

# The Audit Findings for NHS Somerset CCG

Year ended 31 March 2022

9 June 2022



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Clinical Commissioning Group or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of NHS Somerset Clinical Commissioning Group ('the CCG') and the preparation of the CCG's financial statements for the year ended 31 March 2022 for those charged with governance.

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the CCG's financial statements give a true and fair view of the financial position of the CCG's income and expenditure for the year; and
- the CCG's financial statements, and the parts of the Remuneration and Staff Report to be audited, have been properly prepared in accordance with the Department of Health and Social Care (DHSC) group accounting manual 2021/22 (GAM).

We are also required to report whether other information published together with the audited financial statements in the Annual Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated and whether the income and expenditure included in the financial statements has been applied for the purposes intended by Parliament (the regularity opinion).

Our audit work on the CCG's draft financial statements and Annual Report was completed remotely between April and June 2022. Our findings are summarised on pages 5 to 14. We have not identified any adjustments that have resulted in a change to the CCG's breakeven position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our proposed audit opinion [a draft of which can be found in Appendix E] or material changes to the financial statements, subject to the following outstanding matters:

- review of the joint arrangements/pooled budgets disclosures;
- review of related party transactions and disclosures; and
- completion of our final internal quality review processes.

The following closing procedures will be completed after the Audit Committee:

- receipt and review of the final annual report, annual governance statement and signed financial statements;
- receipt of the signed management representation letter; and
- finalisation of our work in respect of subsequent events.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

Income and expenditure included in the financial statements have been applied for the purposes intended by Parliament

Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph highlighting the demise of the CCG.

# 1. Headlines

## Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the CCG has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in detail on the CCG's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the CCG's arrangements under the following specified criteria:

- improving economy, efficiency and effectiveness;
- financial sustainability; and
- governance.

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached at Appendix F. We expect to issue our Auditor's Annual Report on 6 July 2022. As part of our work, we considered whether there were any risks of significant weakness in the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have completed sufficient work to satisfy ourselves that our VFM work remaining would not have a material impact on the financial statements. We have not identified any significant weaknesses in respect of the CCG's VFM arrangements from our work to date.

## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the CCG's VFM arrangements, which will be reported in our Annual Auditor's report in July 2022.

## Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during the audit.

## 2. Financial Statements

### Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

### Audit approach

Our audit approach was based on a thorough understanding of the CCG's business and is risk based, and in particular included:

- an evaluation of the CCG's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

### Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 14 June 2022, as detailed in Appendix E. Outstanding items are detailed on page 3.

## 2. Financial Statements



### Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan, as detailed in the table.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	16.5m	We considered materiality from the perspective of the users of the financial statements. The CCG prepares an expenditure based budget for the financial year with the primary objective to commission services for the local community and therefore gross expenditure was deemed as the most appropriate benchmark. This benchmark was used in the prior year. We deemed that 1.5% was an appropriate rate to apply to the expenditure benchmark.
Performance materiality	12.375m	The CCG does not have a history of significant deficiencies or a large number of misstatements.
Trivial matters	300k	Capped at the reporting limit set by the National Audit Office in respect of their Whole of Government Accounts reporting procedures.
Materiality for senior officer salary table disclosures	20k	The public sensitivity surrounding the disclosure of senior officer pay.

## 2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

### Risks identified in our Audit Plan

### Commentary

#### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The CCG faces external pressures to meet agreed targets, and this could potentially place management under undue pressure in terms of how they report performance.

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.

We:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals ;
- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.

Our testing has not identified any issues in respect of management override of controls.



## 2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
<p><b>The revenue cycle includes fraudulent transactions (rebutted)</b></p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>We rebutted this presumed risk for the CCG at planning because:</p> <ul style="list-style-type: none"> <li>• revenue does not primarily involve cash transactions; and</li> <li>• funding is principally an allocation from NHS England which is not accounted for in the Statement of Comprehensive Net Expenditure.</li> </ul> <p>We therefore did not consider this to be a significant risk for the CCG.</p>
<p><b>Existence of year-end manual payable accruals and the occurrence of the related expenditure</b></p> <p>With the changes in NHS funding arrangements during the Covid-19 pandemic, there has been significant additional funding provided which is allocated by CCGs within their systems. The time-limited nature of this funding creates a risk over the recognition of manual accruals at year-end, where the goods or services have not been provided within the financial year, and a related risk of overstatement of NHS and non-NHS non-block expenditure at 31 March 2022.</p> <p>We have therefore identified the existence of year-end manual payable accruals and the occurrence of the related expenditure as a significant risk.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• evaluated the CCG's accounting policy for the recognition of expenditure accruals for appropriateness and compliance with the DHSC Group Accounting Manual 2021/22;</li> <li>• updated our understanding of the CCG's system for accounting for year-end manual expenditure accruals and evaluate the design of the associated controls; and</li> <li>• agreed, on a sample basis, year-end manual payable accruals to invoices or other supporting evidence to corroborate their existence and the occurrence of the related expenditure.</li> </ul> <p>Our testing did not identify any issues.</p>



## 2. Financial Statements - key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<b>Expenditure accruals</b>	Management accrue for expenditure on goods or services when, and to the extent that, the goods or services have been received. They are measured at the fair value of the consideration payable.	We undertook sample testing of in-year and year-end expenditure accruals. We were provided with satisfactory evidence to support the sample items.	Light purple
<b>Prescribing accrual</b>	Due to the delay in the timing of the receipt of the supporting IPP reports, the CCG has to accrue for the final months of prescribing costs in its financial statements. Usually this would be for February and March, as it was for the 2021/22 financial year. The CCG uses historical data and the actual costs of prescribing for the previous months, and adjusts these for the number of prescribing days in February and/or March. This approach is common across CCGs and has been used consistently.	We have reviewed the methodology used by the CCG for the accrual for the February and March 2022 prescribing costs, and compared the accrual made to the actual prescribing expenditure for that period that was notified subsequent to the year end. This has identified an over accrual of £803k in the financial statements which has not been corrected, given it's immateriality and the fact that this arose due to estimation uncertainty.  We are satisfied that no material issues arise as a result of our work on the prescribing accrual.	Grey
<b>Provisions</b>	Management have included a provision of £320k for the potential redundancy costs of Executive staff at risk due to the impending establishment of Integrated Care Boards and the abolition of CCGs.	The evidence provided by management in respect of the redundancy provisions did not sufficiently evidence that the CCG could no longer withdraw the offer of redundancy benefits at 31 March 2022. Approvals had not been obtained from either the Remuneration Committee or NHSE/I. In our view the criteria for recognition under IAS19 had not been met at 31 March 2022, and it is not therefore appropriate for a provision to have been recognised.  The financial statements have not been amended for this. Given the value, we are satisfied that this does not cause a material issue for our audit opinion.	Blue

### Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## 2. Financial Statements – IT General Controls

We carried out a review of the CCG's IT general controls (ITGC) in respect of the elements of the Oracle finance system that are not controlled by NHS Shared Business Services.

We noted that five members of the CCG's finance staff have "User Set up" rights within Oracle, which denote administrative system privileges. Administrative privileges should be restricted to authorised personnel who do not perform a role in financial reporting or business processes in order to mitigate the risk of any unauthorised or inappropriate changes to user rights or accounts.

We have made a recommendation for the CCG to review user access rights in Appendix A.



## 2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
<b>Matters in relation to related parties</b>	We are completing our work in this area but are not currently aware of any related parties or related party transactions which have not been disclosed. We will provide a verbal update to the Audit Committee.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Written representations</b>	A letter of representation has been requested from the CCG which is included in the Audit Committee papers.
<b>Confirmation requests from third parties</b>	We requested from management permission to send a confirmation request to the CCG's bank. This permission was granted and the requests were sent. This request was returned with positive confirmation and no issues were noted.  We requested management to send letters to those solicitors who worked with the CCG during the year. No significant issues were noted for the financial statements from the information returned.
<b>Accounting practices</b>	We have evaluated the appropriateness of the CCG's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
<b>Audit evidence and explanations/ significant difficulties</b>	All information and explanations requested from management was provided promptly. The CCG's finance team were extremely responsive to audit queries throughout the audit.

## 2. Financial Statements - other communication requirements



### Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
<b>Going concern</b>	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> <li>the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities; and</li> <li>for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the CCG’s financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.</li> </ul> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the CCG meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> <li>the nature of the CCG and the environment in which it operates;</li> <li>the CCG’s financial reporting framework;</li> <li>the CCG’s system of internal control for identifying events or conditions relevant to going concern; and</li> <li>management’s going concern assessment.</li> </ul> <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> <li>a material uncertainty related to going concern has not been identified; and</li> <li>management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul> <p>The anticipated demise of the CCG does not negate the going concern assumption given its services will continue to be provided by a new organisation. Management make reference to the demise in the financial statements and our proposed audit opinion will include an emphasis of matter paragraph to draw the reader’s attention to this disclosure.</p>

## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
<b>Regularity Opinion</b>	<p>We are required to give a regularity opinion on whether the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them (the regularity opinion).</p> <p>We have not identified any issues and propose to issue an unqualified regularity opinion.</p>
<b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect, please refer to Appendix E for the proposed wording.</p>
<b>Auditable elements of Remuneration Report and Staff Report</b>	<p>We are required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been prepared properly in accordance with the requirements of the Act, directed by the Secretary of State with the consent of the Treasury.</p> <p>We have audited the elements of the Remuneration Report and Staff Report, as required by the Code.</p> <p>The following amendments were required:</p> <ul style="list-style-type: none"> <li>• the change in salary and allowances of the highest paid director and the average change in salary and allowances for all employees had been calculated incorrectly;</li> <li>• in the pay ratio disclosure, the remuneration range and the banded remuneration of the highest paid director have been updated; and</li> <li>• the table disclosing the ratios of staff remuneration against the mid-point of the banded remuneration of the highest paid director have been updated.</li> </ul> <p>We propose to issue an unqualified opinion following these amendments.</p>



## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>the Annual Governance Statement does not comply with guidance issued by NHS England or is misleading or inconsistent with the information of which we are aware from our audit;</li> <li>the information in the annual report is materially inconsistent with the information in the audited financial statements or apparently materially incorrect based on, or materially inconsistent with, our knowledge of the CCG acquired in the course of performing our audit, or otherwise misleading;</li> <li>if we have applied any of our statutory powers or duties; and/or</li> <li>where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses.</li> </ul> <p>We have nothing to report on these matters.</p>
Review of accounts consolidation schedules and specified procedures on behalf of the group auditor	<p>We are required to give a separate audit opinion on the CCG accounts consolidation schedules and to carry out specified procedures (on behalf of the NAO) on these schedules under group audit instructions. In the group audit instructions the CCG was selected as a non-sampled component.</p> <p>There are no unadjusted inconsistencies between the financial statements and the accounts consolidation schedules which we are required to report in our opinion on the consolidation schedules.</p> <p>We will complete the specified procedures required under the group instructions and submitted our assurance statement to the NAO when we issue the audit opinion.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2021/22 audit of NHS Somerset <b>Clinical Commissioning Group</b> in the audit report, as detailed in Appendix E, due to our work on the CCG's Value for Money arrangements still being in progress.</p>





# 3. Value for Money arrangements

## Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



## Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

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## 3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached at Appendix F. We expect to issue our Auditor's Annual Report by 6 July 2022.

As part of our work, we considered whether there were any risks of significant weakness in the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our work to date has not identified any risks of significant weakness in the CCG's arrangements, and we have not identified any issues that would have an impact on our opinion on the financial statements. In our view, no findings from our VFM work would have an adjusting impact on the financial statements under audit.

We will report our full findings to the Audit Committee on 6 July 2022.



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## 4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2019 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

### Audit and 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. No non-audit services were identified.

### Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk)

Appendices

# A. Action plan – Audit of Financial Statements

We have identified one recommendation for the CCG as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Low	<p>We noted that five members of the CCG’s finance staff have “User Set up” rights within the Oracle finance system.</p> <p>Administrative privileges should be restricted to authorised personnel who do not perform a role in financial reporting or business processes to prevent inappropriate system changes being made by individuals whose job role should not include this.</p>	<p>The CCG should review administrative access rights for staff involved in financial reporting or business processes.</p> <p><b>Management response</b></p> <p>The finance team undertake a regular review of the set-up of all Oracle users. In respect of the administration privileges assigned to finance staff, we have recently reviewed this and concluded that these have been allocated to individuals who are best placed to ensure that the set-up process is carried out correctly, noting that not all finance staff have the same privilege setting. All set-up forms (and any subsequent forms) are reviewed and authorised by the Director of Finance, Performance, Contracting and Digital.</p> <p>The finance team also have access to confidential staff leavers forms and payroll files to ensure that Oracle users are removed from the system when they leave the CCG.</p> <p>The recommendation provides a good reminder as we review our policies and process as part of the transfer from the CCG to ICB, and as part of this we will review current administrative access rights to consider if other colleagues would be more appropriate to perform these processes.</p>

## Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# B. Follow up of prior year recommendations

We identified the following issue in the audit of NHS Somerset CCG's 2020/21 financial statements, which resulted in one recommendation being reported in our 2020/21 Audit Findings report.

We have followed up on the implementation of our recommendations and note that it has not been completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Notes 8 (Property, Plant and Equipment), 9 (Intangible non-current assets) and 10 (Inventories) are immaterial to the CCG. The DHSC Group Accounting Manual states that "Entities may omit policies that are not relevant or have immaterial effect".  We recommended the CCG further declutters its financial statements by removing notes and accounting policies that are immaterial.	Notes 9 (Property, Plant and Equipment), 10 (Intangible non-current assets) and 11 (Inventories) are all included within the financial statements, along with the associated accounting policies, although they are immaterial and not required.

#### Assessment

- ✓ Action completed
- X Not yet addressed

# C. 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

There are no adjusted misstatements.

## 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 or misclassification	Adjusted?
The accounting policy for provisions includes discount rates for medium and long terms provisions which is not required as the CCGs provisions are short term.	✓
An accounting policy for joint arrangements was not included in the draft financial statements.	✓
Note 18 – Operating segments required additional disclosure to confirm that the internal reporting format is identical to the disclosure in the note.	✓
The line showing the detail of the cash and cash equivalents in Note 13 was hidden in the underlying accounts document and so did not appear in the draft statement of accounts document.	✓
The Joint Arrangements note did not explain the nature of the arrangements, some of which have now been deemed not to be joint arrangements, and a separate pooled budgets note was required as a result.	✓
Note 4.3 – Exit packages is not required to be disclosed in the financial statements, it is only required in the Annual Report.	✓
The figures within Note 22 – Financial Performance targets for the ‘Expenditure not to exceed income’ line were incorrect and required updating.	✓
A number of other amendments have been made to the draft accounts to correct minor disclosure and presentational issues that do not warrant being individually reported to Those Charged with Governance.	✓

# C. Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Statement of Comprehensive Net Expenditure	Statement of Financial Position	Reason for not adjusting
In 2021/22 the value of the prescribing accrual for February and March 2022 was £15,571k. Following submission of the draft financial statements for audit, the actual February and March 2022 prescribing spend data was received by the CCG. The actual figures showed expenditure of £14,768k which identified an over-accrual of £803k.	Cr 'Purchase of goods and services' £803k	Dr 'Current trade and other payables' £803k	Immaterial difference and hence the estimate was materially accurate.
The CCG has included a redundancy provision of £320k in respect of the Chief Executive and the Director of Finance, Performance, Contracting and Digital. In our view the criteria for recognition under IAS19 had not been met at 31 March 2022.	Cr 'Purchase of goods and services' £320k	Dr 'Provisions' £320k	Amount is immaterial
The CCG made a payment of £4.6m to Somerset County Council under section 256 of the NHS Act 2006 for the provision of services to facilitate the domiciliary care performance incentive payment. The end date of the agreement is 31 March 2022, and the CCG have been informed by the Council that it has spent £1.52m at 31 March 2022. The resulting unadjusted misstatement is therefore £3.08m.	Cr 'Purchase of goods and services' £3,080k	Dr 'Non-NHS Prepayments' £3,080k	Amount is immaterial
<b>Overall impact</b>	<b>£4,203k</b>	<b>£4,203k</b>	

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Statement of Comprehensive Net Expenditure	Statement of Financial Position	Reason for not adjusting
In 2020/21 the value of the prescribing accrual for February and March 2021 was £15,355k. Following submission of the draft financial statements for audit, and given the extended audit timetable for 2020/21, the actual February and March prescribing spend data was received by the CCG. The actual figures showed expenditure of £14,701k which identified an over-accrual of £654k	Cr 'Purchase of goods and services' £654k	Dr 'Current trade and other payables' £654k	Immaterial difference and hence the estimate was materially accurate.

# D. Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

The fees reconcile to the financial statements once a 20% adjustment for VAT is added.

Audit fees	Proposed fee	Final fee
CCG Audit	£66,112	£66,112
<b>Total audit fees (excluding VAT)</b>	<b>£66,112</b>	<b>£66,112</b>

No non-audit or audited related services have been undertaken for the CCG.

# E. Audit opinion - Draft

We anticipate we will provide the CCG with an unqualified opinion including an Emphasis of Matter paragraph highlighting the demise of the CCG

## DRAFT Independent auditor's report to the members of the Governing Body of NHS Somerset CCG

### Report on the Audit of the Financial Statements

#### Opinion on financial statements

We have audited the financial statements of NHS Somerset CCG (the 'CCG') for the year ended 31 March 2022, which comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Changes in Taxpayers Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Accounts Directions issued under Schedule 15 of the National Health Service Act 2006, as amended by the Health and Social Care Act 2012 and interpreted and adapted by the Department of Health and Social Care Group accounting manual 2021 to 2022.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the CCG as at 31 March 2022 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with international accounting standards as interpreted and adapted by the Department of Health and Social Care Group accounting manual 2021 to 2022; and
- have been prepared in accordance with the requirements of the National Health Service Act 2006, as amended by the Health and Social Care Act 2012.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the CCG in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of matter – Demise of the organisation

In forming our opinion on the financial statements, which is not modified, we draw attention to note 21 to the financial statements which indicates that under the Health and Care Act 2022 we are expecting the commissioning functions of NHS Somerset CCG to transfer to NHS Somerset Integrated Care Board on 1 July 2022.

#### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Accountable Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the CCG's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the CCG to cease to continue as a going concern.

In our evaluation of the Accountable Officer's conclusions, and in accordance with the expectation set out within the Department of Health and Social Care Group accounting manual 2021 to 2022 that the CCG's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services currently provided by the CCG. In doing so we have had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the CCG and the CCG's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the CCG's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Accountable Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Accountable Officer with respect to going concern are described in the 'Responsibilities of the Accountable Officer and Those Charged with Governance for the financial statements' section of this report.



# E. Audit opinion – Draft (continued)

## Other information

The Accountable Officer is responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Governance Statement does not comply with the guidance issued by NHS England or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

## Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit:

- the parts of the Remuneration and Staff Report to be audited have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Accounts Directions issued under Schedule 15 of the National Health Service Act 2006, as amended by the Health and Social Care Act 2012 and interpreted and adapted by the Department of Health and Social Care Group accounting manual 2021 to 2022; and
- based on the work undertaken in the course of the audit of the financial statements and our knowledge of the CCG, the other information published together with the financial statements in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements

## Opinion on regularity of income and expenditure required by the Code of Audit Practice

In our opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions in the financial statements conform to the authorities which govern them.

## Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we refer a matter to the Secretary of State under Section 30 of the Local Audit and Accountability Act 2014 because we have reason to believe that the CCG, or an officer of the CCG, is about to make, or has made, a decision which involves or would involve the body incurring unlawful expenditure, or is about to take, or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency; or
- we make a written recommendation to the CCG under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

# E. Audit opinion – Draft (continued)

## Responsibilities of the Accountable Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Accountable Officer's responsibilities the Accountable Officer is responsible for the preparation of the financial statements in the form and on the basis set out in the Accounts Directions, for being satisfied that they give a true and fair view, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for assessing the CCG's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the CCG without the transfer of its services to another public sector entity.

The Accountable Officer is responsible for ensuring the regularity of expenditure and income in the financial statements.

The Audit Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the CCG's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

We are also responsible for giving an opinion on the regularity of expenditure and income in the financial statements in accordance with the Code of Audit Practice.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the CCG and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (international accounting standards and the National Health Service Act 2006, as amended by the Health and Social Care Act 2012 and interpreted and adapted by the Department of Health and Social Care Group accounting manual 2021 to 2022).
- We enquired of management and the Audit Committee, concerning the CCG's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of management and the Audit Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

# E. Audit opinion – Draft (continued)

- We assessed the susceptibility of the CCG’s financial statements to material misstatement, including how fraud might occur, evaluating management’s incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risks of management override of controls and fraudulent income and expenditure recognition. We determined that the principal risks were in relation to:

- unusual journals (including journals posted by senior management, journals moving transactions between income and expenditure, back and forward posted journals and material post year end journals), management estimates and transactions outside the course of business; and
- year-end manual expenditure accruals and the related payable balances.

We rebutted the presumed risk of fraudulent revenue recognition.

- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud;
  - journal entry testing, with a focus on unusual journals;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of year-end manual expenditure accruals and the related payable balances; and
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and/or expenditure recognition, and the significant accounting estimates related to year-end manual expenditure accruals, including the prescribing accrual.

- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team’s:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;
  - knowledge of the health sector; and
  - understanding of the legal and regulatory requirements specific to the CCG including:
    - the provisions of the applicable legislation;
    - NHS England’s rules and related guidance; and
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the CCG’s operations, including the nature of its operating revenue and expenditure and its services to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the CCG’s control environment, including the policies and procedures implemented by the CCG to ensure compliance with the requirements of the financial reporting framework.

# E. Audit opinion – Draft (continued)

## **Report on other legal and regulatory requirements – the CCG’s arrangements for securing economy, efficiency and effectiveness in its use of resources**

### **Matter on which we are required to report by exception – the CCG’s arrangements for securing economy, efficiency and effectiveness in its use of resources**

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the CCG’s arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the CCG’s arrangements in our Auditor’s Annual Report. If we identify any significant weaknesses in these arrangements, they will be reported by exception in a further auditor’s report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

### **Responsibilities of the Accountable Officer**

As explained in the Governance Statement, the Accountable Officer is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in the use of the CCG’s resources.

### **Auditor’s responsibilities for the review of the CCG’s arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 21(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the CCG’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of ‘proper arrangements’. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the CCG plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the CCG ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the CCG uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the CCG has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor’s Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

### **Report on other legal and regulatory requirements – Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate for NHS Somerset CCG for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the CCG’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

### **Use of our report**

This report is made solely to the members of the Governing Body of the CCG, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Governing Body of the CCG those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the CCG and the members of the Governing Body of the CCG as a body, for our audit work, for this report, or for the opinions we have formed.

Jackson Murray, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

# F. Audit letter in respect of delayed VFM work

Dear Chair of Audit Committee,

Under the 2020 Code of Audit Practice, at local NHS bodies we are required to issue our Auditor's Annual Report at the same time as our opinion on the financial statements or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected over the past two years, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than July 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Jackson Murray  
Director



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