Annual Audit Letter

Year ending 31 March 2018

NHS Birmingham South Central Clinical Commissioning Group

July 2018

Contents

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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 South Central Clinical Commissioning Group (the CCG) for the year ended 31 March 2018.

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 Committee, as those charged with governance, in our Audit Findings Report on 23 May 2018.

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.

Our work

Materiality	We determined materiality for the audit of the CCG's accounts to be £8,590,000, which is 2% of gross expenditure.
Financial Statements opinion	We gave an unqualified opinion on the CCG's financial statements on 23 May 2018. 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.
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 Audit Committee on 23 May 2018.
Certificate	We certify that we have completed the audit of the accounts the CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Executive Summary

Working with the CCG

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

- An efficient audit –the CCG demised on 31 March 2018 and a new CCG was created covering Birmingham and Solihull. We delivered an efficient audit with you in May, delivering the audit report on the accounts before the deadline. We streamlined the audit process to work across the three former CCGs in Birmingham and Solihull, ensuring that our resourcing reflected your joint way of working.

- 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 delivering integrated care systems, 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
July 2018

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 £8,590,000, which is 2% 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 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
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We have rebutted this presumed risk for the CCG because: • Revenue does not primarily involve cash transactions • Revenue is principally an allocation from NHS England We therefore do not consider this to be a significant risk for the CCG	We rebutted this presumed risk because: • revenue does not primarily involve cash transactions • revenue is principally an allocation from NHS England We noted that although this is a presumed risk in all entities under auditing standards, owing to the sector specific nature of the revenues of entities such as the CCG (namely, that it is based on an allocation verifiable to third party confirmations and that other revenue streams are unlikely to be material) we did not consider this area to represent a high risk of material misstatement.	Our audit work did not identify any issues in respect of revenue recognition or that the rebuttal was incorrect.
Management override of internal controls 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. We identified management override of controls as a risk requiring special audit consideration.	Our audit work included: – review of accounting estimates, judgements and decisions made by management – testing of journal entries – review of unusual significant transactions – review of significant related party transactions outside the normal course of business	Our audit work did not identify any issues in respect of management override of controls.
Operating expenses – purchase of secondary healthcare 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. We identified the accuracy and occurrence of contract variations as a risk requiring special audit consideration.	As part of our audit work we; ▪ 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: confirm annual amounts to signed annual contracts, test a sample of variations to contracts and confirm to supporting correspondence and other appropriate evidence.	Our audit work did not identified any significant issues in respect of secondary healthcare expenses. We did identify a number of variances on transactions and balances in the NHS agreement of balances process. We reviewed the working papers provided by the CCG and were satisfied that, based on the information at that time, officers had appropriately accounted for these items where required.

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 23 May 2018, 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.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the CCG's Audit Committee on 23 May 2018.

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 and determine this 'other information' is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

The CCG provided these on a timely basis with the draft accounts with supporting evidence and no such inconsistencies were identified.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of the CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice. The audit was certified closed on the 23 May 2018.

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 2018.

Value for Money arrangements

Key Value for Money Risk

Risk identified in our audit plan	How we responded to the risk	Findings and conclusions
On 1 April 2018, the CCG will merge with Birmingham Cross City and Solihull CCGs. 2017/18 is a period of transition: • The approval process for the merger requires that a single commissioning strategy be developed in conjunction with NHS Sandwell and West Birmingham CCG. This will also encompass a single Financial strategy to ensure equity of access and provision across the area and a reduction of 20% of running costs is anticipated. • A new senior management structure is being put in place. Currently there is an interim AO and the Chief Finance Officer of NHS Birmingham CrossCity CCG is now the joint CFO across all three. • The CCG faces continuing financial pressures, including the continued over-performance of some acute providers. Ensuring financial plans are achieved and effective commissioning strategies are developed will be a key challenge. It is important that appropriate governance arrangements are in place both during the transition period and is established for the merged CCG. We therefore consider that the CCG's continuing management of the transition is a significant risk for 2017/18.	NHS Birmingham South Central CCG has managed its finances well and once again achieved its planned control total by making a surplus in year of £0.4m adding to the cumulative brought forward surplus of £9.53m. The CCG achieved its planned QIPP target but several planned schemes failed to deliver and were substituted by non recurrent savings. Joint working arrangements with NHS Birmingham Cross City and NHS Solihull CCGs continued to develop during the year culminating in a formal merger on 1 April 2018. This joint working included early alignment of governance structures including the use of Joint Committees and Committees in Common. There was a relatively smooth and orderly transition to merger and all key appointments were made prior to start of the new organisation. Appropriate project and programme arrangements were put in place and external support was engaged as necessary. Governance arrangements supported by appropriate documentation are in place and merger risks were highlighted and regularly monitored through the BAF. The Audit Committee in Common was appropriately involved in this process. The three demising CCGs produced a commissioning strategy in conjunction with NHS Sandwell and West Birmingham CCG. For the last six months of the financial year there was one financial management team across the 3 CCGs, which has supported the development of the forward financial plan, and provided the opportunity to reduce inconsistencies in financial assumptions across the CCGs and in developing a joint QIPP plan. As with any new organisation there are issues to address such as embedding new culture but the new CCG appears well placed at this stage. Financially, 2018/19 provides a much greater challenge for the newly formed CCG. NHS Birmingham and Solihull CCG approved a financial plan which includes a significant QIPP requirement of £58.6m (3.2%). This is over and above the level of provider efficiency saving (2%) embedded in tariff prices. Of this, 16% is currently non-recurrent and 35% considered medium or high risk of non-delivery. There are risks in the QIPP but through use of the £8m 'System Reserve' to balance the financial plan there is no unidentified QIPP. Overall, the QIPP levels will be challenging but are not out of line with the sector and set against a budget of £1.8bn. The CCG has set an overall control total deficit of £3.6m, which will reduce the cumulative surplus to £34m. 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.	**We concluded that the CCG had adequate arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people**

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	February 2018
Audit Findings Report	May 2018
Annual Audit Letter	July 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit	36,900	36,900	36,900
Total fees	**36,900**	**36,900**	**36,900**

Fees for non-audit services

Service	Fees £
None	Nil

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.