



# The Annual Audit Letter for NHS North East Hampshire and Farnham CCG

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Year ended 31 March 2020

July 2020



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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 North East Hampshire and Farnham CCG (the CCG) for the year ended 31 March 2020.

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 Committee as those charged with governance in our Audit Findings Report on 17 June 2020.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the CCG's financial statements to be £6,280,000, which is 2% of the CCG's gross expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the CCG's financial statements on 24 June 2020.
<b>NHS Group consolidation template (WGA)</b>	We also reported on the consistency of the financial statements consolidation template provided to the National Audit Office with the audited financial statements. We concluded that these were consistent.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the CCG put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to Those Charged with Governance on 17 June 2020.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of NHS North East Hampshire and Farnham CCG in accordance with the requirements of the Code of Audit Practice on 24 June 2020.

## Working with the CCG

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff amidst the pressure they were under during these unprecedented times. The finance team embraced the remote working arrangements and were responsive to our audit queries, making for a smooth and no-surprises audit.

## 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 the CCG's financial statements (section two)
- assess the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

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

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# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the CCG's 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 the CCG's financial statements to be £6,280,000, which is 2% of the CCG's gross expenditure. We used this benchmark as, in our view, users of the CCG's financial statements are most interested in where the CCG has spent its revenue in the year.

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

### The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable 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 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
<p><b>Covid – 19</b></p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> <li>• Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;</li> <li>• Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>• Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation’s ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach;</li> <li>• we liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise;</li> <li>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;</li> <li>• evaluated whether sufficient audit evidence use alternative approaches could be obtained for the purposes of our audit whilst working remotely;</li> <li>• evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as material prescribing accruals and access to GP records; and</li> <li>• evaluated management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment.</li> </ul> <p>Management produced the draft financial statements and working papers in line with the updated timetable. We completed our audit remotely and, while it took longer than normal as a result, we were able to utilise technology to corroborate information produced by the CCG. The CCG’s finance team were extremely responsive to audit queries throughout the audit.</p> <p>We did not identify any implications for our audit report resulting from Covid-19.</p>

## Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk
<p><b>Improper revenue recognition</b> 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 the risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement.</p>
<p><b>Management override of controls</b> 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. This CCG faces external pressures to meet targets, and this could potentially place management under undue pressure in terms of how they report performance. We identified management over-ride of controls as a risk requiring special audit consideration.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness;</li> <li>obtained a full listing of journal entries and analysed these based on criteria for selecting high risk unusual journals;</li> <li>tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and</li> <li>evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul> <p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p><b>Secondary healthcare expenditure – contract variations</b> A significant percentage of the CCG’s 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 block 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, with accruals 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, as a significant risk of material misstatement in the financial statements.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>gained an understanding of the financial reporting processes used for the purchase of secondary healthcare and evaluated the design of the associated controls; and</li> <li>substantively tested secondary healthcare costs: <ul style="list-style-type: none"> <li>We reviewed the DHSC mismatch report, investigating 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;</li> <li>We reviewed contracts for all significant NHS and non-NHS contracts, reconciling final contract values to recorded expenditure in the general ledger. We agreed any significant variances to supporting documentation; and</li> <li>We obtained a listing of payments made after year end and agreed, on a sample basis, that relevant payments for NHS and non-NHS secondary healthcare expenditure were accounted for in the correct financial period through agreement to supporting evidence.</li> </ul> </li> </ul> <p>Our audit work did not identify any issues in respect of secondary healthcare expenditure – contract variations.</p>

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the CCG's financial statements on 24 June 2020.

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.

Based on our review of the CCG's expenditure we gave an unqualified regularity opinion.

## **Preparation of the financial statements**

The CCG presented us with draft financial statements in accordance with the national deadline and pandemic lockdown restrictions that existed at the time, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries remotely during the course of the audit.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the CCG's Audit Committee on 17 June 2020. We identified only a small number of minor formatting issues to improve the presentation of the CCG's financial statements, and two unadjusted misstatements of:

- £343,000 in relation to increases to the Funded Nursing Care Rate for 2019/20; and
- £455k in relation to the actual year end prescribing cost being higher than forecast due to the impact of Covid-19.

## **Annual Report, including the Annual Governance Statement**

We are also required to review the CCG's Annual Report, including the Annual Governance Statement. The CCG provided these on a timely basis with the draft financial statements with supporting evidence.

No inconsistencies were identified between the Annual Report, Annual Governance Statement and the financial statements.

## **Whole of Government Accounts (WGA)**

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

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of NHS North East Hampshire and Farnham CCG in accordance with the requirements of the Code of Audit Practice on 24 June 2020.

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# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 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.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the CCG in June 2020, we agreed recommendations to address our findings.

## **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 2020.

# Value for Money conclusion – Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

## Significant risk: Financial Sustainability

- 1 Finances in the NHS remain challenging. Despite this, the CCG has delivered surpluses for the last three years. Following M10, the CCG is forecasting to deliver its breakeven position, despite at M10 under-delivery against the efficiency programme by £94k (0.9%).

The CCG's 2019/20 QIPP target of £10,250k is challenging despite a track record over the last three years of delivering all its required QIPP. The CCG's breakeven control total is reliant on delivery of these efficiency savings. At M6 the CCG was £230k adrift of its year to date target, predominantly due to under-delivery relating to continuing healthcare growth management. Following M10, the CCG was forecasting to deliver its breakeven position.

- We will monitor the delivery of the CCG's financial plans for 2019/20.
- We will consider the CCG's financial plan for 2020/21.

## Findings

### 2019/20 Financial outturn

The CCG's 2019/20 financial plan set out to deliver a break even control total agreed with NHS England & Improvement (NHSE/I) and the CCG achieved a £14k surplus. This was achieved even though the CCG had significant overspends in two programme areas:

- The CCG made a £1,530k non-recurrent contractual support payment to Frimley Health NHS FT to cover transformational spend and areas of spend that had not been included in the 2019/20 contract with the Trust but will be going forward, driving an overspend in the acute programme area; and
- Continuing Care budgets overspent consistently throughout the year as the CCG was unable to realise the level of efficiencies set-out in the 2019/20 financial plan.

Both of these overspends were managed within the CCG's wider financial position and were mitigated by a significant £2,434k underspend within other programme services.

### 2019/20 QIPP achievement

The CCG's 2019/20 plan was to target £10.25m of QIPP and this was delivered in full by the CCG. Underachievement in the Continuing Care (£1,080k), Prescribing (£470k) and Corporate Costs (£84k) schemes was offset by delivery of savings above set targets for Non-Elective (£752k) and Planned Care Growth Management (£881k).

## Year on year financial performance

Financial year	In-year surplus £000	Surplus drawdown £000	Cumulative surplus £000
2017/18	1,614	-	8,131
2018/19	16	(266)	7,881
2019/20*	14	-	7,895
2020/21**	Break even		7,895

Sources:  
 \* 2019/20 Outturn after CSF  
 \*\* Per Draft 2020/21 Financial plan

## Key findings

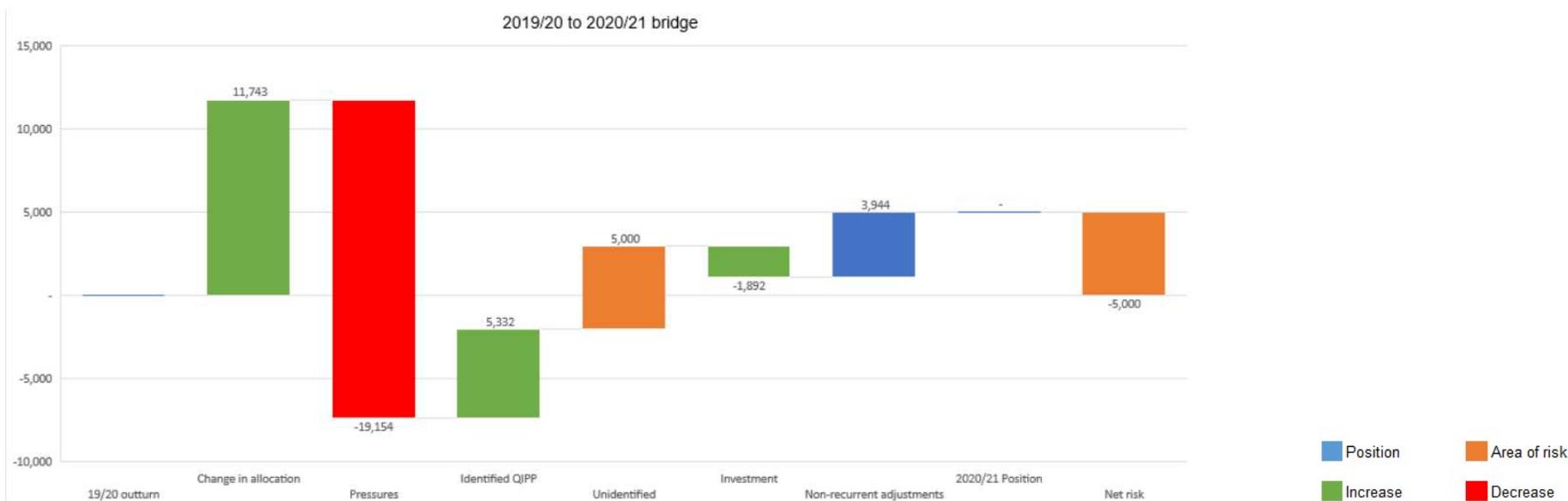
### 2020/21 Financial planning (Pre- Covid-19)

The CCG's draft 2020/21 financial plan submitted to NHSE/I, prior to the COVID-19 pandemic, is to deliver a break even control total. The CCG's 2020/21 allocation of £334.4m is a 3.6% increase on its 2019/20 allocation. The additional £10.6m allocation does not cover required levels of net inflation and growth which will increase costs by £13.4m. Also, for 2020/21 the CCG has £5.1m of new cost pressures including £1.5m of system support required within the Frimley Health acute contract, additional pressures of £1.4m within continuing care budgets, £0.7m of additional costs relating to the new Voyager Health Centre in Farnborough, and £0.5m additional costs as part of the new Integrated Urgent Care service. The 2020/21 financial plan for the CCG has been developed alongside the Frimley ICS and the CCG's local delivery priorities.

The CCG is part of the Frimley Health and Care ICS which has a system control total of £5.3m surplus. As part of the move to a self-governing system the ICS partner finances are managed based on the consolidated financial position of the six NHS partner organisations. This is the third year that the ICS partners have produced a single system operating plan. 2020/21 is a challenging year for the system. To achieve the 2020/21 system control total partner organisations have agreed an underlying deficit of £75m and there is planned to be £17m increased external funding (primarily contract income from commissioners outside the ICS), leaving a £57m savings requirement for the year. Stretch savings of £40m have been agreed for the partner organisations. To support this, the CCG is required to make £10.3m of efficiency savings for 2020/21, of which £5.3m have been identified and the remaining £5m is included in the plan as unmitigated risk.

The CCG has an investment plan of £1.9m for 2020/21, of which £1.1m of investment is required to meet Long Term Plan trajectory targets within mental health. A further £0.6m will be invested into the new community services contracts with Frimley Health NHS FT.

A summary of the CCG's 2020/21 plan is shown in the waterfall chart:



Source: Draft 2020/21 Financial plan

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## Key findings

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### 2020/21 Financial planning (Pre- Covid-19) continued

It is at this point that planning for 2020/21 was put on pause by NHSE/I to allow for the response to the Covid-19 pandemic. Although the CCG's plan forms a basis for the new financial year and the majority of the risks identified still persist, there are a number of changes to the way in which the NHS will be financed for a proportion of the 2020/21 financial year. We assess the Covid-19 impact below.

### Covid-19 environment

The CCG's draft financial plan was produced ahead of the Covid-19 pandemic. Operational and financial planning has now been put on hold for at least the first quarter for 2020/21. On 20 March 2020, a central model was announced by NHS England on cost reimbursement arrangements and amended financial arrangements for the NHS for the Q1 of 2020/21, including requirement for organisations to provide best estimates of expected costs from now until the end of the peak outbreak. Contracting arrangements in the first four months of 2020/21 have moved to a block, pre-agreed by NHS England, to ensure sufficient cashflow in systems during a period of significant uncertainty. The potential impact on the financial year ahead remains uncertain but it is likely that the current arrangements will remain in place for some or all of the financial year. Whilst this insulates individual bodies and systems from in year financial risks it will present a challenge beyond that particularly where the delivery of recurrent efficiency savings schemes may now be delayed, deferring the associated benefits.

The CCG recognises that the post-pandemic environment is going to be challenging. There is likely to be significant latent demand caused by a reduction in routine non-urgent elective activity during the pandemic. However the pandemic is also acting as a catalyst for improving demand and capacity management. The general public have quickly changed behaviours; managing and accessing healthcare in different ways and clinicians have rapidly adapted how they deliver services virtually and digitally. The CCG has begun to recognise these learning outcomes through an actions-based plan, instigated by NHS England. From a financial perspective, the CCG has also started to identify the impact of the pandemic on QIPP savings and other risk areas, albeit based on assumptions over government funding extending further than officially confirmed at this stage. These benefits may include savings due to the independent sector being funded from the centre, and the potential release of Winter Resilience funding no longer needed. If the existing block contract agreements are extended for all or part of the year it would remove the risk of providers bidding for significant increases in funding.

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## Conclusion

### Auditor view

- 1 Overall we have concluded that the CCG has good arrangements to set a realistic and achievable budget for 2020/21. We do, however, recognise that significant pressures remain within the wider system and the impact of Covid-19 on public finance is likely to be significant.

## Key findings

### Significant risk: Working with partners – Sustainability and Transformation Partnership Outcomes

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In July 2019 the CCG's Governing Body decided to create a single commissioning function for the Frimley Health and Care ICS; a shared decision-making body and a single executive team with East Berkshire and Surrey Heath CCGs. The CCG will therefore be transitioning from the Partnership working across Hampshire and the Isle of Wight to Collaborative arrangements as part of the Frimley Health and Care ICS.

- We will consider the CCG's arrangements for working with partners, and particularly governance around the transition from Partnership to Collaborative arrangements, and how this enables the CCG to work in the local system.

## Findings

### Frimley Health and Care ICS

The Frimley Health and Care ICS is advanced in its system working. The ICS first agreed a system-wide operational plan for 2018/19, having operated a 'shadow' financial control total in 2017/18.

In the early stages of development, work to build collaborative relationships between the partners was prioritised over governance and structure. Since then, governance arrangements have been developed to underpin the partnership working, and the move this year to create a single commissioning function with a shared decision-making body and single executive team with the CCG's ICS partner CCGs is a further step towards the final form of the ICS.

As well as the system-wide decision making board, where representatives from each ICS partner have delegated authority to make some decisions on behalf of their organisations, there is also a programme delivery board and several working groups to provide assurance and deliver agreed national priorities and local transformation initiatives. Financial transparency and collective resource management is facilitated and supported through the finance group comprising the CFOs and FDs from NHS and local authority ICS partners.

The success of the ICS is founded on a history of collaborative working and strong relationships between many of the partners, with longstanding leaders that have a high degree of influence and credibility in their sectors. The ICS also has the advantage that its partners do not have significant historic financial or operating pressures, and the local system is relatively stable. However the ICS is reaching something of a tipping point and faces significant financial pressures in the short to medium term.

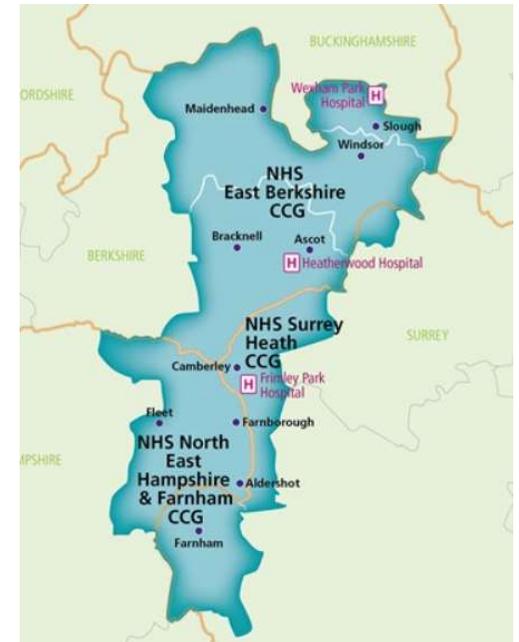
The ICS's single system operating plan reflects the:

- Frimley Creating Healthier Communities 5-year strategy;
- NHS Long Term Plan
- Local authority financial strategies and transformation programmes

The system encompasses partnership working to take into account system, organisational and place priorities.

The system commits to delivering the agreed expenditure plans and to develop the culture, systems, and processes to manage in-year risks across the ICS partners. The system has investigated innovative payment methodologies, and has moved away from a Payment by Results based contract between the system's CCGs and the main acute provider Trust.

The system is a self-governing system and the delivery of the control total is reliant on the delivery of the consolidated financial position of the six NHS partners within the ICS.



Footprint of Frimley ICS

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## Key findings

### Frimley Collaborative

In December 2019 the CCG became part of the Frimley Collaborative, joining East Berkshire CCG and Surrey Heath CCG. The CCG will continue as an associated member of the Hampshire and Isle of Wight Partnership of CCGs, allowing it to influence and contribute to decisions in respect of the Hampshire elements of the patch. The new Collaborative facilitates the creation of a single commissioning function for the Frimley Health and Care ICS. Having worked closely with the ICS for many years the CCG will look to further strengthen key relationships within the ICS through the Frimley Collaborative.

In July 2019 the governing bodies of the three CCGs agreed that the CCGs will organise commissioning resources into five places with each place led by an executive managing director and a clinical leader. It was also agreed to establish the Frimley Collaborative Board. The Frimley Collaborative Board replaced the meetings of the individual Governing Bodies in January 2020. It is a formal committees in common of the three CCGs and makes decisions on matters that are common to the three CCGs, taking the needs of local communities into account. The Board provides strategic leadership to the CCGs and provides a single commissioning voice in Frimley Health and Care. The Board holds the statutory responsibility for the work of the CCGs and has oversight of delivery of the operational plan.

### Looking ahead

The Frimley Health and Care ICS is in the third of its four-stage transition to new programme arrangements. This is where the achievements, skills and capacity needed in the ICS to support and enable delivery have been agreed, and programme processes and arrangements have been reviewed to assess how they support and meet future needs of the ICS. Currently the focus is on the identification of gaps so that they can be filled/closed – these are gaps are in areas such as capability in population health management, digital, workforce and analytics. The final stage will be where programme support and arrangements are in place and effective to deliver the strategic ambitions and the Long Term Plan.

As the ICS further matures it will be looking to enhance its rules-based governance, with each organisation being subject to regulatory arrangements, to ICS level goals-based governance. This will require the ICS partners to set themselves a series of ambitions, and for the ICS governance to support each organisation towards the achievements of these ambitions.

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## Conclusion

### 2 Auditor view

We consider that the CCG has adequate arrangements in place to work with its partners. We recognise that as the ICS is maturing the CCG itself will be looking to further embed the governance arrangements for the Frimley Collaborative in respect of the single commissioning function since its inception in December 2019.

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## A. Reports issued and fees

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

### Reports issued

Report	Date issued
Audit Plan	March 2020
Audit Findings Report	June 2020
Annual Audit Letter	July 2020

### Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	32,000	32,000	34,000
<b>Total fees</b>	<b>32,000</b>	<b>32,000</b>	

