



The Audit Findings for NHS Eastern Cheshire Clinical Commissioning Group

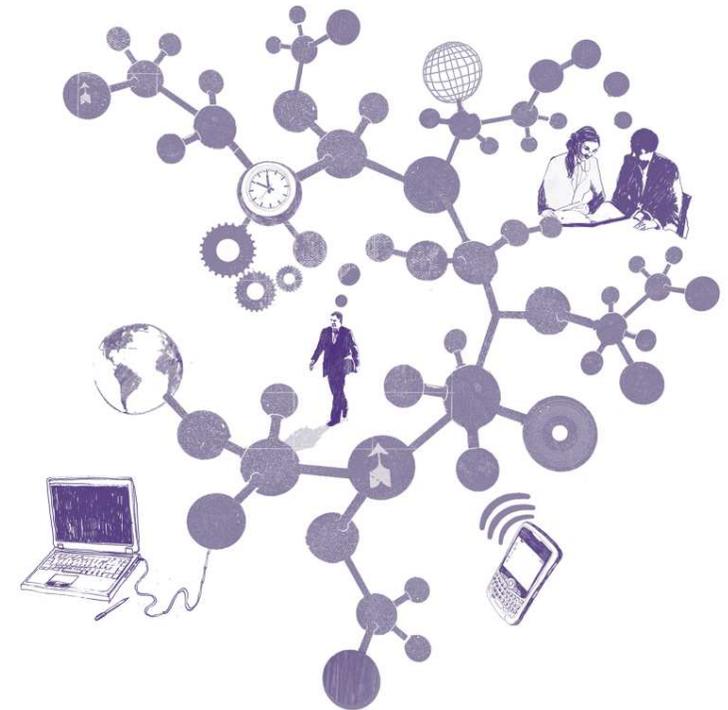
Year ended 31 March 2016

23 May 2016

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23 May 2016

Audit Findings for NHS Eastern Cheshire Clinical Commissioning Group for the year ending 31 March 2016

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, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. 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

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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 2016. 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, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the CCG's financial statements give a true and fair view of the financial position and net operating costs, and on whether the income and expenditure included in the financial statements has been applied for the purposes intended by Parliament.

We are also required to give an opinion on some elements of the Remuneration and Staff report and to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the CCG has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act so that if we are not satisfied then we are required to report by exception. This is a change from previous years when we were required to provide a VFM conclusion in our auditor's report.

The Act also details the following additional powers and duties for CCG auditors, which we are required to report to you if applied:

- a referral to Secretary of State if we have reason to believe that 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 (section 30 of the Act);
- a public interest report if we identify any matter that comes to our attention that in our opinion should be considered by the CCG or brought to the public's attention (section 24 of the Act); and
- written recommendations which should to be considered by the CCG and responded to publicly (section 24 of the Act).

Introduction

In the conduct of our audit we have not had to alter our audit approach, which we communicated to you in our Audit Plan dated February 2016.

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

- completing our year end expenditure testing
- checking the accounts consolidation statement for consistency with the updated financial statements
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Governance Statement and
- updating our post balance sheet events review procedures.

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 23 May 2016 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.

The key messages arising from our audit of the CCG's financial statements are:

- Working papers provided during the audit were of a good quality
- Overall the financial statements were well prepared and except for some minor issues in line with Department for Health and NHS England guidance
- We considered the provision included in the financial statements for the likely cost of continuing healthcare claims within the Learning Disability pooled budget. We are satisfied the CCG has adopted a reasonable approach to estimating the liability, following careful consideration of the information.

The Chief Finance Officer has amended the accounts for the disclosure changes and other amendments during the audit. These are primarily to improve the presentation of the accounts and reflect late adjustments to year end provisions as set out on page 19. There was no net impact on the comprehensive income and expenditure statement. Further details are set out in section two of this report.

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to consider the consistency of other information published with the financial statements.

Based on our review of the CCG's Annual Report, which includes the Annual Governance Statement (AGS), we are satisfied that it meets the requirements of the DH Group Manual for Accounts and is consistent with the audited financial statements.

Regularity opinion

We are also required to report on whether the income and expenditure included in the financial statements has been applied for the purposes intended by Parliament (the regularity opinion). 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 income and expenditure we propose to give an unqualified regularity opinion.

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.

Value for Money

In our Audit Plan we highlighted that the CCG faced increasing financial pressure. During 2015/16 the CCG delivered its target surplus of £1.4 million (0.6%). However the scale of the financial challenge going forward remains significant. The CCG's Financial Plan for 2016/17 reflects a significant increase in planned expenditure and as a result the CCG has set a deficit budget of £3.8 million. The Plan also identifies a need to make savings and efficiencies amounting to £9.7 million over the year which the CCG recognises is a significant target.

Whilst the challenge is substantial the CCG has sound arrangements in place to identify and manage its financial position. It has a clear strategy in place as part of the Caring Together Programme and is actively working with partners across the Cheshire healthcare economy to redesign healthcare services for future sustainability.

Based on the work we performed to address the significant risks, we concluded that the CCG had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this 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 and the Chief Officer.

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 2016

Section 2: Audit findings

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £4,144k (being 1.8% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have now uplifted this to reflect the gross expenditure in the 2015/16 financial statements. Our revised overall materiality is £4,364k (being 1.8% of final gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £207k. Our assessment of the value of clearly trivial matters has been adjusted to £218k to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate as these are key figures that should be correct. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the CCG affect the balance and it is therefore considered to be material by nature.	Any errors identified by testing in excess of triviality would be deemed to have implications on the users understanding of the financial statements.
Disclosures of senior manager salaries and allowances in the remuneration report	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing in excess of £10,000 would be deemed to have implications on the users understanding of the financial statements.
Disclosure of auditor's remuneration	This is a statutory requirement and a requirement of ethical and auditing standards	Any errors identified by testing would be deemed to have implications on the users understanding of the financial statements.

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>Improper revenue recognition</p> <p>Under ISA (UK&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 NHS Eastern Cheshire CCG because:</p> <ul style="list-style-type: none"> revenue does not primarily involve cash transactions revenue is principally an allocation from NHS England <p>We therefore do not consider this to be a significant risk for NHS Eastern Cheshire CCG.</p> <p>As part of our audit work we have completed;</p> <ul style="list-style-type: none"> testing of material revenue streams e.g. Revenue Resource Limit Funding, other revenue review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p> <p>The revenue resource limit of £243,837k is correctly reflected in the disclosure in the note to the accounts and agrees to the official notification.</p> <p>Our work has not identified any issues from our testing of material revenue and expenditure streams.</p>
2.	<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk that management will over-ride controls. This risk is present in all entities.</p>	<p>As part of our audit work we have completed:</p> <ul style="list-style-type: none"> a review of entity controls an examination and testing of accounting estimates, judgements and decisions made by management testing of journals entries a review of any unusual significant transactions 	<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 significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Improper expenditure recognition</p> <p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially where the body is required to meet targets.</p>	<p>We have considered this risk and do not consider it to require additional audit procedures because of your 2015/16 budgeted expenditure:</p> <ul style="list-style-type: none"> • 85% relates to secondary healthcare commissioning, which is addressed by our procedures in response to the identified risk in this area (see next page) • 14% relates to prescribing expenditure included under primary healthcare commissioning, which costs are notified to you by the Prescription Pricing Authority and so the risk of material error is deemed to be low • 1% relates to commissioning primary healthcare, which is addressed by our procedures in response to the identified risk in this area. 	<p>Our work has not identified any issues from our testing of material expenditure streams.</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.

Transaction cycle/risk area	Description of risk	Work completed	Assurance gained & issues arising
<p>Secondary Healthcare Commissioning</p>	<p>Activity variation adjustments to expenditure and payments made outside contracts not correct</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Documentation of our understanding of processes and key controls over the transaction cycle • Walkthrough of the key controls to confirm our understanding of the system. • Substantive testing of secondary healthcare costs including sample testing of payments to contracts • Examination and sample testing of month 12 intra NHS agreement of balances • Testing variations in activity to verify consistency against contracts 	<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 contract expenditure to signed agreements, including all main providers. 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>
<p>Better Care Fund (BCF)</p>	<p>The CCG has entered into a s75 pooled budget arrangement as of 1 April 2015 with East Cheshire Council and other CCGs to procure services. The accounting arrangements for this are complex and there is a risk of misstatement and the potential for irregular expenditure.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Examined the s75 agreement governing the pooled budget and gained an understanding of the CCG's controls over the BCF pooled budget and the expected accounting entries • Examined the accounting entries made in respect of the BCF pooled budget to check they are consistent with our understanding of the arrangement and that transactions and balances recorded are consistent with those recorded by counterparty organisations. 	<p>The CCG has included a prepayment of £346k to reflect the amount due from the Council on BCF scheme underspends. This has been agreed with the Council and verified to supporting documentation. (see page 19 for details).</p> <p>We have not identified any other issues in the course of completing our work.</p> <p>The transactions are reflected within the operating expenses disclosure note 5 and tested as part of our work on secondary healthcare.</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.

Transaction cycle/risk area	Description of risk	Work completed	Assurance gained & issues arising
<p>Learning Disability Pooled budget</p>	<p>The complex methodology for the provision for continuing healthcare claims associated with the former learning disabilities pooled budget increases the risk of misstatement.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Examined financial reporting and discussed the position with management during the year • Examine the basis for the year end provision and agree to supporting documentation • Sample tested cases to ensure the liability is being consistently applied in line with our understanding of the agreed methodology 	<p>The accounts reflect a provision of £455k and accrued expenditure of £390k for continuing care costs.</p> <p>We are satisfied from the explanations given and evidence provided that the CCG has taken a reasonable approach to calculating the accrued expenditure and provision included within the accounts.</p> <p>The CCG has also provided a management representation on the methodology for the calculation.</p> <p>We are satisfied that this expenditure is not materially misstated.</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
Revenue recognition	<p>Main funding source 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>Other funding 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"> the policies are appropriate under the relevant accounting framework the CCG has adequate controls in place and applied reasonable judgements to ensure revenue is appropriately recorded the policies are adequately disclosed in the financial statements. 	●
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> provisions accruals 	<p>We are satisfied from our testing and enquiry on significant judgements and estimates that:</p> <ul style="list-style-type: none"> these are appropriate under the relevant accounting framework the CCG has adequately disclosed these within the accounting policies notes 	●

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
Judgements and estimates (continued)	Key estimates and judgements include: <ul style="list-style-type: none"> provisions accruals 	Provisions Our testing of provisions has confirmed that the amounts recognised are based on best estimates of likely expenditure required to settle the obligation. We are satisfied that the basis for the provision for continuing healthcare claims is reasonable. Accruals 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. 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. The CCG amended the provision by £321k to reflect the final confirmation. (see page 19).	
Other accounting policies	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.	
Going concern	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 2015/16 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.	Matters in relation to fraud	<ul style="list-style-type: none"> 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.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the CCG. In particular, representations have been requested from management in respect of the significant assumptions used in making accounting estimates.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained confirmation of bank balances directly from the CCG's bank to assist in our audit work
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
7.	Regularity opinion	<ul style="list-style-type: none"> We are required to give a regularity opinion on whether 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 (the regularity opinion). We have not identified any issues and propose to issue an unqualified regularity opinion

Other communication requirements continued

	Issue	Commentary
8.	Auditable elements of Remuneration and Staff Report	<ul style="list-style-type: none"> • We are required to give an opinion on whether the part of the Remuneration and Staff Report subject to audit has been prepared properly in accordance with the requirements directed by the NHS Commissioning Board with the approval of the Secretary of State. • We have audited the elements of the Remuneration and Staff report ,as required by the Code. • The following amendments were required <ul style="list-style-type: none"> - Correction of a salary banding for a governing body member - Correction to comparative information for 2014/15 remuneration for a governing body member - Inclusion of additional information on staffing to show numbers and bandings of senior managers and board composition - Inclusion of sickness absence information, staff policies for disabled employees and expenditure on consultancy • We propose to issue an unqualified opinion.
9.	Annual Report including the Annual Governance Statement (AGS) and the Remuneration and Staff report	<ul style="list-style-type: none"> • We are required to give an opinion on whether the information given in the Annual Report is consistent with the financial statements. • Our review of the Annual Report did not identify any inconsistencies with the audited statements. The CCG updated the draft version of the Annual Governance Statement to improve the disclosures required for delegation arrangements and the internal control framework • We found that the AGS reflected the requirements of NHS England guidance, and was succinct, readable and in line with our knowledge of the CCG. • We propose to issue an unqualified opinion
10.	Review of accounts consolidation templates and specified procedures on behalf of the DH group auditor	<ul style="list-style-type: none"> • We are required to give a separate audit opinion on the CCGs accounts consolidation statements and to carry out specified procedures (on behalf of the NAO) on these statements under the NHS England group audit instructions. • Our work is not yet complete on this area, we will report to members if any issues come to light during the completion of the work.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

Our work has not identified any significant control weaknesses.

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported total net comprehensive expenditure.

Detail	Statement of Comprehensive net expenditure £'000	Statement of Financial Position £'000	Impact on comprehensive net expenditure £000
<p>1 Prescribing costs The CCG increased the year end prescribing accrual to reflect the actual notification of the amount due. £321k additional costs shown within prescribing (note 5) and non-NHS payables (note 17)</p>	<i>Dr</i> 321	<i>Cr</i> 321	<i>Dr</i> 321
<p>2 Better Care fund (BCF) costs The CCG has included a prepayment of £346k to reflect the amount due from the Council on BCF scheme underspends. £346k reduced costs within general supplies and services (note 5) and NHS receivables (note 12)</p>	<i>Cr</i> 346	<i>Dr</i> 346	<i>Cr</i> 346

Note: no overall impact on the comprehensive net expenditure due to other minor corrections

Misclassifications and 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 £'000	Account balance	Impact on the financial statements
1 Disclosure	n/a	Annual Report (AGS and remuneration and pensions disclosures)	The CCG made some revisions to the draft disclosures to update the information provided and add additional detail. This included: <ul style="list-style-type: none"> improved disclosures within the AGS for delegation arrangements and the internal control framework various amendments to the remuneration and staff report (as noted on page 16)
2 Disclosure	n/a	Various	Various corrections made to the classification of expenditure within operating expenses (note 5)
3 Disclosure	n/a	Various	Other minor updates including adding sickness absence data and improved disclosures for the pooled budget (note 19) and related parties (note 20)

Section 3: Value for Money

01. Executive summary

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Background

We are required by section 21 of the Local Audit Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

In a change to previous years, the Act and the Code require us only to report by exception where we are not satisfied that NHS bodies have proper arrangements in place to secure value for money. However, we are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the CCG.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated February 2016.

Medium term financial position

The medium term planning looks to have significant financial challenge with the deteriorating position of East Cheshire Trust. The draft 2016/17 financial plan submission highlighted a significant financial pressure on Eastern Cheshire CCG for the next year. The deficit at April 2016 is now circa £3.8 million.

Transformation and working with partners

The wider health economy issues may have a significant impact on the deliverability of the transformational programme and working collaboratively with key partners.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

We completed the following risk based work as part of our assessment:

- examined the out-turn position for 2015/16 and the finance plans from 2016/17 onwards
- reviewed the latest update to the CCG's 5 Year Plan and projected medium term financial position, including savings and efficiencies requirements
- examined the CCG's progress against Plan for development and delivery of transformational initiatives
- met with key officers to discuss key strategic challenges and the CCG's proposed response.

In addition we examined project management and Board assurance frameworks established by the CCG to establish how it is identifying, managing and monitoring its risks.

Significant qualitative aspects

We are required to set out our views on significant qualitative aspects of the CCG's arrangements for delivering economy, efficiency and effectiveness. We have focused our work on the significant risks that we identified in the CCG's arrangements. In arriving at our conclusion, our main considerations were:

- the medium term financial position and future required savings challenges. The latest Financial Plan 2016/17 includes a £3.8 million deficit with a £9.7 million QIPP (quality, improvement, productivity and prevention) target to achieve the Plan
- the potential risk of slippage in transformational progress which may have an adverse impact on the delivery of future services.

We have examined the position on future financial challenge as set out in the latest Financial Plan 2016/17. We have considered how the CCG is planning to address the future financial challenge and work with its partners to deliver required transformational change.

Whilst the challenge is significant the CCG has sound arrangements in place to identify and manage its financial position. It has a clear strategy in place as part of the Caring Together Programme and is actively working with partners across the Cheshire healthcare economy to redesign healthcare services for future sustainability.

It has carefully tracked areas of strategic risk as part of reporting to the Governing Body through its Board Assurance Framework. Risks are reviewed by the Governing Body and through the committee structure with scrutiny by the Audit Committee on the risk management process.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work [later in this section](#).

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that the CCG had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. We only report by exception in our auditors' report where we give a qualified conclusion, so the form of our report is briefer than in previous years. The text of our report, which confirms this under the 'matters on which we report by exception' section, can be found at Appendix A.

Key findings

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

Significant risk	Work to address	Findings and conclusions
<p>Medium term financial position</p> <p>Medium term planning looks to have significant financial challenge with the deteriorating position of East Cheshire Trust.</p> <p>The draft 2016/17 financial plan submission highlighted a significant financial pressure on Eastern Cheshire CCG. The updated Plan at April 2016 now includes a draft deficit of £3.8m.</p>	<p>We examined the CCG's arrangements for putting together and agreeing its budget plans from 2016/17 onwards. This included considering savings and efficiency plans, mitigating actions and contingencies.</p>	<p>The CCG delivered its statutory financial targets in 2015/16 by:</p> <ul style="list-style-type: none"> • delivering its target £1.4 million surplus • keeping revenue administration and capital costs within the resources available • paying suppliers promptly in accordance with the better payments code of practice. <p>The CCG also delivered £2.4 million productivity savings, sufficient to meet its planned financial target.</p> <p>The CCG has recently updated its Financial Plan 2016/17 which was approved by the Governing Body in April 2016. . The Financial Plan includes detailed analysis of key financial planning assumptions and considers previous trends, national guidance and reflects discussions with key providers. It sets out financial risks and detailed savings requirements and takes account of NHS England planning criteria.</p> <p>The 2016/17 Financial Plan reflects a significant increase in planned expenditure when compared to 2015/16. Key factors include the provider tariff uplift, pressures arising from Continuing Healthcare and East Cheshire Trust and full effects of 2015/16 investments and contract growth. As a result the CCG has set a planned deficit budget of £3.853 million and target £9.66 million savings requirement. This has been subject to continual refinement in liaison with NHS England since earlier versions.</p>

Significant risk	Work to address	Findings and conclusions
<p>Medium term financial position (contd)</p>		<p>The CCG recognises the risk of delivery of QIPP and work remains on-going to identify full QIPP opportunities. It has estimated to date the potential delivery of £8.4 million savings for 2016/17 and continues to update this estimate and assess the risk of implementation and impact on future savings opportunities.</p> <p>There is a comprehensive process of refinement and review of QIPP opportunities. The CCG has a dedicated project management team working with Director Leads to oversee the development of specific QIPP project schemes. This is then monitored and challenged by Finance and Scrutiny Committees.</p> <p>Despite the challenge ahead the CCG has robust arrangements to identify and manage its financial position. It clearly understands the importance of the achievement of transformational savings and the integration of its healthcare system to sustain financial balance in the future. It has a clear strategy in place as part of the Caring Together Programme and is actively working with partners on longer term service sustainability.</p> <p>We concluded from our review of the financial monitoring and budget setting process that that the CCG has proper arrangements to plan finances effectively and provide reliable financial reporting to support the delivery of its strategic priorities.</p>

Significant risk	Work to address	Findings and conclusions
<p>Transformation and working with partners</p> <p>The wider health economy issues may have a significant impact on the deliverability of the transformational programme and working collaboratively with key partners.</p> <p>The delivery of the CCG's transformation plans will require effective joint working with a range of partners, including the Council and Trust.</p>	<p>We examined the CCG's progress against Plan for development and delivery of transformational initiatives and met with key officers to discuss key strategic challenges and the CCG's proposed response.</p> <p>We reviewed the project management and Board assurance frameworks established by the CCG to establish how it is identifying, managing and monitoring its risks.</p>	<p>Our review of the CCG's process established that it has a good understanding of its costs and the compilation of its budget is based on a robust analysis of health needs in the locality.</p> <p>As part of the identification of QIPP opportunities the CCG is undertaking finance and resource modelling which includes reviewing services and future commissioning intentions.</p> <p>Working with its partners the CCG has continued with its Caring Together programme of system wide transformation, for the development of integrated services and co-ordinated community based care. It is becoming an increasing fine line between investing in transformation whilst achieving financial balance.</p> <p>The Cheshire Health Economy as a whole continues to face significant financial challenges and there is more to do to deliver a sustainable provider landscape across health, wellbeing, and social care for Cheshire. The CCG will be part of a longer term joint transformation team working across the economy to assess the various ways in which the services can be configured to enable sustainability.</p> <p>It is clear that the CCG is in a period of significant change in the way it fulfils its responsibilities and delivers healthcare services. It will need to ensure effective partnership working and robust project and risk management. It will need to maintain strong governance arrangements to assure itself that the changes deliver the required reform, performance and efficiency targets in accordance with its strategic objectives.</p> <p>We concluded that the CCG has proper arrangements for working effectively with partners as part of the wider transformation of the Cheshire healthcare economy to support the delivery of its strategic priorities.</p>

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Other statutory powers and duties

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Referral to the Secretary of State	<ul style="list-style-type: none">• We have not identified any issues in 2015/16 which we need to refer to the Secretary of State
2.	Public interest report	<ul style="list-style-type: none">• We have not identified any matters that would require a public interest report to be issued
3.	Written recommendations	<ul style="list-style-type: none">• We have not made any written recommendations that the CCG is required to respond to publicly

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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	45,000
Total audit fees (excluding VAT)	45,000

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 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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.

	Audit Plan	Audit Findings
Our communication plan		
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. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged 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 THE GOVERNING BODY OF NHS EASTERN CHESHIRE CCG

We have audited the financial statements of NHS Eastern Cheshire CCG for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the 'Act'). 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2015/16 Government Financial Reporting Manual (the 2015/16 FReM) as contained in the Department of Health Group Manual for Accounts 2015/16 (the 2015/16 MfA) and the Accounts Direction issued by the NHS Commissioning Board with the approval of the Secretary of State as relevant to the National Health Service in England (the Accounts Direction).

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

- the table of salaries and allowances of senior managers and related narrative notes on pages 75 and 76
- the table of pension benefits of senior managers and related narrative notes on page 77
- the analysis of staff numbers and related narrative notes on page 78; and
- the pay multiples disclosure on page 73

This report is made solely to the members of the Governing Body of NHS Eastern Cheshire CCG, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Governing Body of the CCG those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the CCG and the members of the Governing Body of 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 and is also responsible for ensuring the regularity of expenditure and income. 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 require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code of Audit Practice").

As explained in the Annual Governance Statement the Accountable Officer is responsible for the arrangements to secure economy, efficiency and effectiveness in the use of the CCG's resources. We are required under Section 21 (1)(c) of the Act to be satisfied that the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and to report our opinion as required by Section 21(4)(b) of the Act.

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 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 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 recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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, issued by the Comptroller and Auditor General in November 2015, as to whether the CCG had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as that 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 2016, and to report by exception where we are not satisfied.

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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of NHS Eastern Cheshire CCG as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 FReM as contained in the 2015/16 MfA and the Accounts Direction.

Opinion on regularity

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

Opinion on other matters

In our opinion:

- the parts of the Remuneration and Staff Report to be audited have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 FReM as contained in the 2015/16 MfA and the Accounts Direction; and
- the other information published together with the audited financial statements in the annual report and accounts is consistent with the financial statements;

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the governance statement does not comply with the guidance issued by the NHS Commissioning Board; or
- we refer a matter to the Secretary of State under section 30 of the Act because we have reason to believe that the CCG, or an officer of the CCG, is about to make, or has made, a decision which involves or would involve the body incurring unlawful expenditure, or is about to take, or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the CCG under section 24 of the Act; or
- we are not satisfied that the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of its resources for the year ended 31 March 2016.

We have nothing to report in these respects.

Certificate

We certify that we have completed the audit of the accounts of NHS Eastern Cheshire CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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

Royal Liver Building
Liverpool
L3 1PS

May 2016



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