

# The Audit Findings for NHS Eastern Cheshire Clinical Commissioning Group

Year ended 31 March 2015

26 May 2015

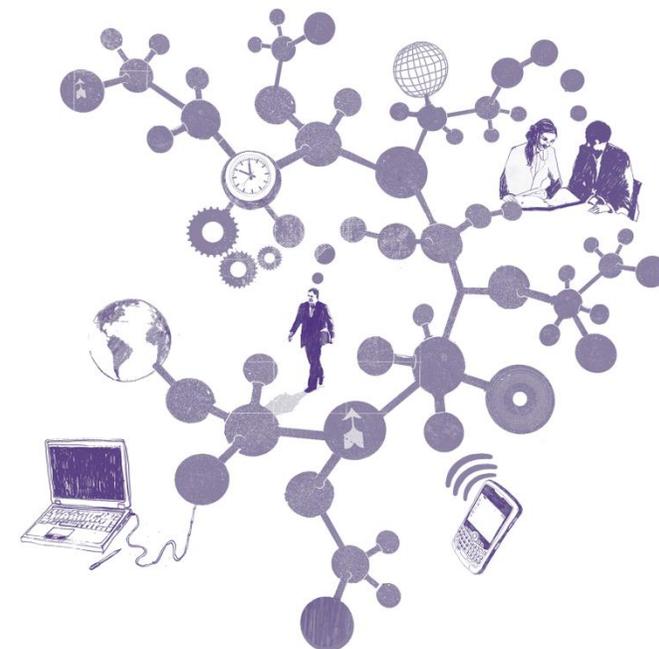
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# DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.



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### **Audit Findings for NHS Eastern Cheshire Clinical Commissioning Group for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260. Its contents will be discussed with the Governing Body.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Robin Baker

Engagement lead

#### **Chartered Accountants**

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## Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key issues affecting the results of NHS Eastern Cheshire Clinical Commissioning Group (the CCG) and the preparation of the CCG's financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice (the Code) we are required to report whether, in our opinion, the CCG's financial statements present a true and fair view of the financial position. We are also required to reach a formal conclusion on whether the CCG has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money Conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated February 2015.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation

- review of final versions of the Annual Report and
- updating our post balance sheet events review, to the date of the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the national deadline.

## Key audit and financial reporting issues

### Financial statements opinion

As at 26 May and subject to the completion of the outstanding work described above, we expect to issue an unqualified opinion on the CCG's financial statements. Our audit has not identified any material errors or uncertainties in the financial statements.

We have considered the provision included in the financial statements for the likely cost of continuing healthcare claims. We are satisfied the CCG has adopted a reasonable approach to estimating the liability, following careful consideration of the information and having received legal advice.

The Chief Finance Officer has amended the accounts for the disclosure changes identified during the audit which are primarily to improve the presentation of the accounts. Therefore we anticipate being able to issue an unqualified audit opinion by the Department of Health deadline of midday on 29 May 2015 (see Appendix A)

Further details are set out in section two of this report.

**Regularity opinion**

As well as an opinion on the accounts, 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.

We are pleased to report that, based on our review of the CCG's expenditure we propose to give an unqualified regularity opinion.

**Value for money conclusion**

As noted in our Audit Plan the CCG originally set a deficit budget of £2 million for the 2014/15 financial year. The CCG has now successfully delivered a small £191k surplus which is a significant improvement from the original plan. The improved position is largely due to a revision in the costs of the Caring Together programme of £1 million and receipt of the CCG Quality Premium of £750k.

The CCG has received a significant uplift to its allocation for 2015/16 which has strengthened its financial position. The financial plan currently envisages the CCG will deliver a £1.4 million surplus in 2015/16

We are pleased to report that, based on our review of the CCG's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion. Further detail of our work on Value for Money is set out in section three of this report.

**Agreement of Balances and Whole of Government Accounts (WGA)**

Our audit work has not identified any variances in the NHS agreement of balances (AoB) process that require reporting to the National Audit Office (NAO) for Whole of Government Accounts purposes.

**Controls****Roles and responsibilities**

The CCG's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the CCG.

**Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

### Remuneration Report

We are also required to ensure the Remuneration Report is prepared in accordance with the Annual Reporting Guidance issued by NHS England. All CCGs received clarification in March 2015 from the Department of Health that the classification of GP and lay member contracts drives the salary and pension disclosures required in the remuneration report.

We have carefully considered the CCG's approach in this area and the basis on which GPs have been remunerated. The Chair has a 'contract of service' with the CCG and therefore as an employee has full disclosure of his salary and pension details in the remuneration report based on the routine information supplied by NHS Pensions, as is required by the guidance.

We understand that other GPs on the Governing Body are engaged via their practices and their gross salary costs are included in the remuneration report in line with the guidance. The CCG has amended the remuneration report to include the required 'off payroll' disclosure required under the guidance.

We are satisfied that the Remuneration Report has been properly prepared in accordance with the guidance and we anticipate issuing an unmodified opinion on the Remuneration report.

### The way forward

Matters arising from the financial statements audit and our review of the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Finance Officer.

We ask the Governing Body to note the contents of this report.

### Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP  
May 2015

## Section 2: *Audit findings*

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

|    | Risks identified in our audit plan  | Work completed  | Assurance gained and issues arising  |
|----|---|---|--|
| 1. | <p><b>Improper revenue recognition</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. Auditors may rebut this presumption depending on the circumstances of the client.</p> | <p>We have rebutted this presumption for Eastern Cheshire CCG because:</p> <ul style="list-style-type: none"> <li>revenue does not primarily involve cash transactions</li> <li>revenue is principally an allocation from NHS England</li> <li>other revenue in the accounts is not significant</li> </ul> <p>We therefore do not consider this to be a significant risk for Eastern Cheshire CCG.</p> <p>As part of our audit work we have completed;</p> <ul style="list-style-type: none"> <li>testing of material revenue streams e.g. Revenue Resource Limit Funding, other revenue</li> <li>a review of unusual significant transactions</li> </ul> | <p>Our audit work has not identified any issues in respect of revenue recognition.</p> <p>The revenue resource limit of £230,078k is reflected in disclosure in the note to the accounts.</p> <p>Our work has not identified any issues from our testing of material revenue and expenditure streams</p>   |
| 2. | <p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.</p>  | <p>As part of our audit work we have completed:</p> <ul style="list-style-type: none"> <li>a review of entity controls</li> <li>an examination and testing of accounting estimates, judgements and decisions made by management</li> <li>testing of journals entries</li> <li>a review of any unusual significant transactions</li> </ul>   | <p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p> |

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

| Transaction cycle                          | Description of risk  | Work completed   | Assurance gained & issues arising  |
|--|--|--|--|
| <p><b>Secondary Care Commissioning</b></p> | <p>Contract costs not accounted for properly</p> <p>Activity variation adjustments to expenditures not correct</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to confirm our understanding of the system.</li> <li>• Substantive testing of secondary healthcare costs including sample testing of payments to contracts</li> <li>• Examination and sample testing of month 12 intra NHS agreement of balances</li> <li>• Testing variations in activity to verify consistency against contracts</li> </ul> | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>We have completed testing on NHS and non-NHS secondary healthcare contracts during the year.</p> <p>We have agreed a sample of block contract expenditure to signed agreements, and the performance adjustment payments to supporting information. We have also taken assurance from the agreement of balances exercise undertaken by NHS England and obtained explanations for any reported differences with providers.</p> <p>In addition we have completed testing on a sample of invoiced non-contract costs to ensure activity has occurred, value is correct and accounted for in the correct accounting period.</p> <p>The service auditor's report in respect of controls operated by SBS does not identify any matters that we need to draw to your attention.</p> |

## Significant matters discussed with management

|    | Significant matter   | Commentary  |
|----|--|---|
| 1. | Discussions or correspondence with management regarding accounting practices, the application of auditing standards, the application of auditing standards, or fees for audit or other services. | <p>We discussed the basis for the provision for continuing healthcare claims associated with the former learning disabilities pooled budget with management and assessed the reasonableness of the amount included within the financial statements.</p> <p>We are satisfied from the explanations given and evidence provided that the CCG has taken a reasonable approach to calculating the provision included within the accounts.</p> |

# Accounting policies, Estimates & Judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the CCG's financial statements.

| Accounting area                 | Summary of policy  | Comments  | Assessment |
|---------------------------------|--|---|------------|
| <b>Revenue recognition</b>      | <p><b>Main funding source</b><br/>Parliamentary Funding (from the Department of Health) within an approved cash limit. This is credited to the General Fund and recognised in the financial period in which the cash is received.</p> <p><b>Other funding</b><br/>Miscellaneous revenue is income relating directly to the operating activities of the CCG. This is largely fees and charges for services provided on a full cost basis to external customers. It is recognised when the performance occurs and is measured at the fair value of the consideration received. Where delivery of service is in the following financial year that income is deferred.</p> | <p>We are satisfied from our testing of revenue recognition policies that:</p> <ul style="list-style-type: none"> <li>the policies are appropriate under the relevant accounting framework</li> <li>the CCG has adequate controls in place and applied reasonable judgements to ensure revenue is appropriately recorded</li> <li>the policies are adequately disclosed in the financial statements.</li> </ul> | ●          |
| <b>Judgements and estimates</b> | <p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>provisions</li> <li>accruals</li> </ul>  | <p>We are satisfied from our testing and enquiry on significant judgements and estimates that:</p> <ul style="list-style-type: none"> <li>these are appropriate under the relevant accounting framework</li> <li>the CCG has adequately disclosed these within the accounting policies notes</li> </ul>   | ●          |

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, Estimates & Judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the CCG's financial statements.

| Accounting area                             | Summary of policy  | Comments  | Assessment   |
|---|--|---|--|
| <b>Judgements and estimates (continued)</b> | <p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>provisions</li> <li>accruals</li> </ul>  | <p><b>Provisions</b></p> <p>Our testing of significant provisions has confirmed that the amounts recognised are based on best estimates of likely expenditure required to settle the obligation.</p> <p>We are satisfied that the basis for the provision for continuing healthcare claims is reasonable.</p> <p><b>Accruals</b></p> <p>Our testing of significant estimates included within trade and other payables has found that the CCG has based these on reasonable assumptions for expenditure incurred.</p> <p>Our work on Prescribing expenditure is complete. We have received independent confirmation from the NHS Business Services Authority (BSA) to provide further evidence on the reasonableness of the accrual.</p> |   |
| <b>Other accounting policies</b>            | The CCG has adopted the standard accounting policies for the NHS as set out in the Manual for Accounts.  | We have reviewed the CCG's policies against the requirements of the Manual for Accounts and do not have any comments to make.   |   |
| <b>Going concern</b>                        | The Directors have a reasonable expectation that the services provided by the CCG will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. | We are satisfied with management's assessment that the going concern basis is appropriate for the 2014/15 financial statements.   |  |

## Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate but scope for improved disclosure

 Accounting policy appropriate and disclosures sufficient

## Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

|    | Issue  | Commentary  |
|----|--|---|
| 1. | <b>Matters in relation to fraud</b>                | <ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul> |
| 2. | <b>Matters in relation to related parties</b>      | <ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>   |
| 3. | <b>Matters in relation to laws and regulations</b> | <ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>  |
| 4. | <b>Written representations</b>                     | <ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the CCG.</li> </ul>  |
| 5. | <b>Confirmation requests from third parties</b>    | <ul style="list-style-type: none"> <li>We obtained direct confirmations from the National Audit Office for bank balances.</li> </ul>  |
| 6. | <b>Disclosures</b>                                 | <ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>  |

## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Adjustment type | Value<br>£'000 | Account balance   | Impact on the financial statements   |
|-----------------|----------------|---|--|
| 1 Disclosure    | n/a            | Staff sickness figures (note 4.3)                         | The CCG has now received the figures to populate this disclosure.  |
| 2 Disclosure    | n/a            | Pension costs (note 4.4)                                  | Revised the narrative on pension costs to reflect the latest guidance on the required disclosures.   |
| 3 Disclosure    | n/a            | Better Payments Practice Code (note 6.1)                  | Amended disclosure for the % of NHS payables paid within target from 100% to 95%.  |
| 4 Disclosure    | n/a            | Operating Leases (note 10)                                | Included a prior year total of £271k within table 10.1.2 for future minimum lease payments.  |
| 5 Disclosure    | n/a            | Intra-government and other balances (note 20)             | Corrected the analysis of current payables with Local Authorities and bodies external to government for 2014/15.   |
| 6 Disclosure    | n/a            | Related party transactions (note 21)                      | Included figures within the table for amounts owed to the related party. Added an extra narrative disclosure for clarification.  |
| 7 Disclosure    | n/a            | Financial performance targets (note 24)                   | Corrected the 2014/15 target figures in the table. The Revenue figure is now £230,078 and the capital figure £118 (previously (£230,026 and £53). The admin figure is £5,647 (previously £5,579)                         |
| 8 Disclosure    | n/a            | Annual Report (including the remuneration report entries) | The CCG has made various amendments to the Annual Report disclosures to reflect feedback from NHSE. In addition it has added disclosures within the remuneration section to give details of any off-payroll engagements. |

## Section 3: Value for Money

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**03. Value for Money**

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05. Communication of audit matters

# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the CCG's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

In 2014/15 we are required to give our VFM conclusion based on two criteria specified by the Audit Commission. These criteria are:

### **The CCG has proper arrangements in place for securing financial resilience.**

The CCG has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

### **The CCG has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

The CCG is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### **Securing financial resilience**

We have undertaken a review which considered the CCG's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Our key findings are as follows.

The CCG delivered a small £191k surplus which is a significant improvement from the original planned deficit of £2 million for the 2014/15 financial year. The CCG also delivered QIPP savings of £2.3 million against an original target of £3 million, with the outstanding schemes now on a longer implementation plan.

The improved financial position for 2014/15 was largely due to a revision in the costs of the Caring Together programme of £1 million and receipt of the CCG Quality Premium of £750k.

### **Challenging economy, efficiency and effectiveness**

We have reviewed whether the CCG has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

# Value for Money

## Key findings (cont)

The CCG has now refreshed the second year (2015/16) of its 5 Year Financial Plan in line with the requirements of NHS England and is planning to deliver a £1.4 million (0.6%) surplus. The local health economy continues to face significant financial challenges and the 2015/16 Financial Plan includes £2.6 million to facilitate the pump priming of transformation as part of the Caring Together programme.

The CCG's five year Strategic Plan 2014/15 to 2018/19 set out its plans to lead a major transformation to change the way care is delivered across Cheshire. The CCG has continued to work with its partners to develop system wide transformation as part of its Caring Together programme. The CCG is now focussing on implementation of a number of the schemes as it enters year 3 of the 5 year programme.

The CCG is currently in the process of updating its 5 year Strategic Plan to reflect its updated financial position for 2014/15 and latest forecast for 2015/16. The CCG is forecasting an improved financial position going forward and planning to achieve financial balance and deliver the required business rules in its revised 5 Year Plan.

The CCG has also sought to refine its governance arrangements during the year by:

- improving its risk management process with enhanced assurance to the Governing Body and Audit Committee scrutiny

- establishing a Finance sub committee which examines progress on the delivery of planned QIPP schemes
- implementing a Governing Body development programme to maximise its effectiveness.

## Overall VfM conclusion

The CCG has delivered a £191k surplus in 2014/15 and continues to work with its partners to develop transformational change and raise standards of care. Recent revisions to financial plans show a stronger position going forward with the CCG planning to deliver financial balance whilst investing in transformational programmes going forward.

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, 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 2015.

We set out below our detailed findings against six risk areas which have been used to assess the CCG's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

|              |   |
|--------------|---|
| <b>Green</b> | Adequate arrangements                             |
| <b>Amber</b> | Adequate arrangements, with areas for development |
| <b>Red</b>   | Inadequate arrangements                           |

The table below summarises our overall rating for each of the themes reviewed:

| Theme                                | Summary findings   | RAG rating   |
|--------------------------------------|--|--------------|
| <b>Key indicators of performance</b> | <p>The CCG started the year predicting that it would face a £2m deficit. Following a number of changes during the year the CCG achieved all the statutory financial indicators and:</p> <ul style="list-style-type: none"> <li>• Delivered a small £191k surplus</li> <li>• Kept revenue administration and capital costs within the resources available</li> <li>• Paid suppliers promptly in accordance with the better payments code of practice.</li> </ul> <p>The CCG also delivered QIPP savings of £2.3 million against an original target of £3 million, with the outstanding schemes now on a longer implementation plan.</p> <p>Looking ahead the CCG faces a more positive financial position however it is not yet able to deliver the full planning guidance expectation of 1% surplus.</p>   | <b>Amber</b> |
| <b>Strategic financial planning</b>  | <p>The local health economy continues to face significant financial challenges. Working with its partners over the last two years the CCG has begun a programme of system wide transformation called Caring Together, designed to fundamentally change the way care is delivered. The CCG's 5 year Strategic Plan 2014/15 to 2018/19 sets out its overall aims and key objectives to deliver high quality standards of care and a longer term financially sustainable organisation.</p> <p>The CCG is in the process of updating its 5 year Plan to include latest information on the financial assumptions and increased allocations. The CCG is forecasting full compliance with NHS England's rules including a 1% surplus in future years.</p> <p>The CCG received a significant uplift to its allocation for 2015/16 which has improved its financial position. The CCG has refreshed the second year (2015/16) of its 5 year Financial Plan and is planning to deliver a £1.4 million surplus. The 2015/16 refresh reflects the CCG's commitment to deliver the 5 Year Strategy and includes £2.6 million in order to progress the Caring Together transformation.</p> | <b>Green</b> |

We set out below our detailed findings against six risk areas which have been used to assess the CCG's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

|              |   |
|--------------|---|
| <b>Green</b> | Adequate arrangements                             |
| <b>Amber</b> | Adequate arrangements, with areas for development |
| <b>Red</b>   | Inadequate arrangements                           |

The table below summarises our overall rating for each of the themes reviewed:

| Theme                       | Summary findings   | RAG rating   |
|-----------------------------|--|--------------|
| <b>Financial governance</b> | <p>Financial governance arrangements at the CCG are sound. The responsibilities of the Governing Body and sub committees are clearly set out in the CCG's recently updated constitution.</p> <p>The CCG has continued to refine and embed its risk management framework during 2014/15. Risks are identified and examined by the Executive Committee and reported to the Audit Committee and Governing Body.</p> <p>The CCG has acted on an external review of the effectiveness of the Governing Body and its sub committees. It has updated Terms of Reference as appropriate and implemented a Governing Body development programme.</p>  | <b>Green</b> |
| <b>Financial control</b>    | <p>The CCG has an effective strategic planning and budget setting process which includes rigorous review and challenge by the Governing Body on the information provided.</p> <p>The CCG has a clear and detailed understanding of its costs through its on-going work on the Caring Together programme. It engages clinicians and GPs in the development of savings plans and has also recently set up a Finance Committee to provide further detailed scrutiny on the financial position.</p> <p>Internal Audit (IA) provide detailed and regular progress monitoring and assurance reports to the Audit Committee during the year. The Director of Audit Opinion summarises the overall findings on the work completed which forms part of the overall evidence supporting the CCG's annual governance statement. IA concluded in 2014/15 that there is a generally sound system of internal control designed to meet the organisations objectives. For those areas where IA identified weaknesses action plans are in place.</p> | <b>Green</b> |

We set out below our detailed findings against six risk areas which have been used to assess the CCG's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

|              |   |
|--------------|---|
| <b>Green</b> | Adequate arrangements                             |
| <b>Amber</b> | Adequate arrangements, with areas for development |
| <b>Red</b>   | Inadequate arrangements                           |

The table below summarises our overall rating for each of the themes reviewed:

| Theme  | Summary findings   | RAG rating   |
|--|--|--------------|
| <b>Prioritising resources</b>                  | <p>Senior management, directors and partners have worked well together to develop the CCG's priorities and the 5 Year Strategic and Financial Plans.</p> <p>Working collectively across the local health economy the CCG is challenging the way services are delivered through its 5 year Caring Together Transformation Programme. The CCG and its partners clearly recognise that successful transformation of services is essential for improving the quality of healthcare across the East Cheshire economy within an increasingly tight financial envelope.</p> | <b>Green</b> |
| <b>Improving efficiency &amp; productivity</b> | <p>The CCG has delivered QIPP savings of £2.3 million during 2014/15, sufficient to ensure financial balance. The CCG has delivered savings to date largely from on – going business.</p> <p>Recently updated Financial Plans as submitted and scrutinised by NHSE show a stronger financial position going forward and include investment into the Caring Together strategy to release future savings from system transformation. The Plan for 2015/16 includes a QIPP target of £2.5 million to reflect past performance which the CCG considers achievable.</p>   | <b>Green</b> |

## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters

# Fees, non-audit services and independence

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

## Fees

|   | £             |
|---|---------------|
| CCG audit                               | 60,000        |
| <b>Total audit fees (excluding VAT)</b> | <b>60,000</b> |

## Fees for other services

| Service | Fees £ |
|---------|--------|
| None    | Nil    |

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the CCG's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the CCG's key risks when reaching our conclusions under the Code.

It is the responsibility of the CCG to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the CCG is fulfilling these responsibilities.

| Our communication plan   | Audit Plan | Audit Findings |
|--|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance  | ✓          |                |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications   | ✓          |                |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought  |            | ✓              |
| Confirmation of independence and objectivity   | ✓          | ✓              |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.<br>Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged<br>Details of safeguards applied to threats to independence | ✓          | ✓              |
| Material weaknesses in internal control identified during the audit  |            | ✓              |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements   |            | ✓              |
| Compliance with laws and regulations   |            | ✓              |
| Expected unmodified auditor's report   |            | ✓              |
| Uncorrected misstatements  |            | ✓              |
| Significant matters arising in connection with related parties   |            | ✓              |
| Significant matters in relation to going concern   |            | ✓              |

# Appendices

# Appendix A: Audit opinion

## We anticipate we will provide the CCG with an unmodified audit report

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EASTERN CHESHIRE CCG

We have audited the financial statements of Eastern Cheshire CCG for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the accounting policies directed by the NHS Commissioning Board with the consent of the Secretary of State as relevant to the National Health Service in England.

We have also audited the information in the Remuneration Report that is subject to audit, being:

- the table of salaries and allowances of senior managers and related narrative notes on page 40
- the table of pension benefits of senior managers and related narrative notes on pages 40-41
- the pay multiples note on page 38.

This report is made solely to the members of Eastern Cheshire CCG in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2014. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Clinical Commissioning Group (CCG)'s members and the CCG as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Accountable Officer and auditor

As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the CCG's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report which comprises the Forward, Strategic Report and Members Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. In addition, we are required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

#### Opinion on regularity

In our opinion, in all material respects the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

#### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Eastern Cheshire CCG as at 31 March 2015 and of its net operating costs for the year then ended; and
- have been prepared properly in accordance with the accounting policies directed by the NHS Commissioning Board with the consent of the Secretary of State as relevant to the National Health Service in England.

#### Opinion on other matters

In our opinion:

- the part of the Remuneration Report subject to audit has been prepared properly in accordance with the requirements directed by the NHS Commissioning Board with the consent of the Secretary of State as relevant to the National Health Service in England; and
- the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we report by exception**

We report to you if:

- in our opinion the governance statement does not reflect compliance with NHS England's Guidance;
- we refer a matter to the Secretary of State under section 19 of the Audit Commission Act 1998 because we have reason to believe that the CCG, or an officer of the CCG, is about to make, or has made, a decision involving unlawful expenditure, or is about to take, or has taken, unlawful action likely to cause a loss or deficiency; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998.

We have nothing to report in these respects.

**Conclusion on the CCG's arrangements for securing economy, efficiency and effectiveness in the use of resources****Respective responsibilities of the CCG and auditor**

The CCG is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the CCG has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the

CCG has proper arrangements for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the CCG put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the CCG had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Eastern Cheshire CCG put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

**Certificate**

We certify that we have completed the audit of the accounts of Eastern Cheshire CCG in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Robin Baker  
Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building  
Liverpool  
L3 1PS

May 2015



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