



# NHS CASTLE POINT AND ROCHFORD CLINICAL COMMISSIONING GROUP

REPORT TO THE GOVERNING BODY  
Annual Audit Letter 2014/15

July 2015

# EXECUTIVE SUMMARY

This Annual Audit Letter summarises the key issues arising from the work that we have carried out during the year. It is addressed to the Governing Body of the CCG but is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders and members of the public.

It is the responsibility of the CCG to publish this on the CCG's website.

## Responsibilities of auditors and the CCG

We were appointed as the CCG's independent external auditor by the Audit Commission, the body responsible for appointing auditors to local public bodies in England until 31 March 2015. From 1 April 2015, Public Sector Audit Appointments Limited (PSAA) is responsible for overseeing the Commission's contracts. It will also be responsible for setting fees in the future.

As the external auditor, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key audit risks to the CCG identified from our detailed planning processes.

It is the responsibility of the CCG to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the CCG is fulfilling these responsibilities.

## Scope of the audit

Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice for local NHS bodies 2010 (the Code). Under the Code, we are required to review and report on:

- the CCG's financial statements
- whether the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to report whether we have exercised our statutory powers under the Audit Commission Act 1998 in any matter.

Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the CCG's own agenda. We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

## Key findings

	<b>FINANCIAL STATEMENTS</b>
1	We issued an unqualified true and fair opinion on the financial statements and an unqualified regularity opinion on 29 May 2015.
	We were satisfied that the parts of the remuneration report to be audited had been properly prepared in accordance with the requirements directed by the Secretary of State.
	We did not identify any significant deficiencies in control within the CCG. However, the CCG received a number of reports in relation to outsourced activities from the auditors of the providers of those services and weaknesses in controls identified should be monitored by the CCG to ensure improvement.
	We reported that the summarisation schedules (Accounts Template) were consistent with the audited financial statements with the exception of two inconsistencies. These arose due to errors in the centrally-issued template document provided to the CCG for completion that the CCG could not correct.
	<b>USE OF RESOURCES</b>
2	The CCG has not updated its medium term financial strategy (MTFS) during the year due to the need to focus on short-term delivery of its organisational recovery plan. The most recent MTFS developed by the CCG was produced in July 2014 as part of the 2014/15 planning process. Given the changes to both the financial and operational position of the CCG since then, the forecasts in this MTFS no longer accurately reflect the CCG's likely financial trajectory in the medium term. It is the CCG's stated intention to address this by Autumn 2015.
	We issued a modified "except for" value for money conclusion on 29 May 2015, with a key basis being the absence of an updated MTFS in place during the year.
	<b>OTHER MATTERS</b>
3	We issued the audit certificate to close the audit for the year ended 31 March 2015 on 29 May 2015.

# FINANCIAL STATEMENTS

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OPINION

We issued an unqualified true and fair opinion on the financial statements on 29 May 2015.

## Financial statements

The draft financial statements were prepared and submitted to NHS England and received for audit on 23 April 2015.

No material misstatements were identified as a result of our audit work. One non material but not trivial adjustment was made as a result of the audit, but this was a classification adjustment and so had no net impact on the reported outturn for the year.

We reviewed the draft financial statements against the requirements of international financial reporting standards as interpreted for the NHS by the Manual for Accounts. Our review identified a number of narrative misstatements and disclosure omissions in the draft financial statements, all of which were corrected by the CCG

## Regularity

We are required to give an opinion on whether, in all material respects, the CCG's expenditure and income have been applied to the purposes intended by parliament and that the financial transactions conform to the authorities which govern them. This includes achieving a number of financial duties such as maintaining net operating costs within agreed funding levels and not exceeding specified amounts for administration costs.

We did not identify any matters in relation to regularity.

## Internal controls

We are required to report significant deficiencies in internal controls that we identify during the audit.

We did not identify any significant deficiencies in control within the CCG. However, the CCG received a number of auditor reports in relation to outsourced activities and weaknesses in controls identified in those auditor reports should be monitored by the CCG to ensure improvement.

## Annual Report

We were satisfied that the Annual Report was not inconsistent with the financial statements.

We were satisfied that the Governance Statement was not inconsistent or misleading with other information we were aware of from our audit of the financial statements.

We were satisfied that the parts of the Remuneration Report to be audited had been properly prepared in accordance with the requirements directed by the Secretary of State.

## Summarisation schedules

We were satisfied that the Accounts template summarisation schedules were consistent with the financial statements with the exception of two inconsistencies. These arose due to errors in the centrally-issued template document provided to the CCG for completion which could not be corrected for and were not indicative of errors in the statutory financial statements.

# USE OF RESOURCES

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## CONCLUSION

We issued a qualified value for money conclusion on 29 May 2015.

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money). This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience (robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future)
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness (prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity).

## Financial performance

The CCG achieved a surplus of £979,000 for 2014/15. This was, in part, due to successful delivery of Quality, Innovation, Productivity and Prevention (QIPP) savings of £4.1m, which have helped to offset overspends against other areas of the budget. These overspends included £1.5m of over-performance at the CCG's main provider, Southend University Hospital NHS Foundation Trust, although the CCG were able to mitigate this using a reserve set aside at the beginning of the financial year to specifically address this risk. The remaining overspends of £3.5m (bringing total overspends against budget to £5m) were funded by under-utilisation of the CCG's remaining in-year earmarked reserves.

Of the 37 schemes included in the 2014/15 programme referred to above, only 21 delivered or exceeded the required savings, helping to offset the £1.7m under-delivery on the remaining schemes. Of the successful schemes, there were five which delivered in excess of twice the original savings originally forecast.

The CCG's 2015/16 budget reflects increased funding of approximately £6.8m when compared to 2014/15. However, the CCG still remains 2.7% below its target finding level (as determined by NHS England based on its assessment of health needs in the local population). National requirements also mean that the CCG is required to reduce its running costs by 10% from 2015/16.

The CCG has set a target surplus of £2m for 2015/16. In order to achieve this surplus, the CCG is required to deliver QIPP savings of £6m and a programme of QIPP schemes for 2015/16 has been developed. The weighting of savings to be achieved between the schemes in the programme is such that, at the date of our review, 60% of the forecast savings will be generated by just six schemes, with one of these schemes accounting for 22% of the overall total. If, as was the case in 2014/15, delivery is inconsistent across the programme, there is a risk that these key schemes will not achieve the required savings, making it difficult for the CCG to maintain financial balance. The challenging financial environment faced by the CCG will therefore continue into 2015/16.

The CCG has not updated its medium term financial strategy (MTFS) during 2014/15 due to the need to focus on short-term delivery of its organisational recovery plan. The most recent MTFS developed by the CCG was produced in July 2014 as part of the 2014/15 planning process. Given the changes to both the financial and operational position of the CCG since then, the forecasts in this MTFS no longer accurately reflect the CCG's likely financial trajectory in the medium term.

The CCG recognises the risks to financial balance it is likely to face over the next five years, including over-performance of its main healthcare providers, increases in prescribing costs and continuing growth in continuing healthcare costs. It has embarked on a transformational project to address these risks, the initial stage of which involves developing and articulating its strategic vision and priorities. Once these have been determined, the CCG plans to prepare an updated MTFS to reflect its revised strategy. This is expected to be completed during Autumn 2015.

However, in the absence of an up-to-date MTFS being available during the year of assessment, we were unable to conclude that the CCG has put in place proper arrangements for securing financial resilience.

## Operational performance

At the beginning of 2014/15, the CCG remained authorised with four conditions:

- 3.1.1B - CCG has a clear and credible integrated plan, which includes an operating plan for 2012-13, draft commissioning intentions for 2013-14 and a high-level strategic plan until 2014-15
- 3.1.1C - CCG has a detailed financial plan that delivers financial balance, sets out how it will manage within its management allowance, and any other requirements set by the NHS Commissioning Board (now “NHS England”) and is integrated with the commissioning plan.
- 3.1.1D - QIPP is integrated within all plans. Clear explanation of any changes to existing QIPP plans.
- 3.1.4B - Where the area covered by the CCG is not on track to meet the plan for 2012-13, there is a clear and time-limited resolution path to recover.

At the quarterly assurance meeting held between the CCG and NHS England in March 2015, NHS England confirmed that, in their view, the CCG had exited recovery and was in a position to move from the status of being “assured with support” to “fully assured” status (i.e. all four conditions of authorisation removed). The four conditions were formally removed on 28 May 2015.

The CCG lacked both a permanent accountable officer and a permanent chief finance officer for the majority of 2014/15, with both roles being filled by interim appointments. The CCG recruited substantively to both posts in the final quarter of 2014/15. Adequate handover arrangements were in place to ensure a successful transition.

The CCG has completed an internal restructure during the year. This has provided an opportunity to implement closer working with Southend CCG which is expected to facilitate more effective management of the CCG’s main provider. Alternative accommodation has also been sought, with the CCG intending to move from its current base in Basildon to offices within the Castle Point and Rochford locality during 2015/16.

The CCG has provided regular performance updates to the Governing Body throughout the year covering a range of key performance indicators relating to the local health economy.

The CCG’s main provider has struggled to meet the standard 4 hour waiting time target. The CCG’s ambulance service provider has also experienced significant difficulties achieving target response times during the year. During the year, the CCG has assisted with the development of action plans aimed to address both shortfalls, with the performance of the ambulance service in particular showing improved performance during the year.

The Essex Better Care Fund plan was approved in February 2015. The CCG has agreed and signed its section 75 agreement governing the pooled budget arrangements with Essex County Council. The CCG has committed £11m to the Better Care Fund for 2015/16, although the majority of this will be invested in existing services through contracts signed with providers rather than being used for new initiatives.

In February 2015, the CCG’s bid to take on delegated co-commissioning of primary care services from 1 April 2015 was confirmed as successful. The CCG have made significant progress since, including making the necessary amendments to the constitution and setting up a Primary Care Committee to both oversee the transition to the new arrangements and provide oversight going forward. The CCG is aware of the potential governance risks associated with co-commissioning, and has taken steps to minimise the likelihood that conflicts of interests will arise. Co-commissioning represents a significant new responsibility for the CCG and will form a key part of its vision. This is reflected in the on-going discussions the CCG is having as it continues to articulate that vision.

# OTHER MATTERS

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REPORT BY EXCEPTION

We have not exercised our statutory powers under section 19 of the Audit Commission Act 1998.

We are required to report whether we have exercised our statutory powers under the Audit Commission Act 1998 in any matter.

## Use of statutory powers

Section 19 of the Audit Commission Act 1998 requires us to make a referral to the Secretary of State if we have reason to believe that the CCG is about to make, or has made, a decision which involves or would involve the incurring of expenditure which is unlawful or is about to take, or has taken, a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency

No such matters were identified during the course of our audit.

## Audit certificate

We issued the audit certificate to close the audit for the year ended 31 March 2015 on 29 May 2015.

# APPENDIX

## Reports issued

We issued the following reports in respect of the 2014/15 financial year.

REPORT	DATE
Planning letter	April 2014
Audit Plan	April 2015
Final Audit Report	May 2015
Annual Audit Letter	July 2015

## Fees update

We reported our original fee proposals in our Audit Plan. Our fees to date and any variance to the original proposal are shown below.

AUDIT AREA	PROPOSED FEES £	FEES UPDATE £
Scale fee	61,800	61,800
Total fees for audit services	61,800	61,800
Non audit fees	-	-



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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