Grant Thornton

The Annual Audit Letter
For NHS Bedfordshire CCG

Year ended 31 March 2019

June 2019

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at NHS Bedfordshire Clinical Commissioning Group (the CCG) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the CCG and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the CCG's Audit & Governance Committee as those charged with governance in our Audit Findings Report on 21 May 2019.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on your financial statements and regularity assertion (section two)
- assess your arrangements for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion) (section three).

In our audit of your financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Financial Statements opinion	We gave an unqualified opinion on your financial statements on 27 May 2019. As well as an opinion on the financial statements, we are required to give a regularity opinion on whether expenditure has been incurred 'as intended by Parliament'. Failure to meet statutory financial targets automatically results in a qualified regularity opinion. Our review of your expenditure highlighted an issue which gave rise to a qualified regularity opinion. On 21 March 2019, Bedfordshire CCG raised an invoice to Milton Keynes CCG for £900,000 entitled “Recharge for Bedfordshire CCG allocation transferred to MK CCG in error” in respect of a revenue resource limit adjustment for Bedfordshire CCG which had been inadvertently allocated to Milton Keynes CCG. Milton Keynes CCG reflected this additional expenditure in it financial statements to rectify the incorrect allocation of this funding. We believe the expenditure recognised in Milton Keynes CCG’s financial statements in respect of this invoice was unlawful, as it did not relate to services provided to persons for which the CCG is responsible. This matter also gave rise to a duty on us to report to the Secretary of State under section 30(b) of the Local Audit and Accountability Act 2014.

Executive Summary

Materiality	We determined materiality for the audit of your financial statements to be £11,887,000, which is 2% of your gross revenue expenditure.
NHS Group consolidation template (WGA)	We also reported on the consistency of the financial statements consolidation template provided to NHS England with the audited financial statements. We concluded that these were consistent.
Use of statutory powers	On 27 May 2019 we referred a matter to the Secretary of State under section 30(b) of the Local Audit and Accountability Act 2014 in relation to £900,000 of unlawful revenue recognised in NHS Bedfordshire CCG's financial statements as detailed in the Financial Statements Opinion section on page 3 of this report.
Value for Money arrangements	We were satisfied that you put in place proper arrangements to ensure economy, efficiency and effectiveness in your use of resources. We reflected this in our audit report to the members of the Audit & Governance Committee on 21 May 2019.
Certificate	We certified that we have completed the audit of the financial statements of Bedfordshire CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 28 May 2019.

Working with you

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in May, delivering the financial statements before the deadline.
- Effective communication – we worked hard to communicate effectively at all levels of the organisation, meeting with key stakeholders regularly throughout the year. We kept your finance team updated during our final accounts visit, communicating in a style which fostered a strong and productive relationship.
- Improved financial reporting – we worked with you to streamline and declutter your accounts
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted a number of areas of future risk and potential further improvement, within the context of a strong operating environment already in place, to support you in your longer term planning and risk management.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports, including benchmarking your prior year Annual Report against other trusts, and Brexit updates.
- Providing training – we provided your finance team with training on financial accounts and annual reporting.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by your management and staff.

Grant Thornton UK LLP
June 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of your financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of your financial statements to be £11,899,000, which is 2**%** of your gross revenue expenditure. We used this benchmark as, in our view, users of your financial statements are most interested in where you have spent your allocation in the year.

We set a lower threshold of £300,000, above which we reported errors to the Audit & Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give sufficient assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and are adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Annual Report to check it is consistent with our understanding of the CCG and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the CCG's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal 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.	As part of our audit work we: • Evaluated the design effectiveness of management controls over journals • Obtained a full listing of journal entries and tested unusual journal entries for appropriateness • Gained an understanding of accounting estimates and critical judgements made by management and considered their reasonableness • Evaluated the rationale for changes in accounting policies or significant unusual transactions	Our audit work did not identify any material issues in relation to management override of controls.

Audit of the Financial Statements

Significant Audit Risks...*continued*

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Secondary healthcare expenditure – contract variations (completeness and accuracy assertions) *The risk that secondary healthcare expenditure is not completely and accurately reflected in your financial statements* A significant percentage of your expenditure is on contracts for healthcare with NHS providers and non-NHS providers, such as operations and hospital care. This expenditure is primarily derived through core contracts that are agreed up front for a predetermined cost or level of activity. Contract variations are agreed with the supplier throughout the year to recognise demand and price adjustments against the agreed contracts. Costs related to contract variations are recognised when the adjustment has been agreed with the provider and the associated activity has been delivered. Accruals are raised at the year-end for completed activity for which an invoice has not been issued. We identified the accuracy and completeness of secondary healthcare expenditure –contract variations, and the accuracy and completeness of associated payables and accruals–as a significant risk of material misstatement.	As part of our audit work we: • Gained an understanding of the financial reporting processes used for the purchase of secondary healthcare and evaluate the design of the associated controls • Used the DHSC mismatch report and investigated unmatched expenditure and payable balances with NHS bodies over the NAO £0.3m threshold, corroborating any unmatched balances not included in the CCG's financial statements to supporting evidence • Obtained a listing of payments made after year end and agree, on a sample basis, that relevant payments for NHS and non-NHS secondary healthcare expenditure have been accounted for in the correct financial period through agreement to supporting evidence. • Undertook procedures to identify unrecorded liabilities omitted from your financial statements.	Our audit work did not identify any material issues in relation to secondary healthcare expenditure.

Audit of the Financial Statements

Significant Audit Risks…*continued*

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Going concern material uncertainty disclosures 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).	As part of our audit work we: • Reviewed management's assessment of going concern assumptions and supporting information provided to us, including budgets and cash flow forecasts and associated sensitivity analyses, in conjunction with our knowledge and understanding of the CCG. • Reviewed your financial performance and submitted planning documents. • Discussed the financial standing of the CCG with officers. We evaluated the completeness and accuracy of disclosures on material uncertainties with regard to going concern in the financial statements.	Our audit work did not identify any material issues in relation to your going concern disclosures.

Audit of the Financial Statements

Audit opinion
We gave an unqualified opinion on your financial statements on 28 May 2019.

Basis for qualification of the regularity opinion
As well as an opinion on the financial statements, we are required to give a regularity opinion on whether expenditure has been incurred 'as intended by Parliament'. Failure to meet statutory financial targets automatically results in a qualified regularity opinion.

In our opinion, except for the effects of the matter described in the 'Financial Statements opinion' section on page 3 of this report, 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 in the financial statements conform to the authorities which govern them.

Preparation of the financial statements
You presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit. This supported the delivery of an efficient audit.

Issues arising from the audit of the financial statements
We reported the key issues from our audit to your Audit & Governance Committee on 21 May 2019.

Annual Report, including the Governance Statement
We are also required to review your Annual Report and the Governance Statement included within the Annual Report. You provided these on a timely basis with the draft financial statements with supporting evidence.

Whole of Government Accounts (WGA)
We issued a group return to the National Audit Office in respect of Whole of Government Accounts, ahead of the national deadline, which did not identify any issues for the group auditor to consider.

Other statutory powers
We are also required to refer certain matters to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014. On 27 May 2019 we reported to the Secretary of State £900,000 of unlawful revenue recognised in the 2018/19 statement of accounts.

Certificate of closure of the audit
We certified that we have completed the audit of the financial statements of Bedfordshire CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 28 May 2019.

Value for Money arrangements

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work. We carried out an initial risk assessment in January 2019 and identified four significant risks which we communicated in our audit plan to the audit committee:

- Financial position and sustainability
- Financial and non-financial delivery of QIPP
- Working with partners – Shared executive team; and
- Delivery of constitutional targets and healthcare performance outcomes

Our findings and recommendations against these risks are set out overleaf and were communicated as part of our Audit Findings report agreed with you in May 2019.

Overall, in our view arrangements in place at the CCG are strong, and operate within a culture which has enabled you to deliver your financial targets. The majority of our comments in this vfm review relate not to significant deficiencies, but to areas of future risk and potential further improvement, within the context of strong operating environment already in place.

Overall Value for Money conclusion

We are satisfied that in all significant respects the CCG put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

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Value for money

2018-19, your sixth year as a CCG, has been a year of considerable change. In November 2018 you and your partners from Milton Keynes and Luton formed a single executive team to manage all three CCGs.

You achieved your £10m surplus control total for the year, although you only did so through the use of one-off allocations. Your underlying position is in fact a small deficit of £0.8m, once non-recurrent income and expenditure elements are removed. Management has a good understanding of the financial position, including the underlying position. Delivering such a small deficit position is a good outcome, particularly within the context of managing expenditure in excess of £550m and when your QIPP requirement was a challenging 4% of total allocation.

Notwithstanding this, you remain in financial special measures with NHS England following difficulties experienced in 2017/18. Whilst you have achieved your control total for 2018/19, given your recent experience of coming out of special measures only to go back in 6 months later, it is likely NHS England will want to see at least a couple of strong quarters in 2019/20 before considering lifting special measures once again.

Your arrangements for monitoring and managing financial risk in the short term are strong. This includes your arrangements for identifying short term financial risk in identified QIPP schemes. You have also started to realise some of the benefits of moving to a single executive management team, taking advantage of increased cross-CCG learning and good practice. The corporate direction of travel from the single executive team is measured, well-thought through, and seeking to secure long term benefits from the partnership working.

Target	Outturn (pre-audit)
Break even on revenue expenditure	Target met: You achieved a £10.1m surplus
Keep within Capital Resource Limits	Target met: You remained within limits and generated a small underspend of £14k
Administration spend to not exceed limits	Target met: You remained within your £10.1m limit and generated a significant underspend of £1.1m

We have reviewed your financial plans for 2019-2020 and assessed the reasonableness of your key assumptions. The biggest risk to the delivery of your surplus £6.1m target for 2019/20 is the delivery of £28m QIPP (4.1% of allocation). We are satisfied that there are sufficient mitigations such that the residual risk of non-delivery is not a significant risk to our value for money opinion. Your QIPP and PMO arrangements are mature and, under the joint executive team, are being held up as examples of good practice for other CCGs to import.

In meeting your in year financial targets, you demonstrate appropriate arrangements for management of your finances are in place. Although only 91% of the in year QIPP was delivered, your arrangements for supporting QIPP delivery are also good; the QIPP target was very challenging and risk assessment arrangements are sound.

However, corporately, your arrangements for identifying and managing longer term financial risk – including risk arising from policy decisions over access to healthcare – could be improved, as could your arrangements for identifying and monitoring the non-financial impact of policy decisions and QIPP schemes, post implementation, at a corporate level.

Our assessment of your arrangements to secure value for money is not just a review of whether you meet short term financial targets. Value for money is only truly achieved when you meet financial targets in a way which enables your performance and constitutional targets to also be delivered, and with a full appreciation of the longer term financial and healthcare risk of restrictions to basic treatments. This includes timely access to appropriate primary care, as well as ensuring the procedures to which access is denied or restricted because they are judged to provide “limited clinical value” are genuinely limited in their clinical value and informed by a full appreciation of the longer term impact on health needs, future financial costs and the potential cost to the wider public sector / the STP. The meeting of the financial targets needs to be understood in this context.

You met your financial targets in 2018/19, but you did not meet the constitutional performance targets for providing timely access to secondary healthcare. Whilst the shortfall against the national target was not overly large for Referral to Treat (RTT) 18 week waits (although performance dropped marginally from the prior year), the shortfall against the 62 day cancer wait was more significant, with higher levels of urology referrals. One in four people in Bedford did not receive cancer treatment within 62 days of an urgent referral from their GP. You are alert to this and are in the process of implementing a BLMK cancer transformation plan that “will require significant transformation of the way in which you approach prevention, early diagnosis, and treatment pathways”.

For the past few years, you have restricted access to “Procedures of Limited Clinical Value” (PLCV). Limited clinical value is a status generally reserved for complimentary or aesthetic treatments, or treatments not proven to be cost effective by the National Institute for Health and Care Excellence. There are 17 interventions determined by NHS England which should only be performed under exceptional circumstances, on the basis they otherwise provide “limited clinical value”. These 17 interventions do not extend to access to basic treatments, such as cataract surgery, hip and knee replacements, continuous glucose monitors for people with diabetes and hernia repair.

Value for money….*continued*

Your policy is to restrict access to 124 treatments, subject to "Individual Funding Requests" (IFR). http://www.fundingrequests.cscsu.nhs.uk/policies-bedfordshire/ This includes both "Threshold Dependant Procedures" (TDP) and PLCV. Treatments are classified into three categories:

- Red – Excluded procedures, which includes PLCV
- Amber - Procedures that require prior approval by written communication – these are Threshold Dependant Procedures
- Green – Funded, but only subject to certain criteria being met

53 of the 124 treatments are classified as "Red: Excluded procedures". Only 12 procedures are classified as "Green".

The restriction of access to PLCV was included within the QIPP plan in 2017/18 with a target saving of £2.09m and an actual saving of £2.13m being realised. A further £702k saving was realised in 2018/19 and a further £321k saving is anticipated in 2019/20. This policy has had a clear impact on your ability to meet financial targets.

Having implemented these policies, it is essential that you have a strong understanding of the impact of such restrictions, particularly their impact on individual healthcare outcomes, the wider cost to the public purse, and the future increased financial risk from worsening healthcare outcomes which may be caused by these restrictions.

You have undertaken consultation prior to implementation of any restrictions to procedures, including assessing the quality impact. New IFR policies or the tightening of existing IFR policies are discussed at your Clinical Reference Group (CRG), which is chaired by a clinician. Recommendations from this group are then either agreed at the Bedfordshire and Herefordshire Priorities Forum, or wider at the Bedfordshire, Hertfordshire, West Essex, Luton and Milton Keynes Priorities Forum. Both are clinically led forums.

However, it is not clear that the wider cost to the public sector is included in the considerations or consultations – for example, whether these decisions could lead to increases in social care costs. With the new STP framework now established, and with local authorities included within the STP as partners, you should make sure you are maximising the partnership working in place to ensure decisions are made which are to the benefit of the whole system, and not just the NHS.

Equally, it is not clear that you are routinely monitoring the impact of restricting access to these procedures, post implementation. The only way to gain assurance over the accuracy of the quality impact assessments undertaken is to assess whether, once implemented, they were accurate in their assessment as to whether restrictions carried minimal or negligible quality risk. Your focus on monitoring is on whether the financial impact is achieved, not on whether health outcomes are adversely affected as a consequence of the restrictions placed on some treatments. Whilst you contend that delivery of non-financial benefits of the services you do fund is contractualised and forms part of the service KPIs set (directly or through proxies), and monitored at regular contract meetings, this would not identify the unintended consequences – to health needs, future financial risk and the cost and impact on the wider system – of the decisions to restrict treatments in a number of areas. In short, your monitoring is focused on the outcomes and quality of what you do provide, but not on the wider consequences of what you restrict. It is these wider consequences that could, if not monitored, provide significantly increased risk to your on-going sustainability in future years.

This means there may be 'hidden costs' building up in the system, which could impact you in future years and could undermine the financial sustainability of NHS provision in Bedfordshire. The short term financial gain of such restrictions may lead to significantly increased financial cost pressures on the NHS in a few years. With the current monitoring you have in place, you may not identify this risk until it is too late.

Shortfalls in meeting the constitutional targets and insufficient monitoring of (unintended) non-financial impacts arising from QIPP schemes (including but not limited to PCLV and TDR) undermines your financial achievement and means you may be unaware of significant financial risk being generated.

We have raised a number of recommendations following our review. In the coming year, our assessment of your arrangements to consider value for money will continue to assess performance outcomes, as well as financial ones, and how well you are placed to identify hidden risks to future financial and healthcare outcomes. We will follow up your responses to our recommendations to form a view as to whether your arrangements support medium term financial sustainability and effective healthcare outcomes. Financial delivery alone is unlikely to be sufficient to demonstrate arrangements are sufficient to deliver value for money.

Value for money….*continued*

Notwithstanding these, we also appreciate that many of the challenges you face are symptomatic of the wider NHS as a whole. The 'system' promotes and enforces short term achievement of in year financial targets over medium term transformation and productivity / improvement in care pathways, and this can frustrate your ability to implement longer term change for the benefit of patients, which could be more cost-effective over the long term. Significant funding restrictions also play a role in your ability to manage demand and ensure healthcare outcomes are not disadvantaged. Your providers also face significant capital constraints, which undermines their ability to continue delivering services efficiently and in line with the constitutional targets. Many of the challenges you face are faced across the whole of the NHS, with similar outcomes on achievement of constitutional targets and decisions over procedures of limited clinical value. The pressure you are under is considerable, and the prioritisation of in year financial targets is driven by the NHS nationally. The changes being implemented by the new single executive team are promising, and it is clear that you are driven by a genuine desire to improve and optimise the provision of healthcare across the three CCGs, despite the considerable challenges faced and the pressure imposed by the structure of the wider NHS framework.

Recommendation: Ensure future consultations over changes to service provision take into account the potential impact on the wider STP, including the impact on local authorities and social care costs, in addition to the financial and clinical impact within the NHS.

Recommendation: Ensure sufficient focus is applied to the non-financial aspect of QIPP scheme delivery, including monitoring the impact on healthcare outcomes of QIPP schemes and assessing the extent, if any, to which financial gains made in year may result in increased costs in future years if health outcomes are impacted. This includes monitoring the non-financial impact of restrictions to procedures of limited clinical value and Threshold Dependent Procedures.

Recommendation: Consider the capacity and skills required to manage future transformational projects at scale and obtain additional support where gaps are identified. This includes ensuring there is capacity to develop longer pipelines of schemes, to avoid a repeat of the current situation whereby not all QIPP schemes have been identified prior to the commencement of the financial year in question.

Recommendation: Ensure access to secondary healthcare is provided at the performance levels set by the constitutional standards.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	February 2019
Audit Findings Report	May 2019
Annual Audit Letter	June 2019

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	47,658	47,658	47,658
Mental Health Investment Standard*	10,000	TBC	N/A
Total fees	**57,658**	**TBC**	**47,658**

** The final audit fee in respect of Mental Health Investment Standard is not yet known as the work is planned to take place in September 2019.*

Fees for non-audit services

Service	Fees £
None	Nil

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. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the CCG's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the CCG's policy on the allotment of non-audit work to your auditor.

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