the CCG's arrangements for pulling together and agreeing its budget including the identification and delivery of savings plans – to include how findings are communicated to the Governing Body and Finance Committee.</p>	<p>The CCG has managed its finances well and achieved its control total in its first year of existence by delivering a planned in year deficit of £3.6m. The CCG therefore closed the year with a cumulative surplus of £34m which is £17.6m above the 1% target level. The CCG achieved its QIPP target but several planned schemes failed to deliver and were substituted by non recurrent savings.</p> <p>In terms of 2019/20, NHSE has recently set the CCG's control total for 2019/20 at break-even. This means that in 2019/20, the planned cumulative surplus will remain unchanged. 2019/20 provides a much greater challenge for the CCG. The CCG's Governing Body has approved a financial plan for 2019/20 which reflects growth in the CCG's core financial allocation of 5.63% and growth in the primary care allocation of 3.18% (after the impact of the clawback of funding for national GP indemnity scheme). However, the anticipated growth in activity in contracts, together with the impact of price inflation, particularly in the national tariff used by NHS providers, means that financial pressure will remain in 2019/20 and a significant savings QIPP requirement of £59.8m (3%) to be delivered. This is over and above the level of provider efficiency saving embedded in tariff prices. There are identified risks in the QIPP programme and elsewhere but the CCG has a general reserve to mitigate against some of these risks and may need otherwise to delay investments.</p> <p>Overall, the QIPP levels will be challenging but are not out of line with the sector and set against a budget of £1.8bn. All QIPP schemes are identified and are mainly recurrent solutions. This is an improvement on 2018/19 and these have been reported to Finance and Performance Committee. We challenged some of the proposed schemes (Continuing Health Care, Pregbalin and Budgets) and were satisfied the CCG could demonstrate adequate realism in achievability, albeit with risks especially Pregbalin (it should be noted that our review focused on riskier/larger schemes). The plan will therefore need to be very closely monitored in the year and corrective action taken if necessary. All assumptions and metrics in the plan conform to national guidance and the plan has now been assured by NHS England. If as in previous years, there is slippage in the recurrent schemes and substitution with non recurrent, this will add to the financial risks going forwards.</p>	<p>We concluded that the CCG had adequate arrangements to ensure it deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	15 February 2019
Audit Findings Report	17 May 2019
Annual Audit Letter	24 June 2019

Fees

	Planned £	Actual fees £
Statutory audit	83,000	83,000
Total fees	83,000	83,000

Fees for non-audit services

Service	Fees £
Mental Health Investment Standard	13,000 (estimated)

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the CCG. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the CCG's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the CCG's policy on the allotment of non-audit work to your auditor.



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