

Governing Body
Meeting
Held in public

REPORT

Subject	Audit Letter 2016/17
Date	7 September 2017
Author	Neil Harris, Ernst & Young LLP
Lead Director	Ben Jay, Chief Finance Officer

Executive Summary

This is the Annual Audit Letter provided by the external auditor for BCCG by Ernst Young (EY). Audit letters are prepared to a standard format and must cover a number of specific issues as part of the audit of the CCG's accounts.

It relates to the financial year just ended (2016/17) and sets out the key findings arising from the audit of the CCG accounts. These are

- Unqualified accounts for 2016/17 – the accounts provide a ‘true and fair’ view of the financial position of the CCG as at 31 March 2017 (see page 2 of the attached document)
- The Value for Money (VFM) Conclusion – two key risks were identified, being the adequacy of the steps needed to exit legal directions and the engagement with and financial risks arising from the Sustainability and Transformation Plan area (Bedfordshire, Luton and Milton Keynes. EY report that they are satisfied with the arrangement made in this respect (page 3 of the attached document)

This will be the last element of the audit plan for 2016/17. The external audit function for 2017/18 and later years will be delivered by Grant Thornton, as a result of a competitive tender exercise.

Delivery of unqualified accounts and a sound VFM conclusion is important and positive independent assurance of the adequacy and effectiveness of the CCG's financial management processes.

The detail of the report identifies some weaknesses around financial reporting, which have previously been reported to Finance and Performance Committee and for which remedial actions are in place.

Recommendation

Governing Body is recommended to

- Consider the document prepared by EY and to note its contents.
- Note that the weakness identified in the Audit Letter are being addressed and progress is reported to Finance and Performance Committee.

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Links to the business and risks

Relevant Strategic Objectives 2016/17 (please mark in bold)
1. Systematically implementing prevention, early diagnosis and early intervention
2. Commissioning services that deliver evidence-based care, in the right place and at the right time, including promoting self-care and empowering patients to manage their own conditions.
3. Making sure that care is high quality, safe and sustainable, that it improves health outcomes and wellbeing and provides a good patient experience.
4. Using the statutory framework with best practice governance and transparency principles to be fully accountable to our population in commissioning and operating as a part of the wider health system
5. Ensure that the CCG commissions and operates in a financial manner consistent with the regulatory framework, long terms sustainability and best use of public money.
6. We will work in close partnership with all the organisations who commission or provide care for our population, to integrate services where it makes sense and to achieve seamless transitions of care for patients where services remain separate.
7. Embedding member, public, patient, carer, staff and other stakeholders' views through meaningful engagement into decision-making processes and commissioning intentions.

Links to Board Assurance Framework / Corporate Risk Register	
Details of additional risks associated with this paper (may include NHS England Assurance Framework / NHS Constitution)	The subject of the letter.
Financial Implications / impact	None
Legal Implications / impact	None
Partnership work / public engagement implications / impact	None
Committees / groups where this has been discussed before	None
Other options available and their pros and cons	
Background papers	

NHS Bedfordshire CCG

Annual Audit Letter for the year ended 31 March 2017

June 2017

Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment (NHS and smaller bodies)” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Directors/Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to Bedfordshire Clinical Commissioning Group following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process

Area of Work	Conclusion
Opinion on the CCG's:	
▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the CCG as at 31 March 2017 and of its expenditure and income for the year then ended
▶ Regularity of income and expenditure	Unqualified – financial transactions were conducted within the CCG legal framework
▶ Parts of the remuneration and staff report to be audited	We had no matters to report.
▶ Consistency of the Annual Report and other information published with the financial statements	Financial information in the Annual report and published with the financial statements was consistent with the Annual Accounts.
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the CCG
▶ Referrals to the Secretary of State [and NHS England]	We had no matters to report
▶ Public interest report	We had no matters to report in the public interest.

Area of Work	Conclusion
<p>▶ Value for money conclusion</p>	<p>We report to you, if we are not satisfied that the CCG has put in place proper arrangements to secure economy efficiency and effectiveness in its use of resources.</p> <p>In our audit plan we raised two risks to our value for money conclusion; on the achievement of financial and governance targets to enable the CCG to exit from NHS England legal directions; and on the CCGs engagement with and financial risks arising from the Bedfordshire, Luton and Milton Keynes Sustainability and Transformation Plan (STP). We are satisfied with the arrangements the CCG has put in place in both of these areas.</p> <p>At the 2016/2017 final audit, we identified an additional risk to our VFM conclusion. The CCG is required to achieve a £11million control total surplus in the 2017/2018 financial year. This is a combination of the business rules requirement to deliver a 1% surplus with an additional £5.5million of deficit recovery payments to repay the deficits incurred in previous years. The CCG are forecasting to deliver this £11million surplus for the 2017/2018 financial year. This significantly depends on the CCG achieving 4.6% QIPP savings, equating to £25.5million of cost and quality improvement measures. This is £10million more than the CCG achieved in the 2016/2017 financial year. The CCG has undertaken a range of assurance procedures to provide confidence in the QIPP plan. This includes reviews by NHS England, Deloitte, and Optum. The CCG indicated to us that the outcome of the review concluded that the plan is robust, but risks remain on the scale of the QIPP programme. Additionally, the CCG has not yet included at least £6.4million of the cost and improvement measures within contracts, as the contracts were concluded before the detail of the schemes was known, in line with the revised contracting timetable therefore, a risk is presented which will require careful management. In our view, the CCG would benefit from a review of its 2017/2018 financial forecasts to reflect the quantity of cost improvement schemes that have a high delivery risk and insufficient assurance. We would also recommend that the position on QIPP delivery against financial target is reviewed corporately at least quarterly. We therefore issued a modification to the VFM opinion to reflect our concerns on financial planning assumptions for 2017/2018, as there is evidence of weaknesses in proper arrangements for how the CCG uses reliable and timely financial reporting that supports the delivery of strategic priorities.</p>

Area of Work	Conclusion
Reporting to the CCG on its consolidation schedules	We concluded that the CCG's consolidation schedules agreed, within a £250,000 tolerance, to your audited financial statements, apart from the adjustments relating to the prior year comparators which were included in our report.
Reporting to the National Audit Office (NAO) in line with group instructions	We had no matters to report

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the CCG communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 26 May 2017
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 30 May 2017

We would like to take this opportunity to thank the CCG staff for their assistance during the course of our work.

Neil Harris

Executive Director
For and on behalf of Ernst & Young LLP



Purpose

Purpose

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Directors and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Clinical Commissioning Group (CCG).

We have already reported the detailed findings from our audit work in our 2016/2017 Annual Results Report to the 25 May 2017 Audit & Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the CCG.

A person wearing teal scrubs is holding a yellow folder. A yellow rectangular box is overlaid on the folder, containing the text "Responsibilities".

Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/2017 audit work has been undertaken in accordance with the Audit Plan that we issued on 8 February 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

Expressing an opinion:

- ▶ On the 2016/2017 financial statements;
- ▶ On the regularity of expenditure and income;
- ▶ On the parts of the remuneration and staff report to be audited;
- ▶ On the consistency of other information published with the financial statements, including the annual report; and
- ▶ On whether the consolidation schedules are consistent with the CCG's financial statements for the relevant reporting period.

Reporting by exception:

- ▶ If the annual governance statement does not comply with relevant guidance or is not consistent with our understanding of the CCG;
- ▶ To the Secretary of State for Health and NHS England if we have concerns about the legality of transactions or decisions taken by the CCG;
- ▶ Any significant matters that are in the public interest;
- ▶ Forming a conclusion on the arrangements the CCG has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ Reporting to the National Audit Office (NAO) any differences over £250,000 between the consolidation schedules and the audited financial statements.

Responsibilities of the CCG

The CCG is responsible for preparing and publishing its statement of accounts, annual report and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

A hand holding a pen writing on a document, with a calculator and a laptop in the background. The scene is set on a desk with a white mug on the left. A yellow rectangular box is overlaid on the left side of the image, containing the text "Financial Statement Audit".

Financial Statement Audit

Financial Statement Audit

Key Issues

The Annual Report and Accounts is an important tool for the CCG to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the CCG's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 30 May 2017.

Our detailed findings were reported to the 25 May 2017 Audit & Governance Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>In order to address this risk we carried out a range of procedures including:</p> <ul style="list-style-type: none"> • Testing the appropriateness of journal entries recorded in the general ledger (using our data analytics tool to search on specific phrases in the journal narrative, or other criteria such as days of the week posted); • Reviewing significant accounting estimates (e.g. accruals for continuing healthcare costs and prescribing) for evidence of management bias. This includes reviewing the methodology used to calculate year-end estimates and post year-end information; • Reviewing Department of Health agreement of balances data and investigating significant differences (outside of DH tolerances); • Evaluating the business rationale for any significant unusual transactions; and • Gaining an understanding of the oversight given by those charged with governance of management's processes and controls in respect of fraud. <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any transactions during our audit which appeared unusual or outside the CCG's normal course of business.</p>

Significant Risk	Conclusion
<p>Revenue and expenditure recognition</p> <p>Auditing standards also require us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p>	<p>In order to address this risk we carried out a range of procedures including:</p> <ul style="list-style-type: none"> • Reviewing and testing revenue and expenditure recognition policies; • Reviewing and discussing with management any accounting estimates on revenue or expenditure recognition for evidence of bias; • Developing a testing strategy to test material revenue and expenditure streams; • Reviewing and testing revenue cut-off at the period end date, including extended testing to 24 May 2017; • Reviewing agreement of balances data and investigating significant differences (outside of DH tolerances); • Reviewing the CCGs financial position and forecast year-end position; • Reviewing critical judgements made by the CCG on risks to its year-end financial position and whether appropriate action was being taken to address and report these; • Reviewing risks and uncertainties with the CCGs contract and accrued revenue position, including the resolution of any contract disputes and challenges. In particular, we focused on the robustness and reasonableness of the judgements being made by the CCG to reach and report its agreed 2016/2017 contract spend with the CCG’s significant NHS and non-NHS providers; and • Reviewing the forecasting and estimation for year-end accruals and the appropriateness of cut-off procedures. <p>Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition.</p> <p>Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the CCG’s financial position.</p> <p>We concluded that the reported expenditure with the CCG’s significant NHS and non-NHS providers was not materially misstated.</p>

Other Key Findings	Conclusion
Audit differences	<p>In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.</p> <p>We have included all known amounts greater than £0.272 million relating to NHS Bedfordshire CCG in our summary of misstatements.</p> <p>The following misclassifications in the financial statements and disclosures were identified during the course of our audit. These items have no impact on the reported financial position and were corrected by management:</p> <ul style="list-style-type: none">• Six reclassification adjustments affecting balance sheet notes: note 17: receivables and note 23: Payables, the largest individual impact on a note being a £2.3 million credit, but which overall net to zero, with no impact on financial position.• Netting off of recharges of £4 million relating to the East London Foundation Trust (ELFT) contract to remove them from income and expenditure, as they were overstating both on the grounds that the CCG is acting as agent under the terms of the contract. There is no impact on the CCG's financial position. <p>There were 4 uncorrected misstatements:</p> <ul style="list-style-type: none">• Overstatement of recharges payable by Circle, and related understatement of bad debt provision, which would decrease income if amended: £0.320m;• Unexplained mismatch on Bedford Hospital Trust year end agreement, which the CCG should prudently include in expenditure: £0.385m;• Understatement of maternity pathways prepayment to Bedford Hospital trust, which would decrease expenditure if amended: (£0.294m); and• Potential adjusting post balance sheet event relating to M12 activity data, which came in after accounts were prepared and would increase expenditure if amended: £1.329m. <p>The total impact of these audit errors if they were to be adjusted would be to increase expenditure by £1.750m. There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31 March 2017.</p>

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £5.4 million (2016: £5.3 million), which is 1% of gross expenditure reported in the accounts of £539.4 million. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the CCG.
Reporting threshold	We agreed with the Audit & Governance Committee that we would report to the Committee all audit differences in excess of £272k (2016: £250k).

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures: we audited all disclosures and undertook procedures to confirm material completeness
- Related party transactions. we audited all disclosures and undertook procedures to confirm material completeness

There were no uncorrected misstatements in relation to either remuneration disclosures or related party transactions.

Value for Money

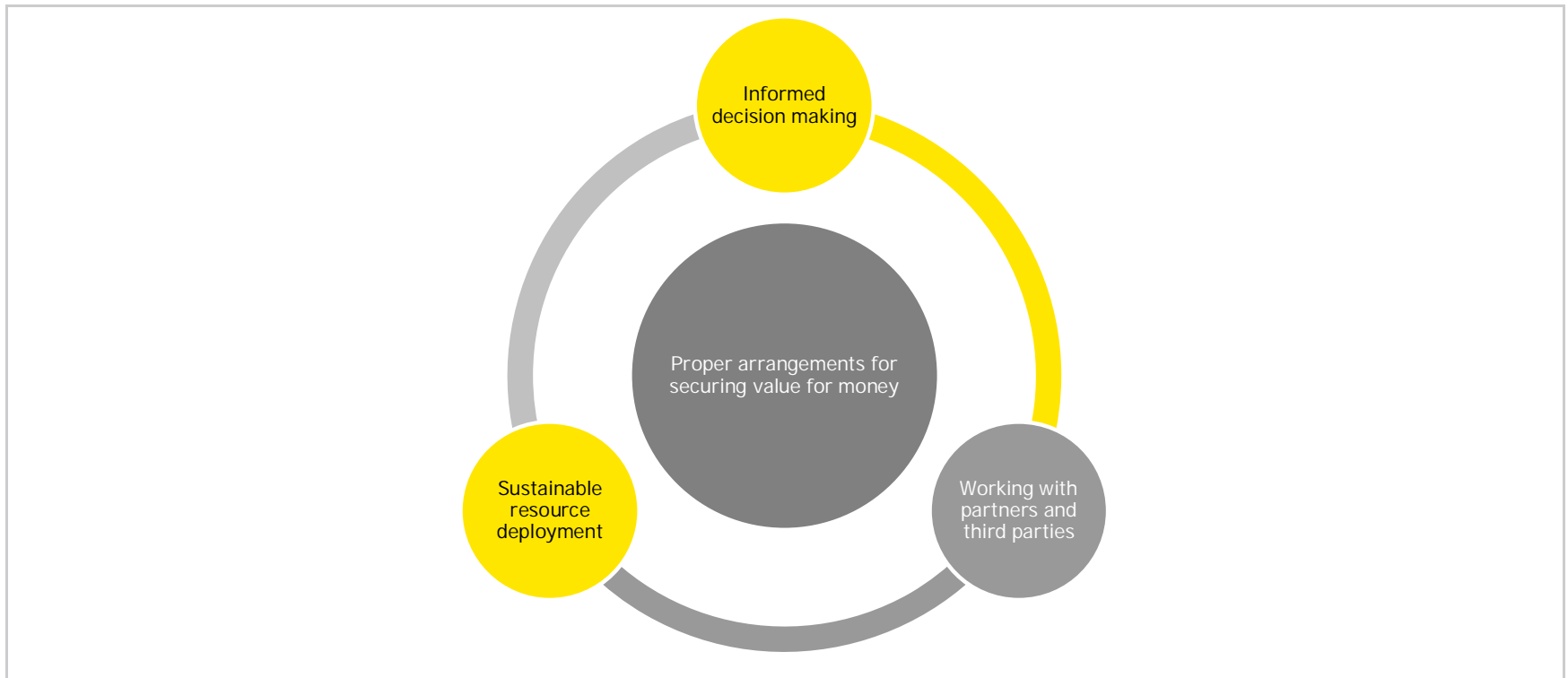


Value for Money

We are required to consider whether the CCG has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We have one exception to report about the CCG's arrangements to secure economy efficiency and effectiveness in its use of resources. Our conclusions against the significant risk identified in relation to the proper arrangements defined by the National Audit Office are set out below.

Significant Risk	Conclusion
<p>Achievement of financial and governance targets to enable the CCG to exit from NHS England legal directions</p> <p>The CCG is still operating under legal directions from NHS England. However, there is an objective of all parties to continue to review this position, the progress made by the CCG and where conditions allow, for the CCG to exit legal directions possibly by the end of the 2016/2017 financial year. Those conditions which are relevant to our external audit responsibilities include:</p> <ul style="list-style-type: none"> • Achievement of the CCG's forecast outturn surplus for the 2016/2017 financial year; • CCG demonstrating that its financial systems, processes and control enable it to operate sustainably within NHS business rules; • Appropriate reporting and management of risks to the CCG's forecast financial outturn for 2016/2017 financial year and in its medium term financial plans; • Robustness of assumptions supporting any judgements made to the CCG's financial position; • Improved and embedded controls and processes for effective provider and non-NHS supplier contract management and procurement; and • Effectiveness of the CCG's risk management arrangements. 	<p>Our work focused on the following areas, relevant to both our opinion and VFM conclusion:</p> <ul style="list-style-type: none"> • Review of the CCG's financial position as at Month 8/9 and forecast year-end position. We critically examined the risks to the CCG's year-end forecasts, the reasonableness of assumptions and the extent to which the CCG has accounted for these in its projections. • Review of Month 8/9 contract positions for the CCG's top six contracts. We reviewed the robustness of forecasts, risks to forecast outturn and how these were being managed and reported. • Review of critical judgements made by the CCG on risks to its year-end financial position and whether appropriate action was being taken to address and report these. • Review of risks and uncertainties with the CCG's contract and accrued revenue position in general and assessed how the CCG was managing this, including the resolution of any disputes and challenges. This review covered the profile of contract spend and risks for non-NHS suppliers such as Circle and Optum. • Critically considered the capacity and capability of the CCG's current finance team to balance ensuring the CCG had robust financial controls, management with developing plans, in partnership and through STP, to secure a sustainable financial future. • Review of the robustness of the CCG's current Board Assurance Framework and arrangements in place for reporting and monitoring risks. We also considered how the CCG is addressing and implementing the recommendations made by the Good Governance Institute in the previous financial year. <p>Our findings were reported in an interim letter to management in March, which was discussed at Audit & Governance Committee in April. The key findings were:</p> <ul style="list-style-type: none"> • At the start of 2016/2017, the CCG was required to set an extended control surplus target of £12million (2.3%) for the year by NHSE. Through discussions with NHSE during month 7 this extended control target was reduced to £9.1million, though the CCG had not formally received a revised control total. The CCG identified additional risks during months 9 to 11 and the revised surplus in the month 11 Finance report to F&P committee was reported as £6.1million. The CCG received a revision to its allocation of £3m during March. Therefore the CCG was projecting a surplus of £9.1m,

Significant Risk

Conclusion

with this additional support for non-recurrent items. This is above the NHSE 'normal' business rules control target of a £5.3million (1%) surplus.

- The key risks to the financial position were highlighted in our letter including acute over-performance and QUIPP non-delivery. There were at least £2.93million of high risk items that were included in the forecast surplus, and a further £0.39million of additional risk that had not been included in the forecast.
- A number of contract and performance challenges that posed a financial risk to the CCG were still being agreed and quantified. This created additional pressure and risk on the CCG's ability to meet its fundamental business rules for the 2016/2017 financial year.
- Capacity of the contracting and finance teams has been a concern in previous financial years. During months 6 to 10 the capacity and experience of the contracting team was stretched due to staff turnover. This may have been a contributing factor to the deterioration of the CCG's financial forecast during that period. Although the capacity of the contracting team improved during the final months of 2016/2017, there remained a concern over the experience due to lack of continuity.

At our audit of accounts in May, we have updated these findings:

- Our audit work has not identified any other significant concerns across the criteria for assessing whether the CCG has proper arrangements on sustainable resource deployment and working with partners and other third parties.
- Although the CCG has remained under NHS England legal directions since May 2015, the CCG has made significant improvements in its arrangements for securing good governance, effective risk management and sound systems of internal control.
- The CCG has reported a £14.4million outturn surplus for the first time since its inception.
- Although we are reporting weaknesses in arrangements for financial forecasting and reporting (see next VFM risk), this will still be within the parameters of the CCG forecasting a surplus position again for the 2017/2018 financial year.

Therefore, we believe an 'except-for' and not an 'adverse' VFM conclusion is appropriate.

Significant Risk	Conclusion
<p data-bbox="342 277 1104 309">Sustainability and Transformation Plan (STP)</p> <p data-bbox="342 352 1104 555">Sustainability and Transformation Plans (STPs) give local NHS organisations and councils the opportunity to work together to improve the way health and social care is designed and delivered. The Bedfordshire, Luton and Milton Keynes (BLMK) footprint encompasses 12 NHS organisations and four local councils; and covers almost one million people with hugely diverse populations across the three areas.</p> <p data-bbox="342 564 1104 676">The BLMK STP sets out the key sustainability and transformation priorities and goals for the next 5 years, and it is recognised that the benefits of the STP may take 18 months to 2 years to begin to be realised.</p> <p data-bbox="342 719 1104 804">The BLMK STP submission summarises the financial position across the health economy and gives an indication of the scale of the financial challenge:</p> <ul data-bbox="342 813 1104 1324" style="list-style-type: none"> <li data-bbox="342 813 1104 868">• The current combined annual budget for health and social care is £1.33bn; <li data-bbox="342 876 1104 991">• In 2016/2017, the three CCGs brought forward a combined accumulated deficit totalling £84.5m, whilst two of the three hospital Trusts had built up a combined accumulated deficit of £154.1m; <li data-bbox="342 999 1104 1139">• The CCG's operating plans for the 2016/2017 year indicate a significantly improved recurrent income and expenditure position, helped, in part, by an increase in recurrent NHS allocations and are planning to generate a recurrent surplus of £21.9m in 2016/2017; <li data-bbox="342 1147 1104 1262">• The two hospital Trusts are forecasting similar levels of deficits in 2016/2017 to 2015/2016 (before applying 2016/2017 STF funding); In 2015/2016, the CCGs and NHS Trusts reported a combined deficit of £75.6m; and <li data-bbox="342 1270 1104 1324">• The plan for 2016/2017 is a recurrent combined deficit of £24.4m before the application of STF of £22.2m. 	<p data-bbox="1104 277 2110 341">Our approach focused on a review of the arrangements at the CCG, working with its STP partners, during 2016/2017 for:</p> <ul data-bbox="1104 349 2110 536" style="list-style-type: none"> <li data-bbox="1104 349 2110 381">• defining the governance arrangements to support STP delivery; <li data-bbox="1104 389 2110 421">• engaging in the STP process; <li data-bbox="1104 429 2110 477">• working with the STP partners progress the STP from high level planning to a more detailed delivery model; and <li data-bbox="1104 485 2110 536">• demonstrating how the STP will contribute to the financial sustainability of the CCG in the context of the health economy. <p data-bbox="1104 579 2110 1126">At the 2016/2017 final audit, we identified an additional risk to our VFM conclusion. The CCG is required to achieve a £11million control total surplus in the 2017/2018 financial year. This is a combination of the business rules requirement to deliver a 1% surplus with an additional £5.5million of deficit recovery payments to repay the deficits incurred in previous years. The CCG is forecasting to deliver this £11million surplus for the 2017/2018 financial year. This significantly depends on the CCG achieving 4.6% QIPP savings, equating to £25.5million of cost and quality improvement measures. This is £10million more than the CCG achieved in the 2016/2017 financial year. The CCG has undertaken a range of assurance procedures to provide confidence in the QIPP plan. This includes reviews by NHS England, Deloitte, and Optum. The CCG has indicated to us that the outcome of the review concludes that the plan is robust, but risks remain on the scale of the QIPP programme. Additionally, the CCG has not yet included at least £6.4million of the cost and improvement measures within contracts, as the contracts were concluded before the detail of the schemes was known, in line with the revised contracting timetable, therefore a risk is presented which will require careful management. In our view, the CCG would benefit from a review of its 2017/2018 financial forecasts to reflect the quantity of cost improvement schemes that have a high delivery risk and insufficient assurance. We would also recommend that the position on QIPP delivery against financial target is reviewed corporately at least quarterly.</p> <p data-bbox="1104 1134 2110 1246">We therefore consulted internally on a modification to the VFM opinion to reflect our concerns on financial planning assumptions for 2017/2018, as there is evidence of weaknesses in proper arrangements for how the CCG uses reliable and timely financial reporting that supports the delivery of strategic priorities.</p> <p data-bbox="1104 1289 2110 1324">Therefore, we issued an 'except-for' VFM conclusion.</p>

A close-up photograph of a laboratory microplate. A glass pipette is positioned over one of the wells, dispensing a small amount of clear liquid. The background is a soft, out-of-focus yellow and green light. A semi-transparent yellow rectangular box is overlaid on the left side of the image, containing the text 'Other Reporting Issues'.

Other Reporting
Issues

Other Reporting Issues

NHS England Group Instructions

We are only required to report to the NAO on an exception basis if there were significant issues or outstanding matters arising from our work. There were no such issues.

Annual Governance Statement

We are required to consider the completeness of disclosures in the CCG's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

Breach of revenue resource limit and referral to Secretary of State

We must report to the Secretary of State any matter where we believe a decision has led to, or would lead to, unlawful expenditure, or some action has been, or would be, unlawful and likely to cause a loss or deficiency. We had no exceptions to report.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the CCG or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls. The matters reported here are limited to those deficiencies that came to our attention during the audit and that we concluded are of sufficient importance to merit being reported to you:

- ▶ The CCG's internal auditors gave a 'Limited Assurance' opinion on Contract Management and raised three high priority recommendations relating to weaknesses in the arrangements. This review looked at the arrangements in place within the CCG to manage its contracts with healthcare providers, for a sample of five main providers.

- ▶ The CCG's internal auditors gave a 'Limited Assurance' opinion on Financial Reporting and Budget Monitoring and raised five high priority recommendations relating to weaknesses in the arrangements. This review considered the arrangements with regard to budget agreement, budget monitoring, financial forecasting, and financial reporting to the Governing Body (GB) and to NHS England (NHSE).

These findings are contemporaneous with those that we had already reported to management in our interim letter in March and our VFM conclusion findings.

A person wearing a blue surgical cap is looking at a large, multi-drawer medical device, likely a laboratory incubator or storage unit. The device has several drawers with red circular markers and a control panel with a screen and buttons. A yellow text box is overlaid on the left side of the image.

Focused on your
future

Focused on your future

Area	Issue	Impact
Sustainability and Transformation Plans (STPs)	<p>NHS England's document, Delivering the Forward View: NHS planning guidance 2016/2017-2020/2021, published in December 2015, asks local health systems, including local government, voluntary and community partners, to work together to secure transformation change in healthcare planning and delivery.</p> <p>The Bedfordshire, Luton and Milton Keynes STP was submitted to NHS England in October 2016 and good progress has been made on developing:</p> <ul style="list-style-type: none"> • A governance structure to take forward effective system-wide working; • A structure for implementation and delivery of the STP, and • A PMO infrastructure to manage the effective delivery of the STP. <p>The Bedfordshire, Luton and Milton Keynes (BLMK) STP has been selected to be fast tracked as a lead Accountable Care System.</p>	<p>The bodies within the Bedfordshire, Luton and Milton Keynes STP will need to work together to a greater extent than ever before to ensure that sustainability and financial plans are viable, and successfully delivered. Failure to do this could have wider adverse financial and service delivery consequences across the whole local area.</p> <p>The next year is crucial for the overall success of the STP as it moves into a deployment phase, with the governance recommendations implemented at a local level.</p>
Co-commissioning	<p>Co-commissioning aims to support the development of integrated out-of-hospital services based around the needs of local people. It is part of a wider strategy to join up care in and out of hospital and is intended to lead to a number of benefits for patients and the public.</p> <p>CCGs were invited to take on an increased role in the commissioning of GP services through three co-commissioning models:</p> <ul style="list-style-type: none"> ▶ Greater involvement ▶ Joint commissioning ▶ Delegated commissioning <p>Most CCGs are now operating under the delegated model. 114 CCGs had taken on full delegation by 2016/2017 and another 63 CCGs have taken delegated arrangements from 1 April 2017. Thirty three CCGs, including Bedfordshire CCG, now have greater involvement or joint arrangements as of April 2017.</p>	<p>Adopting co-commissioning processes, and particularly fully delegated arrangements, exposes CCGs to a greater risk of conflicts of interest, both real and perceived. It will be important for the CCG to strengthen their arrangements in this area following the issue of NHS England guidance and the adoption of delegated commissioning.</p>

Area	Issue	Impact
Financial Sustainability of the NHS	<p>The National Audit Office (NAO) has recently published its fifth report into the Financial Sustainability of the NHS. Among the issues it identified were:</p> <ul style="list-style-type: none"> · Achieving NHS targets. Achieving NHS targets and meeting quality requirements · Impact of interventions to manage the 2015/2016 financial position · Managing financial sustainability · Supporting local NHS organisations to achieve financial sustainability 	<p>The scale of the financial challenges faced by NHS impacts all aspects of operations. These pressures impact on Provider Trusts and Clinical Commissioning Groups.</p> <p>As noted in our value for money conclusion, Bedfordshire CCG has delivered the financial target agreed with NHS England for 2016/2017. Its control total for 2017/2018 is £11 million and this significantly depends on the CCG achieving 4.6% QIPP savings, equating to £25.5million of cost and quality improvement measures. This is £10million more than the CCG achieved in the 2016/2017 financial year. The CCG has undertaken a range of assurance procedures to provide confidence in the QIPP plan. This includes reviews by NHS England, Deloitte, and Optum. The CCG have indicated to us that the outcome of the review concludes that the plan is robust, but risks remain on the scale of the QIPP programme. Additionally, the CCG has not yet included at least £6.4million of the cost and improvement measures within contracts, as the contracts were concluded before the detail of the schemes was known, in line with the revised contracting timetable.</p> <p>The delivery of financial sustainability across the NHS remains a challenge and the CCG will need to continue to ensure it has robust project and programme management arrangements in place to support the delivery of its future plans.</p>



Appendix A

Audit Fees

Appendix A Audit Fees

Our fee for 2016/2017 is in line with the fee reported in our 26 May 2017 Annual Results Report.

Description	Final Fee 2015/2016 GBP - £s	Planned Fee 2016/2017 GBP - £s	Scale Fee 2016/2017 GBP - £s	Planned Final Fee 2016/2017 (Note 1) GBP - £s
Total Audit Fee – Code work	88,025	69,525	69,525	75,118

The scale fee is set by Public Sector Audit Appointments Ltd (PSAA). The scale fee is predicated on a number of assumptions which were set out in our Audit Plan.

► Note 1 - The scale fee for both years was £69,525. Last year we raised a scale fee variation of £18,500 for work responding to the risks reported in the Audit Results Report. This year we will also be seeking a scale fee variation for similar additional work responding to audit and VFM risks, reported in our interim letter and in this report, as we completed more audit work than within the scope of the scale fee. Additional work has been carried out in February and May, and we will seek additional fee of £5,593. We will discuss this variation to the scale fee with the CFO and Audit Committee in advance. Any variation to our audit fee also needs to be approved by Public Sector Audit Appointments Limited.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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ED None

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