

The Annual Audit Letter for NHS Southport and Formby CCG

Year ended 31 March 2020

26 June 2020



Contents

Section

Page

1. Executive Summary	3
2. Audit of the Financial Statements	5
3. Value for Money conclusion	10

Appendices

A Reports issued and fees
B Audit Adjustments



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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 Southport and Formby CCG (the CCG) for the year ended 31 March 2020.

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 dated 9th June 2020 and Update to the Audit Findings Report dated 15th June 2020.

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 (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) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the CCG's financial statements to be £4.5 million, which is 1.96% of the CCG's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the CCG's financial statements on 24 June 2020.
NHS Group consolidation template (WGA)	We also reported on the consistency of the financial statements consolidation template provided to the National Audit Office with the audited financial statements. We concluded that these were consistent.
Use of statutory powers	We referred a matter to the Secretary of State, as required by section 30 of the Act, on 27 May 2020 because the CCG reported a deficit of £12.8 million in its draft financial statements for the year ending 31 March 2020. This has resulted in the CCG breaching its breakeven duty and overspending its revenue resource limit by £12.8 million.

Executive Summary

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 except for in relation to the under delivery of QIPPs. We therefore qualified our value for money conclusion in our audit report to the Audit Committee of the CCG dated 9 th June 2020.
Certificate	We certified that we have completed the audit of the financial statements of NHS Southport and Formby CCG in accordance with the requirements of the Code of Audit Practice on 24 June 2020.

Working with the CCG

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the CCG. Given the unprecedented financial challenge for CCGs, the Department of Health and Social Care (DHSC) extended the deadline for preparation of the financial statements up to 27 April 2020 and the date for audited financial statements to 25 June 2020.

Restrictions for non-essential travel has meant both CCG and audit teams have had to work from home and had to use remote access financial systems, video calls, physical verification of completeness and accuracy of information produced by the entity.

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

Grant Thornton UK LLP
June 2020

Audit of the Financial Statements

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 financial statements to be £4,500,000, which is 1.96% 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 revenue in the year.

We also set a lower level of specific materiality for related party transaction and senior officer remuneration.

We set a lower threshold of £225,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient 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 remainder of the Annual Report to check it is consistent with our understanding of the CCG and with the financial statements 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 Financial Statements

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>Covid – 19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <p>Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</p> <p>Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</p> <p>Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</p> <p>Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</p> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic • evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence. 	<p>We have no matters to report in respect of this significant risk.</p>

Audit of the Financial Statements

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<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 external pressures to meet agreed targets, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>We identified a change to the estimation process for the prescribing accrual and concluded that the changes made were appropriate.</p> <p>Our audit work has not identified any issues in respect of management override of controls.</p>

Audit of the Financial Statements

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Secondary healthcare expenditure – contract variations</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 primarily derived through block contracts that are agreed up front for a predetermined cost or level of activity. Contract variations are agreed with the supplier throughout the year to recognise demand and price adjustments against the agreed contracts. Costs related to contract variations are recognised when the adjustment has been agreed with the provider, 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 secondary healthcare expenditure – contract variations, and the existence of associated payables and accruals, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</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 • agreed all material contract annual expenditure to signed annual contracts • agreed, on a sample basis, invoices for variations to secondary healthcare contracts to supporting evidence • using the DHSC mismatch report, we have investigated 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 has identified an overstatement of income and expenditure by £750,000 related to one provider. This was adjusted for in the final accounts.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 24 June 2020.

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.

Our review of the CCG's expenditure highlighted the following issues which gave rise to a qualified regularity opinion. The CCG reported expenditure of £295.9 million against income of £287.0 million and a deficit of £8.9 million in its financial statements for the year ending 31 March 2020. The CCG thereby breached two of its statutory duties to ensure that annual expenditure does not exceed income, and revenue resource use does not exceed the amount specified by direction of the NHS Commissioning Board.

Preparation of the financial statements

The CCG presented us with draft financial statements in accordance with the national deadline and pandemic lockdown restrictions that existed at the time, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries remotely during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the CCG's Audit Committee on 17 June 2020.

In addition to the key audit risks reported above, we identified some issues and amendments throughout our audit that we have asked the CCG's management to address the recommendations on the following for the next financial year:

- QIPP delivery
- Qualification in Service Auditor Reports

Amendments identified during the audit are shown in Appendix B.

Annual Report, including the Annual Governance Statement

We are also required to review the CCG's Annual Report, including the Annual Governance Statement. It provided these on a timely basis with the draft financial statements with supporting evidence with only minor amendments required.

Whole of Government Accounts (WGA)

We issued a group return to the National Audit Office in respect of Whole of Government Accounts, which did not identify any issues for the group auditor to consider.

Other statutory powers

We are also required to refer certain matters to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014. On 27 May 2020 we reported to the Secretary of State that the CCG had reported a deficit of £12.8 million in its draft financial statements for the year ending 31 March 2020. This has resulted in the CCG breaching its breakeven duty and overspending its revenue resource limit by £12.8 million.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of NHS Southport and Formby CCG in accordance with the requirements of the Code of Audit Practice on 24 June 2020.

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 April 2020 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 risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the CCG in June 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matter we identified below, the CCG put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020..

Value for Money conclusion

Value for Money Risk

Significant risk: Financial sustainability

The CCG continues to operate under significant financial pressures with a cumulative brought forward deficit of £9.295 million. The CCG has a financial plan in place to deliver the agreed target of breakeven. In order to achieve this the CCG needs to deliver QIPP efficiencies of £14.104 million. At the time of writing the most likely year end position is a £10.125m deficit. There have been a number of cost pressures in the year in relation to provider contracts and continuing healthcare.

In response to this risk we will review the CCG's arrangements for updating, agreeing and monitoring its financial plans, and for communicating key findings and actions to be taken as reported to the Governing Body; and maintain a monitoring brief on the outturn for 2019/20 in comparison with budget and forecast performance for the year and assessed the reasonableness of its financial plans for 2020/21.

Findings

2019/20 Control Total and QIPP delivery at year end

The 2019/20 financial plan set out to deliver the break even control total set by NHS England. The plan included unidentified QIPP efficiencies of £6.0m and unmitigated risk of £5.6m. From the start of the year, delivery of your QIPP requirements was identified as one of the key financial risks for the CCG and reported to the Governing Body. The CCGs in your area took on much of the risk in the local health economy in order to support providers in gaining access to the Provider Sustainability Funding (PSF) and Financial Recovery Fund (FRF) funding for the year that would bring in around £18.3m into the local health economy. Those risks on QIPP delivery crystallised and played a significant part in the CCG delivering a deficit control total.

In August 2019, together with NHS South Sefton CCG, NHS West Lancashire CCG and Southport & Ormskirk NHS Trust, announced that their local health system was facing a substantial number of risks, and that if left unmitigated, the system's planned deficit could more than double from £25.6m to £52.6m. Together, the CCGs and providers submitted a System Financial Recovery Plan. Following the submission, the CCG wrote to the providers asking for support in delivering the QIPP targets, by highlighting specific asks in relation to the various schemes. The CCG did not receive as much engagement from them as they would have hoped due to personnel changes, and organisational merging which meant sufficient focus could not be made on delivering the QIPP at a local healthcare economy level. Whilst there was some positive impact from the recovery plan on the delivery of QIPP, it was not as significant as hoped.

The forecast outturn was revised to a £12.8m deficit in month 10 with the agreement of NHS North West. To do this you followed the protocols set by NHS England. The protocols state that 'Changes in the final quarter will be looked on as a sign of very poor financial control...' which would indicate there were weaknesses in financial controls at the CCG. You ended the year in line with the revised £12.8 deficit forecast outturn, which brings the CCG's cumulative deficit to £22.1m. The impact of Covid-19 on the 2019/20 outturn is minimal as it hit so late in the year, but will bring further challenges in 2020/21.

The QIPP target at the start of the year £14.1m (6.6% of recurrent allocation). Putting this challenge into context, the previous three years' QIPP programmes delivered a combined total of £11.3m. As noted above the QIPP target was so high as the CCG had taken on a lot of the risk in the local health economy in order to support the providers obtaining PSF and FRF. Against this target the CCG delivered £4.1m which is only 29% of the requirement. The under delivery of £10.0m was the largest factor in missing the control total by £12.8m. Other factors included additional in year cost pressures from Continuing Care packages, and the independent sector.

Value for Money conclusion

Value for Money Risk (continued)

Significant risk: Financial sustainability

Scheme	Annual Plan	YTD Plan	YTD Actual	Variance
Prescribing plan	1,666	1,666	1,802	136
Urgent Care plan	2,526	2,526	-	(2,526)
Elective Care plan	5,793	5,793	-	(5,793)
Community Services Plan	603	603	214	(389)
Continuing Healthcare plan	2,729	2,729	-	(2,729)
Value for Money Reviews / Other	167	167	2,064	1,897
High Risk Proposals	3,100	3,100	-	(3,100)
Total	16,584	16,584	4,080	(12,504)

2020/21 financial planning

Initial planning for 2020/21, the CCG was set a surplus control total of £0.9m. The draft plan, which was presented to the Governing Body in March 2020, included £14.9m of QIPP. By the middle of March, if this QIPP the CCG had identified mitigations of £3.148m and QIPP schemes of £3.534m. This is a broadly similar position to the start of 2019/20 when only 29% of the QIPP requirement was delivered. The draft plan highlighted a likely outcome for 2020/21 is a deficit of £8.9m.

The global Covid-19 pandemic interrupted financial planning for 2020/21 in the middle of March 2020. In March 2020, NHS England and NHS Improvement suspended the 2020/21 planning and contracting round and a new temporary finance regime implemented for the period April – July 2020. New contracts and financial arrangements have been directed nationally for NHS and non-NHS providers and revised allocations issued to CCGs. CCG Allocations have been revised to reflect expected expenditure for the period which has been estimated using 2019/20 expenditure and taking into account the new financial arrangements for 2020/21. Southport and Formby CCG programme allocation has increased by £4.8m over these four months. In addition, a monthly claims process has been implemented for NHS organisations to claim excess costs to ensure break even during the period.

With the financial budgeting process beyond the temporary finance regime uncertain, it is difficult to forecast the outturn for the year particularly with the impact of Covid-19.

Conclusion

Auditor view

You have had a challenging financial year and the 2019/20 financial plan included significant risks to the delivery of your breakeven financial control total. The level of unmitigated risk and red and amber rated QIPP contained in the plan were too great for you to address during the year and resulted in a year end deficit position much larger than initially planned.

We will issue a qualified value for money conclusion in relation to the significant risk identified around the sustainable deployment of resources. Particularly, this is focused on the difficulty in identifying and delivering the QIPP during the year. There is uncertainty around the achievement of the 2020/21 control total due to the high QIPP ask and the impact of Covid-19.

Throughout the year, your plan included around £16.6m of QIPP schemes, but until month 11, £14.2m remained RAG rated red and £0.4m amber. The high level of red and amber rated was due to the schemes not going through the full project assurance process to ensure they were deliverable. This indicates a weakness in the arrangements around identifying, fully forming and delivering QIPP requirement.

No QIPPs were delivered against schemes for savings in urgent care, elective care, community services, continuing health care or high risk proposals. What QIPPs that were delivered in 2019/20 related to prescribing through medicine management, and value for money reviews which tended to be changes to estimation approach which are more non-recurrent in nature.

Appendix 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 audit related or non-audit related services.

Reports issued

Report	Date issued
Audit Plan	7 January 2020
Addendum to the Audit Plan	8 April 2020
Audit Findings Report	9 June 2020
Update to Audit Findings Report	15 June 2020
Annual Audit Letter	26 June 2020

Fees

	Planned Actual fees 2018/19 fees		
	£	£	£
Statutory audit	42,000	44,000	42,000
Total fees	42,000	44,000	42,000

We raised an additional fee of £2,000 for work completed to address the significant risk associated with Covid-19 and submitting section 30 referrals.

Fees for non-audit services

Service	Fees £
Audit related services	Nil
- None	
Non-Audit related services	Nil
- None	

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.

Appendix B

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Detail	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Over statement of income and expenditure	Dr Income 750 Cr Expenditure (750)	nil	nil
As part of our work on the Agreement of Balances, we identified an overstatement of both income and expenditure. Although there is no overall impact on total net expenditure, the adjustment impacts the following:			
<ul style="list-style-type: none"> • Statement of Comprehensive Net Expenditure • Note 2 - Other Operating Revenue • Note 3 - Disaggregation of Income - Income from sale of good and services (contracts) • Note 5 - Operating expenses • Note 17 – Operating Segments • Note 22 – Financial Performance Targets • Figures in the 'Financial Performance' section of the Annual Report 			
Overall impact	nil	nil	nil

Impact of unadjusted misstatements

We have not identified any adjusted misstatements for the year ending 31 March 2020

Impact of prior year unadjusted misstatements

We have not identified any adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements

Appendix B

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Governance Statement	Review the disclosure of the list of member practices for consistency and update if required.	✓
In the Governance arrangements and effectiveness section, the list of member practices is inconsistent with the list on the CCG's website.		
Financial Performance Targets	Include reference to the financial control total in the narrative disclosure below note 22.	✓
While the deficit position was as reported below the table. Additional narrative putting the deficit position in context of the financial control total would aid users of the financial statements understanding.		
Financial Performance Targets	Update the performance figure to be £2,544k	✓
In Note 22, the performance for 2019-20 of the Revenue administration resource use does not exceed the amount specified in Directions is £2,504k. Per returns to NHSE, this should be £2,544k. Correcting this has no impact on the achieving this statutory requirement.		
Statement of Cash Flow	Include the line in the Statement of Cash Flow	✓
The draft 2019/20 Cash Flow statement has omitted £750k 'Provisions utilised' for 2018/19 so the 2018/19 is incomplete and doesn't cast correctly. This was due to a error in copying the statement across to the Word version.		
IFRS 16 Leases - issued but not adopted 2019/20	Include a disclosure of the nature of changes in the accounting policy for leases.	✓
In the draft accounts, note 1.21 disclosed the title of the standard and the date of initial application.		
The nature of the changes in accounting policy for leases was not disclosed.		
Related Party Transactions	Review the level of disclosures made in the draft accounts against the requirements for the financial reporting standards.	✓
In the draft financial statements, the Related Party Transactions note included disclosures relating to entities where a person with significant influence over the CCG by virtue of being on the Governing Body or a member of key management personnel, could not exercise control over the other entity. This led to the disclosure being overly cluttered which could distract a user of the financial statements from the significant transactions.		
Critical Judgements and Sources of Estimation uncertainty	Note 1.20.1 included critical judgements that involved estimates and so should be amended.	✓
These notes should only disclose critical judgements made by management in applying an accounting policy, and estimates that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.	Note 1.20.2 included estimates that did not have a significant risk of a material adjustment to assets or liabilities within the next financial year and so should be amended.	



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