



Annual Audit Letter 2017-18

**NHS Guildford and Waverley Clinical Commissioning
Group**

6 June 2018

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This report is addressed to NHS Guildford and Waverley 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 Guildford and Waverley 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.

In the letter we highlight areas of good performance and also provide recommendations to help the CCG improve performance where appropriate. 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:

Financial Statements including the regularity opinion and Governance Statement	<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">— 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;— report by exception if the CCG has not complied with the requirements of NHS England in the preparation of its Governance Statement; and— 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.
Value for Money arrangements	<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 our:

- attendance at meetings with members of the Governing Body and Audit Committee to present our audit findings, broaden our knowledge of the CCG and provide insight into sector developments and examples of best practice;
- proactive and pragmatic approach to issues arising in the production of the financial statements to ensure that our opinion is delivered on time;
- incorporation of data analytics into our programme of work to, for example, identify high risk journals for testing; and
- strong and effective working relationship with Internal Audit to maximise assurance to the Audit Committee, avoid duplication and provide value for money.

Fees

This was our first year as the CCG's external auditors. Our fee for 2017-18 was £39,597 excluding VAT. This fee was in line with the fee agreed at the start of the year with the CCG's Audit Committee.

We have not completed any non-audit work at the CCG during the year.

Acknowledgement

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



Headlines

Headlines

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

Financial Statements audit opinion	<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.</p> <p>There were no significant matters which we were required to report to 'those charged with governance'.</p>
Financial statements audit work undertaken	<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 £5.2m.</p> <p>We identified the following risks of material misstatement in the financial statements as part of our External Audit Plan 2017-18:</p> <ul style="list-style-type: none"> — Fraud risk from revenue recognition - We recognise that the incentives in the NHS differ significantly to those in the private sector which have driven the requirement to make a rebuttable presumption that this is a significant risk. These incentives in the NHS include the requirement to meet regulatory and financial covenants, rather than broader financial reporting or share based management concerns. In our External Audit Plan we reported that we do not consider the fraud risk from revenue recognition to be a significant audit opinion risk for CCGs. As the CCG receives a revenue resource allocation from the Department of Health, and has very little direct income, there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work. — Fraud risk from management override of controls - Through our procedures - including testing of journal entries, accounting estimates and significant transaction outside the normal course of business - no instances of fraud were identified.
Regularity Opinion	<p>We are required to 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.</p> <p>We have qualified our opinion on regularity as a result of the CCG breaching its duty to break even on its commissioning budget.</p>
Governance Statement	<p>We confirmed that the CCG complied with NHS England requirements in the preparation of the CCG's Governance Statement. No significant adjustments were required to the Governance Statement.</p>
Whole of Government Accounts	<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.)

Value for Money (VFM) conclusion	<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. Based on the findings of our work, we have nothing to report except for:</p> <ul style="list-style-type: none">- The CCG reported a deficit of £10.2 million for the financial year. The CCG's cumulative deficit at 31 March 2018 totalled £15.2 million. The CCG has not yet succeeded in addressing its underlying deficit and is forecasting a further deficit of £6.9 million for 2018/19. <p>Based on the findings of our work, except for the effects of the matter described above, we concluded that the CCG has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>
VFM conclusion risk areas	<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.</p> <p>Our work identified the following significant risk:</p> <p>Joint Executive Committee and Single Accountable Officer</p> <p>On 5 June 2017 the joint Accountable Officer for the three CCGs within the Surrey Heartlands Sustainability and Transformation Partnership (Guildford and Waverley CCG, North West Surrey CCG and Surrey Downs CCG) commenced his appointment and from 1 November 2017 has operated with an appointed joint executive team. Each CCG remains a statutory body and each Governing Body remains accountable for its CCG's operations. It is important that there are appropriate governance mechanisms to ensure that informed decisions are taken in a timely manner.</p> <p>We considered the current and planned governance arrangements (specifically reviewing how the Surrey Heartlands Health and Care Partnership operates, and the involvement of NHS Guildford and Waverley CCG's Governing Body in approving decisions taken on behalf of the CCG) and proposed governance structure to ensure that informed decision making takes place. A single executive leadership team has been in operation across the Surrey Heartlands CCGs since November 2017. Whilst there are joint executive functions in place, Guildford and Waverley CCG has a Deputy Director of Finance (as well as other Director level roles) in place, working only for this CCG. There is a Joint Risk Management Strategy and Policy in place. The policy brings together the three CCGs' Risk Management policies and presents a common approach to risk management that allows Governing Bodies, Audit Committees and the Joint Executive Team to compare risks like for like across the Surrey Heartlands CCGs.</p> <p>Two Governing Body Workshops were held in September 2017 and January 2018 and these provided a steer on:</p> <ul style="list-style-type: none">• How the CCGs would collaborate together; and• How the practical arrangements would be developed to enable collaboration. <p style="text-align: right;"><i>(cont.)</i></p>

Headlines (cont.)

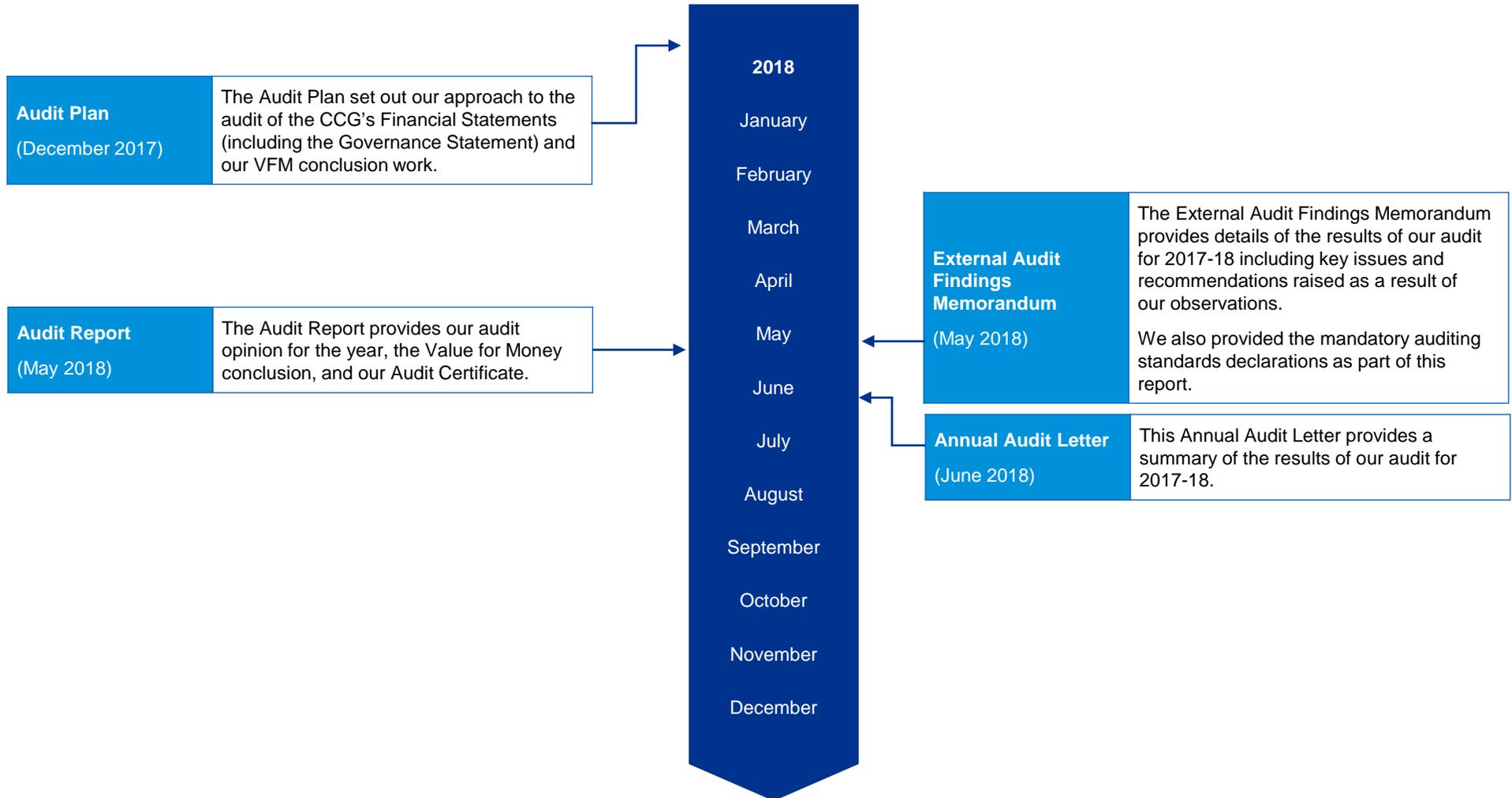
VFM conclusion risk areas (cont.)	<p><i>(cont.)</i></p> <p>Whilst joint arrangements are in place across the Surrey Heartlands CCGs and Surrey County Council, our review of Governing Body and Audit Committee papers suggests there is a clear understanding at the CCG that Guildford and Waverley CCG remains a separate statutory body and the current serving Governing Body and Audit Committee are responsible for making decisions on behalf of this body only. The Governing Body considers and appropriately rejects, accepts or mitigates relevant risks associated with the delivery of its corporate objectives.</p>
Recommendations	<p>We are pleased to report that there are no high risk recommendations arising from our 2017-18 audit work.</p> <p>There are no outstanding prior year recommendations that still require further action by management.</p>
Public Interest Reporting	<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.</p> <p>On 3 May 2018 we referred a matter to the Secretary of State under section 30b of the Act in relation to NHS Guildford and Waverley Clinical Commissioning Group breaching its revenue resource limit for the year ended 31 March 2018.</p> <p>We have nothing else to report in these respects.</p>



Appendices

Appendix A

Summary of our reports issued





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