



# Annual Audit Letter 2017-18

**NHS South Lincolnshire Clinical Commissioning Group**

August 2018

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This report is addressed to NHS South Lincolnshire CCG (the CCG) and has been prepared for the sole use of the CCG. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.



# Introduction

# Introduction

## Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2017-18 audit at NHS South Lincolnshire Clinical Commissioning Group (the CCG). Although this letter is addressed to the Members of the Governing Body of the CCG, it is also intended to communicate these issues to external stakeholders, such as members of the public. It is the responsibility of the CCG to publish this letter on the CCG's website.

We have reported all the issues in this letter to the CCG during the year and we have provided a list of our reports in Appendix A.

## Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. Our main responsibility is to carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code) which requires us to report on:

<b>Financial Statements including the regularity opinion and Governance Statement</b>	<p>We provide an opinion on the CCG's financial statements. That is whether we believe the financial statements give a true and fair view of the financial affairs of the CCG and of the income and expenditure recorded during the year.</p> <p>We are also required to:</p> <ul style="list-style-type: none"><li>— form a view on the regularity of the CCG's income and expenditure i.e. that the expenditure and income included in the CCG's financial statements has been applied to the purposes intended by Parliament and the financial transactions in the financial statements conform to the authorities which govern them;</li><li>— report by exception if the CCG has not complied with the requirements of NHS England in the preparation of its Governance Statement; and</li><li>— examine and report on the consistency of the schedules or returns prepared by the CCG for consolidation into the Whole of Government Accounts (WGA) with our other work.</li></ul>
<b>Value for Money arrangements</b>	<p>We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the CCG's use of resources.</p>

# Introduction (cont.)

## **Adding value from the External Audit service**

We have added value to the CCG from our service throughout the year through:

- attendance at meetings with members of the Governing Body and Audit Committee to present our audit findings, broaden our knowledge of the CCG and to provide insight from sector developments and examples of best practice;
- a proactive and pragmatic approach to issues arising in the production of the financial statements to ensure that our opinion is delivered on time; and
- maintaining a strong and effective working relationship with Internal Audit to maximise assurance to the Audit Committee, avoid duplication and provide value for money.

## **Fees**

Our fee for 2017-18 was £38,000 (2016-17: £45,000) excluding VAT. This fee was in line with the fee agreed at the start of the year with the CCG's Audit Committee.

## **Acknowledgement**

We would like to take this opportunity to thank the officers of the CCG for their continued support throughout the year.



# Headlines

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This section summarises the key messages from our work during 2017-18.

<p><b>Financial Statements audit opinion</b></p>	<p>We issued an unqualified opinion on the CCG's accounts on 25 May 2018. This means that we believe the accounts give a true and fair view of the financial affairs of the CCG and of the income and expenditure recorded during the year. There were no significant adjusted or unadjusted audit differences identified as part of the audit.</p> <p>One significant late change to the disclosure notes was required, following the release towards the end of May 2018 by NHS England of the final version of the specified resource allocations and clarification of the requirements relating to the reporting of performance against statutory targets. The amount disclosed at Note 42 (Financial Performance Targets) incorrectly included the brought forward surplus of £4.3m. The amended Note 42 showed that in 2017/18 the expenditure of the CCG was £233.4 million, which was £4.2 million in excess of its specified Revenue Resource Limit for the year of £229.2 million.</p> <p>The quality of the draft accounts and supporting working papers was good, and we again received helpful support and co-operation from the finance team during the audit.</p>
<p><b>Financial statements audit work undertaken</b></p>	<p>We are required to apply the concept of materiality in planning and performing our audit. We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. Our materiality for the audit was £3.5m (2016-17: £3.5m).</p> <p>We identified the following risk of material misstatement in the financial statements as part of our External Audit Plan 2017-18:</p> <p><b>Agreement of Balances with Providers</b> - The valuation of balances with providers, including disputed balances, is a key judgement area and the values can be material. We were satisfied all material balances had been satisfactorily agreed.</p>
<p><b>Regularity Opinion</b></p>	<p>We are required to form a view on the regularity of the CCG's income and expenditure. We reported that in our opinion, except for the breach of the specified Revenue Resource Limit for 2017/18, in all material respects, the expenditure and income recorded in the financial statements had been applied to the purposes intended by Parliament and the financial transactions conformed to the authorities which govern them.</p>
<p><b>Governance Statement</b></p>	<p>We confirmed that the CCG complied with NHS England requirements in the preparation of the CCG's Governance Statement.</p>
<p><b>Whole of Government Accounts</b></p>	<p>We issued an unqualified Auditor Statement on the Consolidation Schedules prepared by the CCG for consolidation into the Whole of Government Accounts with no exceptions.</p>

# Headlines (cont.)

<p><b>Value for Money (VFM) conclusion</b></p>	<p>We are required to report to you if we are not satisfied that the CCG has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>In our Auditor's Report we gave a qualified ("except for") conclusion and drew attention to the CCG's breach of its specified 2017/18 Revenue Resource Limit in the context of the CCG's arrangements for securing sustainable resource deployment. The reported in-year deficit was due to acute trust contract overspend, loss of 2016/17 contract challenges, recognition of continuing healthcare prior year costs and slippage in Quality, Innovation, Productivity and Prevention schemes. The CCG reported a cumulative surplus at 31 March 2018 of £5,000.</p> <p>Subject to these matters we were satisfied that in all significant respects the CCG had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018.</p>
<p><b>VFM conclusion risk areas</b></p>	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work identified the following significant risks:</p> <p><b>Sustainable resource deployment</b> - Overspending against your budget and not achieving your statutory financial duties was identified as a key issue for us to take into account in considering your arrangements for sustainable resource deployment as part of value for money conclusion assessment. The CCG has maintained its focus on the actions required to meet its in year targets and secure its medium term financial standing. Although the South Lincolnshire and South West Lincolnshire CCGs were required to prepare and submit separate plans and returns the two organisations established and consolidated their joint financial management and QIPP programme arrangements during 2017/18. In December 2017, the CCGs identified a risk of £15.9m to the delivery of the 2017/18 financial plan, due to overspending on acute services, loss of 2016/17 contract challenges and recognition of continuing healthcare prior year costs. The CCGs risk review of the joint 2017/18 QIPP programme also identified a likely £8m shortfall. The CCGs entered Financial Recovery and developed a phased Financial Recovery Plan, including a range of immediate medium term planned actions. The combination of these matters triggered in January 2018 an independent Capacity and Capability (C&amp;C) Review. The report from the review was considered by the Audit and Risk Committee at its March 2018 meeting, where CCG management presented their action plan. The Committee has been updated on progress against these actions required and the May 2018 'tracker' showed that most actions are either addressed or in hand. In March 2018 NHS England wrote to the CCG confirming that, although there are continuing risks to be managed, they no longer regarded the two CCGs as being under a financial escalation monitoring framework.</p> <p>The financial recovery actions taken by the CCGs during 2017/18 were robust and both CCGs delivered the expected revised financial outturn position. NHS South Lincolnshire CCG reported that it had made a cumulative financial surplus of £5k at the year end, but had breached its specified Revenue Resource Limit for the year.</p> <p>In April 2018 the CCG submitted its balanced 2018/19 financial plan. The CCG acknowledged the plan was challenging and included around £1.2m as contingency to meet unforeseen risks. The plan requires, amongst other things, a significant savings through collaborative working across the Lincolnshire STP, to achieve overall financial balance for both the CCG and the Lincolnshire Health system. In its July 2018 governing Body report the CCG was forecasting its financial objectives would be met for 2018/19. The budget was £0.2m underspent at Month 3. The 2018/19 QIPP requirement across the two CCGs was £17.4m, made up of projects delivered locally and through the County Wide QIPP programme. At Month 2 the CCG was forecasting a £0.5m shortfall against plan for the full year. The report acknowledges there are continuing risks, including over performance on acute trust contracts and delivery of QIPP savings. The CCG is working to ensure the delivery of the plan and the QIPP programme and has arrangements in place for addressing concerns as they emerge.</p>

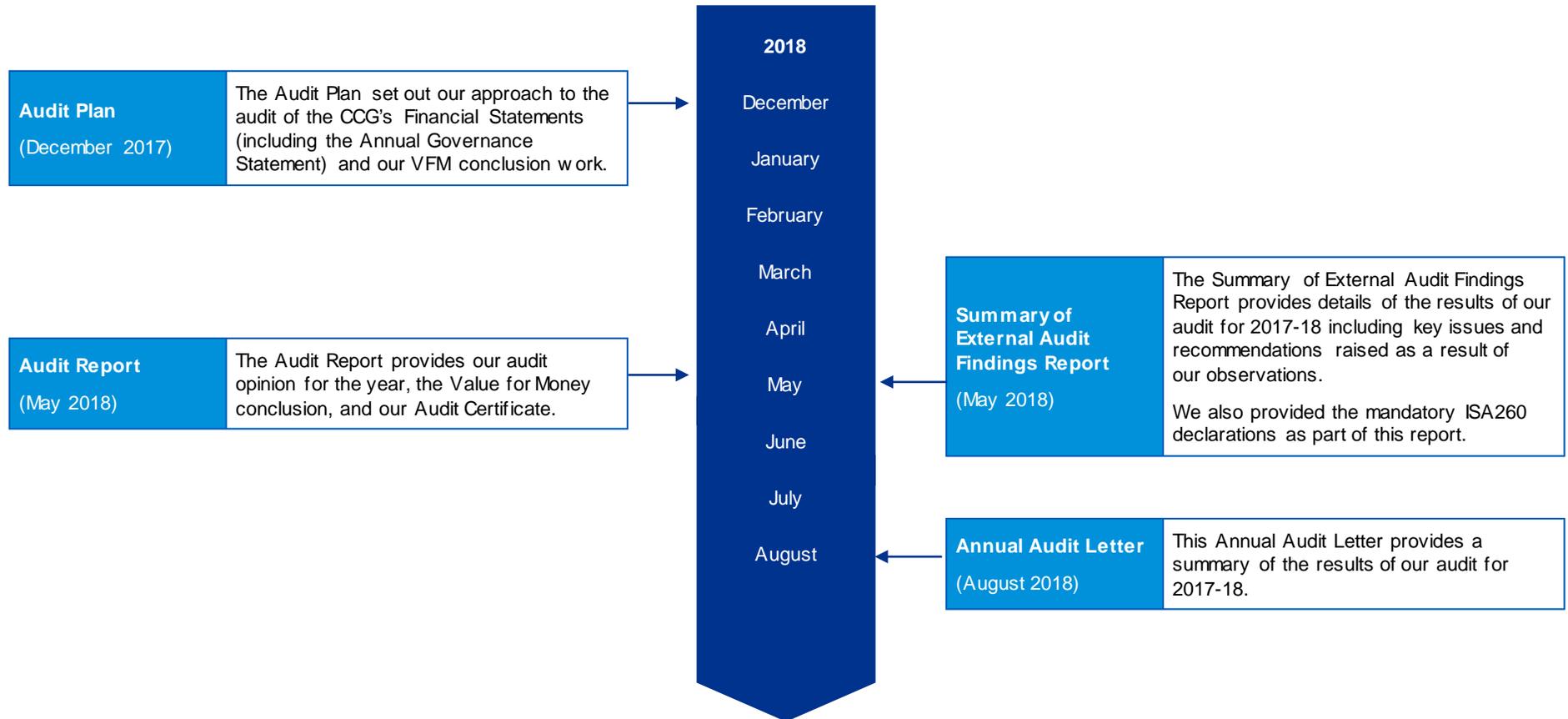
# Headlines (cont.)

<p><b>VFM conclusion risk areas (continued)</b></p>	<p><b>Working with partners and third parties</b> – The two CCGs have worked hard to establish joint management arrangements and shared governance processes. The CCG has continued to be a key partner in supporting and delivering the Lincolnshire Sustainability and Transformation Plan (STP). The CCG needs to be able to demonstrate it is effectively engaged in the STP process and taking the expected steps with the Lincolnshire health partners and third parties to address the matters identified in the STP. Progressing the Lincolnshire STP's proposals continues to be challenging, and the broader financial position is a concern, but the CCG is meeting its responsibilities and supporting the planned changes within the system. Overall the CCG has demonstrated appropriate arrangements in respect of its arrangements for working with partners and we did not identify any issues in our work relating to this aspect which would give rise to a modification of our value for money conclusion.</p>
<p><b>Recommendations</b></p>	<p>We are pleased to report that there are no high priority recommendations arising from our 2017-18 audit work and there are no outstanding agreed high priority audit recommendations from prior years.</p>
<p><b>Public Interest Reporting</b></p>	<p>We have a responsibility to consider whether there is a need to issue a public interest report or whether there are any issues which require referral to the Secretary of State. We did not issue a report in the public interest.</p> <p>Under section 30 of the Local Audit and Accountability Act 2014, the local auditor of the accounts of a CCG must refer the matter to the Secretary of State if the auditor believes that the CCG or an officer of the CCG 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. We referred the CCG's breach of its 2017/18 specified Revenue Resource Limit resource limit to the Secretary of State for Health and Social Care on 24 May 2018.</p>



# Appendices

# Summary of our reports issued





The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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