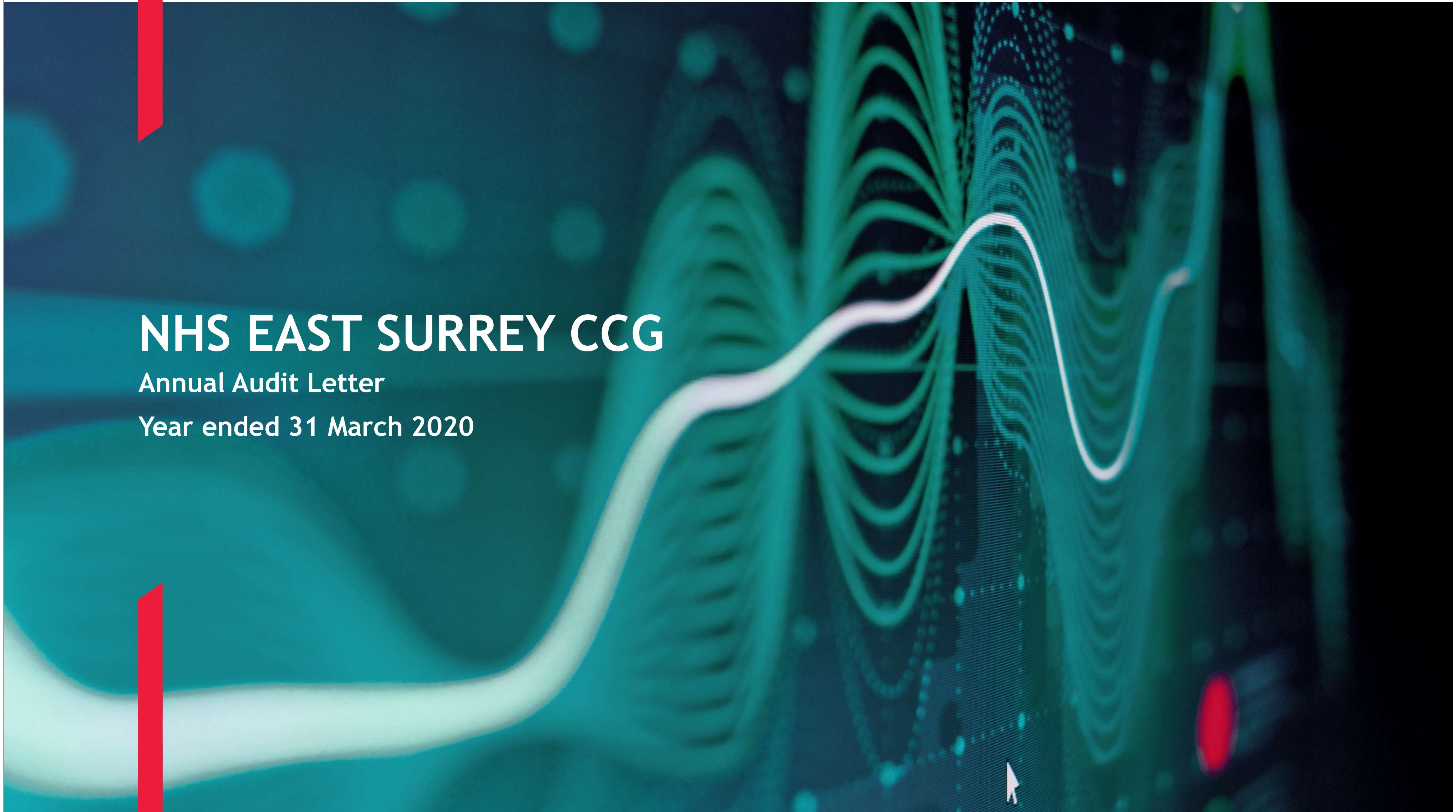

NHS EAST SURREY CCG

Annual Audit Letter

Year ended 31 March 2020

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EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key issues arising from the work that we carried out in respect of the year ended 31 March 2020.

It is addressed to the CCG but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

Responsibilities of auditors and the CCG

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.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- The financial statements, regularity of income and expenditure and auditable parts of the remuneration and staff report;
- Whether the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

BDO LLP

BDO LLP

8 September 2020

Audit conclusions

Audit area	Conclusion
Financial statements	Unqualified opinion, with an emphasis of matter relating to going concern
Regularity	Qualified opinion regarding breach of statutory financial duties
Use of resources	Adverse conclusion regarding sustainable finances
Other reporting requirements	Referral to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014 in relation to the financial deficit

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 audit.

FINANCIAL STATEMENTS

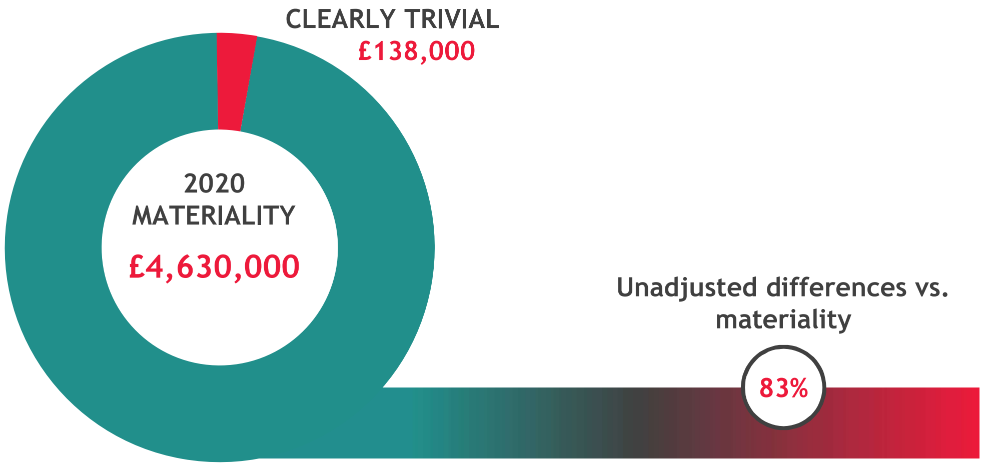
Audit conclusion

We issued our audit report on 25 June 2020 and the CCG met NHS England's reporting deadline.

We issued an unqualified audit opinion on the financial statements. This means that we consider that the financial statements give a true and fair view of the financial position and its net expenditure for the year.

We issued a qualified opinion on regularity as the CCG recorded an in-year deficit of £37.879 million for the 2019/20 financial year and thereby breached its statutory financial duties, both for expenditure not to exceed income and for revenue resource use not to exceed the amount specified in Directions.

As the CCG merged into the new Surrey Heartlands CCG on 31 March 2020 and therefore ceased to exist, we included a specific reference in the auditors report that the CCG was not a going concern but it was appropriate to prepare the financial statements on the going concern basis under the Department of Health and Social Care (DHSC) Group Accounting Manual 2019-20.



Final materiality

Materiality was calculated at £4.63 million, based on a benchmark of 1.5% of gross expenditure.

Material misstatements

We did not identify any individually material misstatements, however we identified a number of misclassifications that were cumulatively material and therefore management agreed to transfer £3.137 million payable accruals from Non-NHS payables to NHS payables and £1.157 million from income to expenditure in the final financial statements.

Unadjusted audit differences

We identified audit adjustments that, if posted, would decrease the deficit for the year by £3.834 million.

This consisted of factual errors of £2.258 million and further audit projected errors of £1.576 million.

We reported these audit differences and the Audit Committee confirmed that as the impact was not material, the financial statements did not require amendment.

FINANCIAL STATEMENTS

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

Risk description	How the risk was addressed by our audit	Results
Management override of controls Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls	We carried out the following planned audit procedures: • Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals. We used our IT team to assist with the journal extraction. • Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias. • Reviewed unadjusted audit differences for indications of bias or deliberate misstatement. • Substantively tested an increased sample of NHS and non-NHS expenditure around the year end to check that it had been recognised in the correct accounting period.	Our audit of a selection of risk-based journals and expenditure transactions around year end did not identify any issues. Our audit of management estimates identified a number of overstated payables that were reported as unadjusted misstatements, including: • £633,000 continuing healthcare expenditure recharged by the lead CCG that we do not believe is an appropriate risk sharing adjustment. • £710,000 out of a total accrual of £1.142 million for acute contingency provision, for which the CCG was unable to provide sufficient justification. • £337,000 out of a total risk accrual of £700,000 for the CCG's key provider outside of the agreement of balances process, for which the CCG was unable to provide sufficient justification. • £211,000 accrual for unspent ringfenced budget relating to future investment in primary care networks. • £164,000 primary care accrual to bring expenditure in line with budget, which is not an adequate justification for the accrual as it does not relate to expenditure incurred in 2019/20. • £151,000 overstatement of the prescribing accrual based on a report from the NHS Business Services Authority in May 2020.

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
NHS payables and Expenditure There is a risk regarding the completeness and accuracy of NHS payables and expenditure with the CCG's key provider and where there are material intra-group mismatches.	We carried out the following planned audit procedures: • Reviewed the year-end agreement between the CCG and the key provider, to understand how it compares to actual activity incurred. • Reviewed the counter party mismatches identified through the DHSC reports and considered the rationale behind management's estimates of amounts payable where there are differences over £300,000 (the National Audit Office's reporting threshold).	In April 2020 the CCG came to a year end agreement with its key provider for £115.813 million, which was very similar to the forecast outturn position based on actual activity data. The CCG recognised contract expenditure with the provider of £116.056 million, which was based on an offer made prior to reaching a final settlement. Management justified the additional expenditure recognised on the basis that there were a number of services not covered by the year end agreement and in prior years the CCG has under-accrued for these. In addition, the CCG estimated and recognised additional accruals of £900,000 relating to the provider, which had been incorrectly accounted for in Non-NHS expenditure and therefore did not appear on the DHSC mismatch reports. Referring back to prior year outcomes against estimates, management justified some of this additional accrual. This was not unreasonable, although potentially on the prudent side. However, we did not receive adequate explanation for £337,000 of the balance and therefore recorded this as an unadjusted error. The aggregate total differences on payables and receivables mismatches in the DHSC mismatch tool which we were not able to obtain satisfactory evidence for, indicated the following: • The CCG was potentially exposed to additional costs or reduced income of £416,000, in the event that the differences settled fully in the favour of the counter-parties. • The CCG would potentially receive a gain of £1.294 million if the differences settled fully in the CCG's favour. We are therefore satisfied that the CCG's balances were not materially misstated because of these mismatches.

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Primary Care Commissioning Expenditure There is a risk that primary care commissioning expenditure may not be accurately recorded.	We carried out the following planned audit procedure: • Substantively tested a sample of different streams of primary care commissioning transactions back to supporting documentation (such as GP practice list numbers, rent schedules and superannuation payments on behalf of GPs) to confirm accuracy and existence of expenditure recognised by the CCG.	Our sample of primary care commissioning transactions did not identify any issues with the accuracy or existence of this expenditure. We reviewed the service auditor report prepared by PwC in respect of internal controls of NHS Digital with respect to NHS payments and deductions made through GP payments systems (NHAIS) to providers of GP services in England. The opinion in the service auditor report was qualified by PwC as they identified exceptions in their testing that meant that they were unable to provide reasonable assurance that system change cannot be undertaken unless valid, authorised and tested. NHS Digital uses Capita Plc as a subservice organisation to provide select services such as processing and calculating payments. The opinion in the service auditor report was qualified by Mazars in respect of one control objective relating to GP pensions. Exceptions in controls operated at NHS Digital and Capita did not impact on our audit approach as we identified this as a risk at the planning stage and our substantive testing took account of this increased risk.

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Better Care Fund There is a risk of misclassification between revenue and expenditure in the Statement of Comprehensive Net Expenditure due to incorrect accounting for Better Care Fund transactions.	We carried out the following planned audit procedure: • Reviewed management's assessment of the nature and substance of the schemes within the Section 75 agreement, including risk sharing arrangements, to determine the appropriate classification of transactions in the CCG's financial statements.	There are two schemes within the Better Care Fund agreement with the local authority where the CCG is the lead commissioner: *Health commissioned services:* We were informed that the arrangement was no longer operating as a joint operation and that the CCG ultimately had control and was responsible for any overspends. On this basis, we agreed with management's assessment that the CCG was acting as a principal in this arrangement and contributions received from the local authority (£3.899 million in 2019/20) had been appropriately accounted for on a gross basis and recognised as income. *Continuing investment in health and social care schemes:* In the Section 75 agreement these arrangements were described as shared risk schemes. Any overspends that arose were to be shared between the CCG and the local authority. On this basis, we believe that they were joint operations and contributions from the local authority (£1.167 million in 2019/20) should have been netted off expenditure incurred instead of being recognised as income. Management amended this in the final financial statements.

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Recharges There is a risk that shared or hosted payroll and non-payroll costs may not be correctly or appropriately allocated across the Sussex and Surrey CCGs.	We carried out the following planned audit procedures in respect of the recharges from the Sussex Alliance and from the Surrey Heartlands CCGs: • Obtained an understanding of the joint working, hosting and risk sharing arrangements in place and controls and processes over the recharge arrangements. • Reviewed the recharges in the CCG's accounts and the underlying working papers to determine if they were in line with any formally agreed policies. • Assessed the reasonableness of the allocations between the CCGs, and considered if there was any inappropriate or undue management bias in the allocations.	*Sussex Alliance recharges:* The CCG recognised recharged expenditure of £975,000 in 2019/20, covering both pay and non-pay costs from the Sussex Alliance CCGs. This was based on 9.43% of the total cost incurred by all eight Sussex Alliance CCGs, which had been correctly calculated based on the CCG's running cost allocations. The working paper provided by the Sussex Alliance indicated a recharge amount of only £99,000 for the CCG, however there was an error in the working paper formulae and we are satisfied that the CCG had correctly accrued for a higher amount. We noted that all recharges had been incorrectly recognised within Non-NHS payables and this was amended in the final financial statements. *Surrey Heartlands recharges:* Recharges between the Surrey Heartlands CCGs had been allocated based on an the proportion of each CCGs' total running cost allocations, with 17% being attributable to the CCG, amounting to £571,000. We were satisfied that the allocation calculation was reasonable.

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Remuneration and staff report There is a risk regarding the presentation and accuracy of information disclosed in the Remuneration and staff Report	We carried out the following planned audit procedures: • Reviewed the disclosures in the Remuneration and Staff Report to check that they complied with guidance from DHSC and NHS Pensions. • Ensured that any changes in senior management and joint posts were correctly disclosed.	Our audit work on the Remuneration and staff Report identified a number of errors in presentation and amounts reported for senior management remuneration of pension benefits. These were corrected in the final report.

USE OF RESOURCES

Audit conclusion

We issued an adverse use of resources conclusion, referring to the weaknesses in proper arrangements for financial sustainability.

This means that we consider that we consider that there were significant weaknesses in arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

We set out below the risks that had the greatest effect on our audit strategy.

Risk description	How the risk was addressed by our audit	Results
Sustainable finances The CCG is reported a £38 million deficit, against a control total of £13 million.	We carried out the following planned audit procedures: • Reviewed the CCG's budget setting and budget monitoring arrangements, including monitoring and delivery of its QIPP programme. • Reviewed the actions taken and progress made in addressing actions required under the legal directions and special measures.	The CCG started 2019/20 with a financial plan to achieve a deficit of £22.1 million. This exceeded the control total deficit of £13.1 million set by NHS England. At month 5 management was already expecting a final outturn between £33.0 million and £35.4 million deficit and revised the forecast outturn. The overspend against the original budget was largely due to: • £11.9 million overspend on general and acute services • £1.1 million overspend on continuing healthcare due to the CCG taking on a portion of the lead CCG's overspend. • £1.2 million overspend on primary care. NHS England's legal directions over the CCG in respect of financial planning were lifted on 27 February 2020. This was on the basis that the CCG, under new management and together with its Surrey Heartlands partners, had created a recovery board to develop and deliver a financial recovery strategy and plan for the new Surrey Heartlands CCG going forward. Although there was evidence of transparent financial reporting and a clear understanding of key risks at the budget setting stage and throughout the year, there were inadequate arrangements in place to mitigate against overspends and deliver QIPP savings. As a result, the CCG's underlying deficit position deteriorated significantly from the prior year.

REPORTS ISSUED AND FEES

Fees summary

	2019/20 £	2018/19 £
Audit fee		
CCG financial statements and use of resources	70,000	33,000
Non-audit assurance services		
Fees for audit related services		
Assurance review over mental health investment standard	-	8,500
Total fees	**70,000**	**41,500**

Communication

Reports	Date	To whom
Audit Planning Report	February 2020	Audit Committee
Section 30 referral	March 2020	Management and Audit Committee Chair
Audit completion report	Interim report to Committee May 2020 Final version June 2020	Audit Committee
Annual Audit Letter	(This report) September 2020	Audit Committee

The original planned fee for 2019/20 was £45,000. This increased from the prior year as a result of the additional audit costs we expected to be incur following the CCG's transition into Surrey Heartlands during the year. In addition, the CCG took on primary care co-commissioning responsibilities in 2019/20 and therefore we were required to audit this expenditure.

The audit took longer than originally anticipated due to delays in receipt of information from the Sussex Alliance and the number of issues identified in our audit of payable accruals, non-NHS expenditure and the Remuneration and staff report. We therefore incurred significant additional costs and agreed a further fee increase, resulting in a total audit fee of £70,000.

FOR MORE INFORMATION:

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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 company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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