

# NHS Horsham and Mid Sussex Clinical Commissioning Group

Annual Audit Letter for the year ended 31 March 2015

June 2015

Ernst & Young LLP



Building a better  
working world





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18 June 2015

Dear Members

**Annual Audit Letter 2014/15**

The purpose of this annual audit letter is to communicate to the Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Clinical Commissioning Group (CCG).

We have already reported the detailed findings from our audit work in our 2014/15 annual results report to the 28 May 2015 Governing Body meeting, representing those charged with governance. We do not repeat those detailed findings in this letter.

The matters reported here are the most significant for the CCG.

We would like to take this opportunity to thank the CCG staff for their assistance during the course of our work.

Yours faithfully

Helen Thompson  
Director  
For and on behalf of Ernst & Young LLP  
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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# 1. Executive summary

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan that we issued on 20 January 2015 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Clinical Commissioning Group (CCG) is responsible for preparing and publishing its statement of accounts, annual report and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ on the 2014/15 financial statements;
  - ▶ on the regularity of expenditure and income;
  - ▶ on the parts of the remuneration report to be audited; and
  - ▶ on the consistency of other information published with the financial statements, including the annual report.
- ▶ Reporting by exception:
  - ▶ if the annual governance statement does not comply with NHS England guidance or is not consistent with our understanding of the CCG;
  - ▶ to the Secretary of State for Health and NHS England if we have concerns about the legality of transactions or decisions taken by the CCG; and
  - ▶ any significant matters that are in the public interest.
- ▶ Forming a conclusion on the arrangements the CCG has in place to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting on an exception basis any significant issues or outstanding matters arising from our work which is relevant to the National Audit Office (NAO) as group auditor.

Summarised below are the results of our work across all these areas:

Area of work	Result
Opinion on the: Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the CCG as at 31 March 2015 and of its expenditure and income for the year then ended.
Regularity of income and expenditure	Unqualified – financial transactions were conducted within the CCG legal framework.
Parts of remuneration report to be audited	No matters to report – the remuneration report was prepared properly.

Area of work	Result
Consistency of the Annual Report and other information published with the financial statements	Financial information in the Annual Report, and published with the financial statements, was consistent with the financial statements.
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the CCG.
▶ Referrals to the Secretary of State and NHS England	No matters to report or refer.
▶ Public interest report	No matters to report in the public interest.
Value for money conclusion	No matters to report.
Reporting to the NAO in line with group instructions	No matters to report.
<b><i>As a result of the above we have also:</i></b>	
Issued a report to those charged with governance of the CCG communicating significant findings resulting from our audit.	Audit results report issued on 27 May 2015
Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	Issued on 29 May 2015

## 2. Key findings

### 2.1 Financial statement audit

The Annual Report and Accounts is an important tool for the CCG to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the CCG's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 29 May 2015.

Our detailed findings were reported to the meetings of the Audit Committee and Governing Body on 28 May 2015.

The main issues identified as part of our audit were:

#### **Significant risk: Management override risk**

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We found no evidence that management had attempted to override internal controls. This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation.

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#### **Significant risk: Risk of misstatement due to fraud in expenditure recognition**

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We identified no material misstatement due to fraudulent financial reporting or evidence of material fraud.

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#### **Significant risk: Delivery of the accounts and audit opinion by the required deadlines**

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The draft financial statements and annual report were delivered by the deadline. We also issued our audit opinion by the required deadline.

We received the majority of the supporting working papers we requested by the agreed date. Although the working papers provided had improved from the previous year, in some cases, it was still difficult to select samples to undertake our detailed testing. Once selected, evidence was provided for our testing.

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#### **Other financial statement risks:**

##### **Other financial statement risks: Continuing Healthcare (CHC) Provision**

The CCG did not settle any legacy CHC liabilities relating to periods after the 31 March 2013 cut-off dates. This was consistent with our expectation based on the final guidance issued by NHS England.

##### **Other financial statement risks: Annual Governance Statement and Remuneration Report**

CCG officers engaged with us at an early stage to review the requirements in the Manual for Accounts and identify any issues with sufficient time for them to be resolved. We reviewed the disclosure presented in the draft Annual Report, Remuneration Report and Annual Governance statement against the guidance in the Manual for Accounts and confirm that the requirements have been met for the Annual Report and Annual Governance Statement. We identified a number of disclosure issues in the Remuneration Report, all of which were amended.

##### **Other financial statement risks: Pooled budget arrangements**

The CCG is party to joint commissioning arrangements for a number of areas, including working age adults' element of mental health, learning difficulties and telecare under Section 75 of the NHS Act 2006. In 2013/14 it was identified that the Section 75 agreement and contracts with the main providers were not aligned to reflect how the arrangements operated in practice throughout the year. We confirmed that the Section 75 agreement and contracts with the main providers have been aligned. The CCG accounts for the joint arrangements on a gross basis, including the funding received from other parties as revenue and the full expenditure in its statements. We identified that the joint commissioning funding was disclosed in the incorrect line in the operating revenue note the financial statements, and there were minor issues in the disclosure of the joint arrangements. We agreed that the misclassification

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in the notes to the financial statements was due to a misalignment in the cost centres with the lines in the notes in the template provided by NHS England. Additional disclosure was added to the relevant note to make this clear to readers of the statements. This did not affect the CCG's overall financial position, or cause expenditure to exceed the budgeted breakeven position or the revenue resource limit.

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## 2.2 Value for money conclusion

We carry out sufficient and relevant work to conclude whether the CCG has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the CCG had proper arrangements in place for:

- ▶ securing financial resilience; and
- ▶ challenging how it secures economy, efficiency and effectiveness

We noted the following issues as part of our audit:

### Significant risk: Financial planning and management

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The CCG delivered its breakeven target for 2014/15 and achieved a surplus of £1.8 million (2013/14: £0.1 million), which exceeded its budget by £0.6 million. The Quality, Innovation, Productivity and Prevention (QIPP) target for 2014/15 was £8.4 million and the CCG actually achieved £7.5 million, representing 89% of the planned target.

We examined the short- to medium-term financial resilience of the CCG by looking at allocation and budgets to 2018/19 as well as ongoing QIPP achievement. We concluded that the financial position is one of ongoing improvement with increased allocations and target surpluses budgeted to be achieved from 2015/16 onwards, through to 2018/19.

On 18 December 2013 NHS England published CCG funding allocations for 2014/15 and 2015/16 following adoption of new funding formula intended to more accurately reflect population changes and include a specific deprivation measure. The CCG received the growth of 4%. The National Framework guidance is for CCGs to achieve a 1% surplus, and these are budgeted for from 2015/16 and beyond.

The updated budget report to members of the CCG in March 2015 reflects the following key factors:

- ▶ QIPP target of 4%;
- ▶ Significant movement from acute to community services – reduction in acute expenditure of £3.0 million (2.3% reduction);
- ▶ Contribution to Better Care Fund of £12.7 million, of which £8.6 million is from the CCG's existing programme allocation.

The 2015/16 budget shows a QIPP programme of £10.6 million. However, the CCG's ability to deliver its planned QIPP savings remains a significant challenge.

We considered the CCG's progress in meeting national requirements for developing a five year strategy and two year operational plan as set out in the NHS England publication 'Everyone Counts Planning for Patients'. The CCG has produced a final Quality and Delivery Plan which is integrated with its financial plans and reflects the CCG's plans to deliver the standard control total target surplus set by NHS England at 1% of its funding allocation.

### CCG authorisation and progress against the national CCG assurance framework

We have considered progress made by the CCG against the national CCG assurance framework based on the latest available information at the end of quarter three. At that stage the Surrey & Sussex Area Team concluded that it was 'assured' on four of the six domains of assurance set out in the national framework domains, and 'assured with support' on the remaining two domains of assurance set out in the national framework.

These reports, although recognising achievements across all domains of assurance, concluded that there were some continuing issues to address.

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We issued an unqualified value for money conclusion on 29 May 2015.

### **2.3 Department of Health/ NHS England group instructions**

The NHS England group reporting instructions were amended this year and we were only required to report to the NAO on an exception basis if there were significant issues or outstanding matters arising from our work.

There were no such issues.

### **2.4 Annual Governance Statement**

We are required to consider the completeness of disclosures in the CCG's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

### 3. Control themes and observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

The matters reported are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported. These related to:

- ▶ Journals being raised and authorised by the same individuals. Whilst such journals raised by the CCG and CSU staff were being monitored, we identified that there was no similar review of the journals processed by Shared Business Services (SBS) staff. We understand that these are national SBS processes which the CCG has no influence over. However, we recommended that the monthly review of journals should include SBS journals to ensure that these are appropriate.
- ▶ Instances identified where apparently different suppliers shared the same bank details. We confirmed that the value of transactions going through these accounts is minimal, and these are national SBS processes over which the CCG has no direct control.

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