



# The Annual Audit Letter for NHS Somerset CCG

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Year ended 31 March 2020

15 July 2020



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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 Somerset 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 on 17 June 2020.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the CCG's financial statements to be £13,437,000 which is approximately 1.5% of the CCG's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the CCG's financial statements on 24 June 2020. Our review of the CCG's expenditure highlighted that the CCG had breached its Revenue Resource Limit and expenditure exceeded income which gave rise to a qualified regularity opinion.
<b>NHS Group consolidation template (WGA)</b>	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.
<b>Use of statutory powers</b>	We referred a matter to the Secretary of State, as required by section 30 of the Act, on 15 April 2020 because the CCG breached its breakeven duty and Revenue Resource Limit in the year.
<b>Value for Money arrangements</b>	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 weakness in proper arrangements for sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. We therefore qualified our Value for Money conclusion in our audit report to the Governing Body of the CCG dated 24 June 2020.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of NHS Somerset CCG in accordance with the requirements of the Code of Audit Practice on 24 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.

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# Executive Summary

## Working with the CCG

Restrictions for non-essential travel meant that both the CCG and the audit teams had to apply new remote working arrangements during the audit including remote accessing financial systems, video calling and additional procedures to verify the completeness and accuracy of information produced by the entity. We had regular catch-ups calls with the finance team during the audit to discuss audit queries, with virtual meetings taking place with management and the Audit Committee.

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**  
**July 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 £13,437,000, which is approximately 1.5% 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 senior officer remuneration of £15,000.

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 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><b>Secondary healthcare expenditure – contract variations</b></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 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 as a significant risk.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the financial reporting processes used for the purchase of secondary healthcare and evaluate the design of the associated controls;</li> <li>• agreed all significant contract annual expenditure to signed annual contracts;</li> <li>• agreed, on a sample basis, variations to secondary healthcare contracts to supporting evidence;</li> <li>• using the DHSC mismatch report, we 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; and</li> <li>• agreed, on a sample basis, payable and accrual balances relating to secondary healthcare to supporting evidence.</li> </ul>	<p>Our audit work did not identify any issues in respect of secondary healthcare expenditure – contract variations.</p>
<p><b>Management override of controls</b></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.</p> <p>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.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals;</li> <li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>• tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and</li> <li>• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.</li> </ul>	<p>We did not identify any significant 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><b>Covid – 19</b></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 reported in our audit plan addendum that we expected the current circumstances to 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> <ul style="list-style-type: none"> <li>• remote working arrangements and redeployment of staff to critical front line duties could impact on the quality and timing of the production of the financial statements, and the evidence we could obtain through physical observation;</li> <li>• 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</li> <li>• disclosures within the financial statements would require 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.</li> </ul> <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:</p> <ul style="list-style-type: none"> <li>• worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts. We also assessed the implications for our materiality calculations;</li> <li>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise;</li> <li>• evaluated the adequacy of the disclosures in the financial statements and Annual Report that arose in light of the Covid-19 pandemic;</li> <li>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as material prescribing accruals and access to GP records; and</li> <li>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.</li> </ul>	<p>Management produced the draft financial statements and working papers in advance of the updated timetable. This is a significant achievement with all of the CCG's staff working remotely.</p> <p>We completed our audit remotely and, while it took longer than normal as a result, we were able to utilise technology to corroborate information produced by the CCG. The CCG's finance team were extremely responsive to audit queries throughout the audit and we would like to express our appreciation for this.</p> <p>We did not identify any implications for our audit report resulting from Covid-19, however our report includes standard reference to the macroeconomic conditions arising from Brexit and Covid-19.</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 that the CCG had breached its Revenue Resource Limit and expenditure exceeded income, which gave rise to a qualified regularity opinion.

## **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 extremely 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.

## **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.

We identified that the all pension-related benefits figures in the senior manager remuneration table were incorrectly calculated due to the wrong inflation figure being applied. This meant that the 'Total' figures were also incorrect. These were amended in the final Annual Report.

## **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 15 April 2020 we reported to the Secretary of State that the CCG anticipated incurring expenditure in excess of its income and overspending its revenue resource limit by £16.025 million for the year ended 31 March 2020.

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of NHS Somerset 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.

We identified weaknesses in the CCG's arrangements for sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. This was due to the CCG's financial position deteriorating from its control total of a deficit of £4.5m to a revised forecast deficit of £16.025m. The CCG was unable to recover this position by the year-end, resulting in the CCG reporting an in-year deficit of £16.025m in 2019/20. The main reasons for the deterioration in the financial position were:

- the CCG planned to make efficiency savings of £22.8m but was only able to deliver savings of £16.8m; and
- increased activity within the CCG's main acute providers which resulted in overspends on the CCG's contracts with these providers

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<b>Financial Sustainability</b>	<p>The CCG submitted a financial plan which committed to deliver an in-year deficit of £4.5m. Delivery of this control total would make the CCG eligible for Commissioner Sustainability Funding (CSF) of £4.5m, which would then enable the CCG to break-even in 2019/20. At the beginning of the financial year the CCG had a brought forward deficit of £3.6m.</p> <p>The 2019/20 financial plan included a QIPP savings target of £22.8m which included some system-wide savings. The detailed delivery plans for these were still being developed across the Somerset health system at month 2, and the intention was for those savings to be reflected within the relevant provider contracts once plans were developed and finalised.</p> <p>The CCG reported that it was on track to deliver its control total up to month 8, however the system savings plans were being reported as at risk and still requiring further work throughout this period. The final position reported in the financial statements is a deficit of £16.025m, in line with the revised planned position. Of the £22.8m QIPP savings in the CCG's plan, £16.8m were achieved, with £15.3m (91%) of these being achieved recurrently. The CCG needs to focus its attention on the delivery on recurrent savings for 2020/21 and beyond. The system savings of £6m were never developed into actual plans, which would indicate that these were an aspirational target in the CCG's plans. The CCG will need to work with its Somerset partners to ensure that future system savings are supported with realistic and deliverable plans.</p> <p>The CCG also supported Somerset providers with significant cost pressures that materialised in respect of escalating emergency admissions, further demand throughout the winter period and other localised cost pressures totalling £6m. The change in financial position resulted in the loss of CSF funding for the CCG of £2.9m.</p> <p>The CCG submitted a draft financial plan for 2020/21 with a planned deficit of £3.2m, with a requirement for savings of £19.8m. The Covid-19 pandemic resulted in the 2020/21 planning process being suspended nationally with commissioners asked to agree block contracts with providers to cover the period 1 April to 31 July 2020. Overall the longer-term impact of Covid-19 on the CCG, the NHS and the wider public sector remains to be determined although the UK Government has continually indicated that the NHS would receive the funding it required to manage the impact of the global pandemic.</p> <p>As a result of the deterioration in the CCG's financial performance we concluded that this matter identifies weaknesses in the CCG's arrangements for setting a sustainable budget with sufficient capacity to absorb emerging cost pressures. This matter is evidence of weaknesses in proper arrangements for sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. We therefore issued an except for Value for Money conclusion.</p>

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<p><b>Informed decision making</b></p>	<p>The CCG has been in reformed special measures since July 2017 when it was rated as inadequate with the following issues identified:</p> <ul style="list-style-type: none"> <li>• that insufficient progress had been made against leading the financial recovery for the CCG and for the Somerset health system;</li> <li>• the failure of some key performance measures remained; and</li> <li>• the leadership’s decision making ability was weak.</li> </ul> <p>The CCG improved to a rating of “requires improvement” in 2018, and this was confirmed again in the most recent CCG Annual Assessment for 2018/19 published in July 2019.</p> <p>The CCG met with NHSE/I on 28 August 2019 where the actions taken in response to these areas were evidenced and the case was made to the CCG to be taken out of special measures. In response, NHSE/I acknowledged the hard work undertaken by the CCG but stated that the outcome of the review was to defer the decision to remove the CCG from special measures as they wanted to see the Somerset system demonstrate collective accountability and ownership of the issues they are facing in relation to the financial and operational performance issues.</p> <p>The CCG was awaiting a year-end review of the progress against its special measures status and the draft operating model for 2020/21 with NHSE/I however the national level 4 incident in respect of Covid-19 has meant there is no date currently planned for this review.</p> <p><b>Although the CCG remains in special measures, the ‘inadequate’ rating no longer applies and this was reconfirmed in 2019. With the rating now being ‘requires improvement’, and with clear progress being recognised by NHSE/I, we consider that the CCG has adequate arrangements in place for the financial year.</b></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	February 2020
Audit Findings Report	June 2020
Annual Audit Letter	July 2020

### Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	52,500	52,500	52,500
<b>Total fees</b>	<b>52,500</b>	<b>52,500</b>	<b>52,500</b>



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