



The Annual Audit Letter for NHS Merton Clinical Commissioning Group

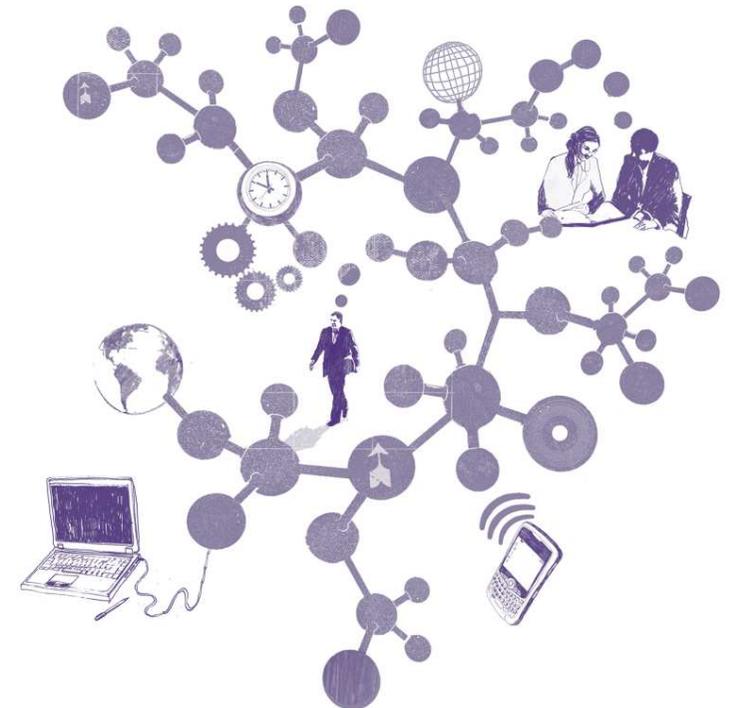
Year ended 31 March 2016

30 June 2016

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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 Merton 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 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 were 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 complied 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 26 May 2016.

As well as an opinion on the financial statements, we were required to give a regularity opinion on whether expenditure had 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 had 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 26 May 2016.

Certificate

We certified that we have completed the audit of the accounts of NHS Merton Clinical Commissioning Group in accordance with the requirements of the Code of Audit Practice.

Other work completed

We provided final accounts and Annual Report training attended by members of the Finance Team.

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
June 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 £4,310,000, which was 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 set a lower threshold of £215,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

This included assessing whether:

- the accounting policies were appropriate, had been consistently applied and adequately disclosed;
- the significant accounting estimates made by management were reasonable; and
- the overall presentation of the financial statements gave a true and fair view.

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

We conducted our audit in accordance with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believed that the audit evidence we had obtained was 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 was risk based. We identified key risks and set out on the next page the work we performed in response to this risk and the result of our work.

Audit of the accounts

The risk included below we assessed as having the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	Work completed
<p>Valuation of secondary healthcare expenditure</p> <p>Over 73% of the CCG's expenditure relates to contracts with NHS hospital trusts.</p> <p>Trusts invoice the CCG throughout the year for services provided, and at the year-end accrue for activity in the final quarter. Invoices for the final quarter of the year are not agreed until after the accounts are produced for audit.</p> <p>There is therefore a risk that expenditure on secondary healthcare income may be understated.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none">• Gained an understanding of the CCG's system for accounting for secondary healthcare expenditure and the controls in place;• Walked through of the key controls to confirm our understanding of the system.• Tested a sample of expenditure to supporting documents, including contracts and invoices, and to payments made.• Checked payments made after the year end to ensure they were recorded in the correct financial year. <p>We did not identify any issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 26 May 2016, in advance of the national deadline.

As well as an opinion on the financial statements, we were required to give a regularity opinion on whether expenditure had 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.

The key messages that arose from our audit of the CCG's financial statements were:

- the financial performance targets disclosure note was overstated by £387k. There was no impact on the Statement of Comprehensive Net Expenditure for the year ended
- a small number of amendments have been made to disclosures within the financial statements, to enhance the transparency of the disclosures.

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.

Annual Governance Statement and Annual Report

We were also required to review the CCG's Annual Governance Statement and Annual Report. It provided these on a timely basis with the draft accounts with supporting evidence.

We reported that the CCG's Annual Report which included the Annual Governance Statement (AGS) did highlight some inconsistencies with the Manual for Accounts guidance.

The inconsistencies included the omission of financial performance analysis from the draft Annual Report and detailed analysis of the financial risks within the Annual Governance Statement. Both reports were amended.

Whole of Government Accounts (WGA)

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

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.

As part of our Audit Findings report agreed with the CCG in May 2016, we agreed recommendations to address our findings.

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.

We reported that the CCG faces significant financial challenges in 2016/17 and had put in place arrangements to meet these challenges. However, there were significant risks that the CCG needs to monitor throughout 2016/17 and take appropriate action promptly.

Value for Money conclusion

Significant risk	Work to address	Findings and conclusions
<p>Financial outturn The CCG's forecast of £2.4 million (1% of planned expenditure) was not achieved. The CCG draft accounts reported a breakeven position (surplus of £28k). Equally, the QIPP target of £4.87 million achieved £4.9 million.</p>	<p>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. Also reviewed your plans to date to deliver a balanced budget for 2016/17.</p>	<p>The CCG started the year with a planned forecast of £2.4 million (1% of planned expenditure). Until January 2016, the finance reports to the Governing Body (GB) reported a planned forecast of £2.4 million. However this was after the application of £1.3 million reserves and £2.6 million headroom built into the budget. Your forecast position depended on a number of significant assumptions most notably that critical care and outpatient activity trends would not continue their upward trajectory and patient flow would decrease as more GP referrals were made to Nelson Health Centre. However, your finance reports could be improved by providing commentary on how significant assumptions are being met. For example the finance reports to the GB did not include assurances:</p> <ul style="list-style-type: none"> • that actions were in place to work with your local GP practices to increase referrals to the Nelson Health Centre • GP referrals were being actively monitored • financial impact on year end budget where corrective actions to reduce recent trends did not achieve the desired outcomes within critical care and outpatient activity. <p>As part of your governance review, the GB should consider the adequacy of the assurances provided over significant financial assumptions.</p> <p>Following the appointment of an interim Chief Finance Officer in February 2016, he focussed on assessing the current financial position and planning the 2016/17 budget. His report in March 2016 to the GB set out that the planned surplus would not be achieved and a risk adjusted outturn position of £721k was forecast for the year end. The deterioration in forecast was largely due to continuing overspends in acute care and continuing healthcare pressures remained unabated. In addition the loss of the short term contribution of £427k from the South West London risk pool contributed to the revised forecast position. By the year end, the actual reported outturn for the year was £28k, a deterioration of almost 99% when compared to the £2.4 million forecast at the start of the year. You did however meet your statutory target of keeping expenditure within your revenue resource limit. In contrast, you performed well on your QIPP target of £4.87 million delivering £4.9 million which is marginally better than planned, a good outcome for the CCG.</p> <p>Your process for compiling your 2016/17 budget is based on your analysis of health needs in the locality. Savings plans as part of the QIPP process were subject to agreement by budget holders and agreed with providers as part of the contract negotiation process. Following this process, you submitted a deficit budget plan of £6 million with a QIPP target of £7.3 million in April 2016.</p>

Value for Money conclusion

Significant risk	Work to address	Findings and conclusions
		<p>NHS England challenged a number of assumptions within your proposed plan. At the time of writing, you continue to have discussions with NHSE. The latest submitted plan is for £6 million deficit. To achieve this you have agreed a QIPP stretch target of £7.3 million. The stretch QIPP is challenging and the Governing Body needs to receive assurance that the agreed plan is realistic and supported by credible plans.</p> <p>We note that:</p> <ul style="list-style-type: none"> You have identified only 74% of schemes within the original QIPP of £7.3 million leaving £2 million schemes unidentified delivery is back loaded towards the end of the year, giving less time to mitigate slippage if it occurs some of the crucial management processes will be new and not yet tested. <p>Performance against budget including delivery of QIPP plans against target is reported monthly to the Finance Committee and the GB. Arrangements have been enhanced in year and you need to ensure that appropriate challenge continues to ensure timely corrective actions can be taken.</p> <p>We note the CCG has continued to have further discussions with NHS England and in June 2016 agreed a control of £0.6 million deficit, a significant reduction to the £6 million deficit submitted in May 2016. Achieving the revised £0.6 million control total will be a significant challenge for the CCG. With less than 10 months of the financial year left, the CCG has less time to introduce and implement new ways of working that will deliver the planned outcomes.</p>
<p>Capacity The CCG opted to take on the delegated commissioning of primary care from NHS England from 1 April 2016. This is first year of operation, risk that you have insufficient management capacity and expertise to manage and deliver the new responsibilities.</p> <p>Additional, key members of your finance team responsible for the accounts closedown had left by the end of the financial year. They included the Chief Finance Officer and deputy Chief Finance Officer. An interim Chief Finance Officer was appointed from February 2016 on a short term contract.</p>	<p>We met with key officers to discuss and review your arrangements to ensure you have adequate capacity to deliver the new commissioning and accounts closedown time.</p>	<p>Management capacity and capability is an on-going challenge for small organisations like yourself given the varied responsibilities you are required to deliver under licence. At the time you opted to take on additional responsibilities, you could not have anticipated the changes at executive team level. The later included the Chief Finance Officer (CFO) moving to the vacant Transformation Director post in February whilst an Interim CFO was appointed.</p> <p>The CCG opted to take on the delegated commissioning of primary care from NHS England from 1 April 2016. At the time of writing (May 2016), you have yet to take on the full responsibilities for the delegated commissioning of primary care though the cost allocation is included in your draft 2016/17 budget submitted to NHS England (NHSE) in April 2016. You continue to have regular dialogue with NHSE but there isn't clarity as yet from NHSE on when or how the new process will operate in practice. In particular, there is lack of clarity on the future of the existing NHSE staff with the necessary knowledge and expertise that will make the transfer as seamless as possible. This makes it difficult for you to adequately plan ahead. Meanwhile, there is a growing cost which is adding further pressure to the planned budget deficit for 2016/17.</p>

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.

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

- An efficient audit – we reported our audit findings to the Audit Committee 7 days before the deadline releasing your financial accounts and systems
- Early testing – we agreed a programme of early substantive testing with you which included testing of journals, operating expenses and revenue contracts with providers
- Understanding your operational health – we provided you with feedback on your financial resilience including feedback on the achievement of QIPP plans which are dependent on close collaboration with your local partners
- Annual reporting – we benchmarked your annual report and made recommendations for improvements. CCG management adopted a number of our recommendations in its 2015/16 Annual Report
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with free training on financial accounts and annual reporting. We plan to run similar events in 2017.

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 – we will continue to deliver an efficient audit, underpinned by an increased focus on your core financial systems and key controls, as well as early substantive testing
- Understanding your operational health – we will focus our value for money conclusion work on financial sustainability and efforts to move out of cumulative deficit
- Supporting development – we will provide regular updates to Audit Committee on key technical and accounting issues, as well as free workshops on Annual Reporting.

Grant Thornton in Health

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 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 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 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

	Planned £	Actual fees £	2014/15 fees £
Statutory audit	47,700	47,700	63,600
Total fees	47,700	47,700	63,600

Fees for other services

Service	Fees £
None	Nil

Reports issued

Report	Date issued
Audit Plan	17 March 2016
Audit Findings Report	20 May 2016
Auditor's opinion on the financial statements - unqualified	26 May 2016
Auditor's opinion on regularity - unqualified	26 May 2016
Auditor's opinion on the Accounts Summarisation Schedule - unqualified	26 May 2016
Auditor's conclusion in respect of the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources - unqualified	26 May 2016
Annual Audit Letter	30 June 2016



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