



The Audit Findings for NHS Eastern Cheshire Clinical Commissioning Group

Year ended 31 March 2017

30 May 2017

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Audit Findings for NHS Eastern Cheshire Clinical Commissioning Group for the year ending 31 March 2017

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, 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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all 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

Chartered Accountants

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Section 1: Executive summary

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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 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK and 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 of the CCG and its income and expenditure. We are also required to give an opinion on some elements of the Remuneration and Staff report. We are required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements, apparently materially incorrect or materially inconsistent with our knowledge of the CCG or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves 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.

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, 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 (section 30 of the Act);
- a public interest report if we identify any matter that comes to our attention in the course of the audit 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 or change our audit approach, which we communicated to you in our Audit Plan dated April 2017. 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 revised versions of the Annual Report, including the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing 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 the 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.

The key messages arising from our audit of the CCGs financial statements are:

- Overall the financial statements were well prepared and in line with Department for Health and NHS England guidance
- The finalisation of the CCG's financial statements and our audit have been affected by the cyber attack recently suffered by a number of NHS organisations.
- As part of the year end agreement of balances with other NHS bodies the CCG identified a late invoice of costs of £468k from Mid Cheshire NHS FT. Management have not adjusted for this in the final accounts.

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

Subject to the satisfactory completion of the outstanding audit work, we anticipate issuing an unqualified audit opinion on the CCG's financial statements by the Department of Health deadline of 31 May 2017 (see Appendix A).

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, including the Annual Report and Annual Governance Statement (AGS). We are also required to carry out work to satisfy ourselves that disclosures made in your AGS are in line with guidance issued and consistent with our knowledge of the CCG.

Based on our review of the CCG's Annual Report and AGS we are satisfied that they are consistent with the audited financial statements. We are satisfied that the AGS meets the requirements set out in the Department of Health Group Accounting Manual 2016/17 and associated guidance.

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.

The CCG reported a deficit of £12.4 million in its financial statements for the year ending 31 March 2017, thereby breaching its duty under the National Health Service Act 2006 to break even on its commissioning budget. As a result we will be issuing a qualified 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 in respect of those controls for which the CCG has responsibility.

We draw your attention to the control issues identified in relation to:

- The Service Auditor Report for NHS Digital was qualified on that basis that some controls were not designed effectively or not operating as designed.
- The Service Auditor Report for Capita included an adverse opinion highlighting a number of significant weaknesses in controls in primary care payment processes.

We have adopted a fully substantive approach to auditing the areas affected and therefore these findings have had no impact on our audit strategy.

Further details are provided within section two of this report.

Value for Money

The CCG has engaged with partners and made considerable efforts to transform the local health economy. It has invested in Primary care, established the Caring Together programme and engaged fully with the Sustainability & Transformation Plan. Despite these efforts the financial position remains extremely difficult. There was a £12.4 million deficit in 2016/17 and a further significant deficit projected in 2017/18. We therefore intend to issue a qualified 'except for' VFM conclusion to reflect the risks associated with delivering a sustainable financial position going forward.

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

Other statutory powers and duties

During the course of our audit we confirmed that the CCG was forecasting a breach of its Revenue Resource Limit that caused us to make a referral to the Secretary of State for Health. We issued our s30 report in January 2017.

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,
 - our review of the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources, and
 - the exercise of our additional statutory powers and duties,
- have been discussed with the Chief Finance Officer and 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 throughout our audit.

Grant Thornton UK LLP
May 2017

Section 2: Audit findings

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £5,167k (being 1.8% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

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 £250k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following item where we decided that a separate materiality level was appropriate. This remains the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
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.	£10k

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Audit findings against significant risks

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>The revenue cycles include fraudulent transactions</p> <p>Under ISA (UK and Ireland) 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>A significant amount of the CCG revenues are attributable to direct allocations from NHS England, and these have been agreed to independent confirmations.</p>
2.	<p>Management override of controls</p> <p>Under ISA (UK and Ireland) 240 there is a non-rebuttable 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"> 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 over-ride 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>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

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	Description of risk	Work completed	Assurance gained & issues arising
Secondary Care Commissioning	<p>A significant percentage of the CCG's expenditure is on contracts with NHS providers. This expenditure is recognised when the activity has been performed, with accruals raised at the year-end for completed activity for which an invoice has not been issued.</p> <p>We identified the valuation of this expenditure as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Activity variation adjustments to expenditure and payments made outside contracts not correct 	<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>We have selected a sample of contract expenditure to verify to signed agreements, including for all main providers. We are also taking assurance from the agreement of balances exercise undertaken by NHS England and will look into any reported differences with providers.</p> <p>In addition we have sample tested invoiced non-contract costs to ensure activity has occurred, value is correct and accounted for in the correct accounting period.</p> <p>There were no material issues arising from our work.</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>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Primary care commissioning</p>	<p>The CCG assumed full responsibility for commissioning general practice services from 1 April 2016</p> <p>We identified the valuation of this expenditure as a risk requiring particular audit attention.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> - Documented the financial reporting arrangements for commissioned GP services, including assessment of the controls in operation. - Considered the service auditor's reports on the Health and Social Care Information Centre (HSCIC) controls over software data maintenance of Exeter and on the recording of primary care activity by Capita (Primary Care Support England) • Sample tested items of expenditure to ensure valid and appropriately coded. 	<p>We have not identified any issues arising from our testing.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Accounting policies, estimates and 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 within the CCG's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>Main funding source</p> <p>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</p> <p>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 <p>Provisions</p> <p>Our testing of provisions has confirmed that the amounts recognised are based on best estimates of likely expenditure required to settle the obligation.</p> <p>Accruals</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>	

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 and 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 within the CCG's financial statements.

Accounting area	Summary of policy	Comments	Assessment
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 have discussed with management the going concern assessment, and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	
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.	

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 intend to issue a qualified regularity opinion as the CCG breached its revenue resource limit during the year.

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 Secretary of State with the consent of the Treasury. We have audited the elements of the Remuneration and Staff report, as required by the Code. We agreed a number of amendments to the remuneration and pensions tables, median calculation, staffing figures and narrative. The draft report also had a number of omissions which have are to be included in the final version in line with requirements of the Group Accounting Manual 2017. We are awaiting the final Annual Report to check these.
9.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas If the Annual Governance Statement does not meet the disclosure requirements set out in the DH Group Accounting Manual or is misleading or inconsistent with the information of which we are aware from our audit The information in the annual report is materially inconsistent with the information in the audited financial statements or apparently materially incorrect based on, or materially inconsistent with, our knowledge of the CCG acquired in the course of performing our audit, or otherwise misleading.
10.	Review of accounts consolidation schedules 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 CCG accounts consolidation schedules and to carry out specified procedures (on behalf of the NAO) on these schedules under the DH group audit instructions . In the group audit instructions the CCG was selected as a non-sampled component. Our work is not yet complete on this area, we will report to members if any issues are identified following completion of the work.

Internal controls

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

Our audit included consideration of internal control 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.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

We identified no significant deficiencies in the CCG's internal controls during the course of our audit that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

We carried out a high level review of the general IT control environment, as part of the overall review of the internal controls system. No significant issues arose from our work.

Service auditor reports

The CCG uses NHS England's Integrated Single Financial Environment ledger system maintained by Shared Business Services. We have now had sight of the service auditor's report on Shared Business Services. There are no significant issues to bring to your attention.

The CCG uses Capita Business Services Limited to provide primary care support services. The Capita service auditor report for 2016 in respect of the primary care support services they provide to NHS England and CCGs highlighted a number of significant weaknesses and an adverse audit opinion was issued. We have now had sight of the service auditor's report on Capita for 2017 that again gives an adverse opinion. We communicated in our Plan that our audit strategy was to take a purely substantive approach to gaining our assurance. There are no significant issues from our substantive testing so far to bring to your attention.

The CCG uses NHS Digital for GP payments to providers of General Practice services. We have now had sight of the service auditor's report on NHS Digital that gives a qualified opinion as controls in respect of certain objectives were not suitably designed or were not operating as designed. Our audit strategy was to take a purely substantive approach to gaining our assurance. There are no significant issues from our substantive testing so far to bring to your attention.

The CCG uses the NHS Business Services Authority (NHSBSA) to provide prescription payment processes. We have now had sight of the service auditor's report on NHS Business Services Authority. There are no significant issues to bring to your attention.

International cyber attack

On Friday 12 May 2017 the functioning of the CCG was affected by a ransomware attack that also affected many organisations across the world. As a result of risk to the CCG's network there was a precautionary closedown of some IT systems there was disruption to the CCG's operational activity. The CCG has cooperated fully with instructions from NHS Digital and other government agencies. The source of the attack and the extent to which the CCG could have prevented this are still being investigated at the date of drafting this report.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £'000	Reason for not adjusting
1 Operating expenses Understatement of secondary healthcare expenditure due to late notification of invoice <ul style="list-style-type: none"> • Services from foundation trusts • Current liabilities – trade and payables 	468 Dr	468 Cr	Not considered to be significant by the CCG
Overall impact	£468 Dr	£468 Cr	Understated deficit by £468k

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	<p>The CCG has made amendments to the format of the draft Annual Report to follow the specified requirements of the Group Accounting Manual 2016/17. This includes specific requirements for the Performance and Accountability Report sections.</p> <p>It has also made various corrections to the entries within the remuneration and staff report. These include amendments to the remuneration and pensions tables, median calculation, staffing figures and narrative.</p>
2 Disclosure	n/a	Cashflow	Revision to the presentation of the cashflow statement to show the detailed cashflow information in the correct format.
3 Disclosure	n/a	Related parties (note 20)	The related party disclosure did not identify the Department of Health as the CCG's parent entity and did not list those Public Sector Bodies with which it mainly contracts, as required by the Group Accounting Manual. This is now included.
4 Disclosure	n/a	Pooled budget (note 19)	The CCG has now included details of the pooled budget with Cheshire East Council. This gives details of the shared income and expenditure.
5 Disclosure	n/a	Going concern (note 1.1)	The CCG has expanded the going concern accounting policy note to tailor this for the position at Eastern Cheshire. It notes details of the financial position and spending forecast.
6 Disclosure	n/a	Various	Various corrections to references and rounding differences

Section 3: Value for Money

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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.

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 2016. 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 2017 and identified one significant risk around the CCG's financial position, which we communicated to you in our Audit Plan dated March 2017. The significant risk is set out below.

Financial position

At the time of our planning the CCG faced a difficult financial position and initially set a £3.8 million deficit budget for 2016/17. The position worsened in year to a £12.4 million deficit outturn. The assessment of the 2017/18 and 2018/19 financial years indicated a deteriorating position. The position for 2017/18 is currently being finalised and shows a planned deficit of £13.4 million with a challenging £17.9 million QIPP target.

The CCG was assessed as 'Required improvement' in the first NHS England assessment framework. There is a risk that even with the proposed radical service changes and productivity gains that the development of a sustainable plan for the local health economy remains extremely challenging.

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

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 risk we identified in the CCG's arrangements. In arriving at our conclusion, our main considerations were:

- The deterioration in the CCG's financial in the current financial year against the original plan. The CCG initially set a £3.8 million deficit budget which worsened in year to a £12.4 million deficit outturn.
- The medium-term financial position and future required savings challenges. The latest Financial Plan 2017/19 as at April 2017 includes a planned deficit for 2017/18 of £13.4 million with a challenging £17.9 million QIPP (quality, improvement, productivity and prevention) target to achieve the Plan. In addition current projections for 2018/19 indicate the CCG will have a further £10.5 million deficit Plan with a QIPP requirement of £6.4 million.
- The wider financial challenges across the Cheshire health economy and risk of failing to develop sustainable operational plans for the delivery of services.

We reviewed the 2016/17 financial outturn and examined the position on future financial challenge as set out in the latest Financial Plans 2017/18 to 2018/19. We have considered how the CCG is planning to address the future financial challenge and work with its partners to deliver required transformational change.

The CCG faces a significant financial challenge in 2017/18 with a £17.9 million (6.4% of income) QIPP target of which £7 million is currently unidentified. In addition, included within QIPP are £4 million of schemes that remain high risk.

Eastern Cheshire CCG is part of an NHS England national support process which aims to reduce the level of unidentified QIPP for 2017/18 and to reduce the risks around deliverability. It is working across Cheshire as part of this support process to explore options to achieve financial balance.

The CCG has engaged with partners and made considerable efforts to transform the local health economy. It has invested in Primary care, established the Caring Together programme and engaged fully with the Sustainability & Transformation Plan. Despite these efforts the financial position remains extremely difficult, with a deficit in 2016/17 and what is likely to be a larger deficit in 2017/18. It is clear that intervention is needed to achieve the reforms that are required to deliver a sustainable health economy going forward. We therefore intend to issue a qualified 'except for' VFM conclusion to reflect the risks associated with delivering a sustainable financial position going forward.

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 except for the matter we identified in respect of the deployment of resources to achieve strategic objectives, the CCG had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The text of our proposed report 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>Financial position</p> <p>At the time of our planning the CCG faced a difficult financial position and initially set a £3.8m deficit budget for 2016/17. The position worsened in year to a £12.4m deficit outturn. The assessment of the 2017/18 and 2018/19 financial years indicated a deteriorating position. The position for 2017/18 is currently being finalised and shows a planned deficit of £13.4m with a challenging £17.9m QIPP target.</p> <p>The CCG was assessed as 'Required improvement' in the first NHS England assessment framework.</p> <p>There is a risk that even with the proposed radical service changes and productivity gains that the development of a sustainable system remains extremely challenging</p>	<p>We reviewed the CCG's 2016/17 financial outturn position and performance during the year.</p> <p>We examined the CCG's arrangements for putting together and agreeing its sustainability and operational plans from 2017/18 onwards. This included considering savings and efficiency plans, mitigating actions and contingencies.</p> <p>We considered the steps the CCG has taken to seek to manage the situation and whether it is engaging with partners to help develop longer-term solutions.</p>	<p>The CCG initially set a Financial Plan 2016/17 which included a £3.8 million deficit with a £9.7 million QIPP target. This position worsened in year and the CCG delivered a final outturn deficit £12.4m, after inclusion of the £2.7m or 1% system risk reserve released from NHS England.</p> <p>The deterioration of the CCG's financial position was due to a number of factors, including:</p> <ul style="list-style-type: none"> • £3.7m slippage on QIPP phasing (against the original £9.6m target) • Clarification of increased rates for Funded Nursing care of an additional £2m • Additional costs of transfer of Stroke services of £1.5m • Increased costs of continuing healthcare (£2.5m) and acute activity in year (£1.5m). <p>The CCG has discussed with NHSE a number of iterations of its Financial Plan for 2017/18 which was given final approved by the Governing Body in April 2017. The 2017/18 position is a planned £13.4m deficit with a £17.9m QIPP target, of which £7m is unidentified. In addition the 2018/19 Plan currently projects a £10.5m deficit with a QIPP requirement of £6.4m.</p> <p>Given the deterioration in its financial position Eastern Cheshire CCG is part of an NHSE national support process which aims to reduce the level of unidentified QIPP for 2017/18 and to reduce the risks around deliverability. The external support consists of two programmes of work. The first phase examined the CCG's QIPP governance arrangements, deliverability of current QIPP schemes and also identification of further QIPP opportunities.</p>

Significant risk	Work to address	Findings and conclusions
<p>Financial position (contd)</p>		<p>The second is a national Capped Expenditure Programme offering support across the Eastern Cheshire health economy. This primarily focuses on ECCCG, NHS East Cheshire Trust (ECT), and Cheshire Wirral Partnership Trust to identify additional QIPP opportunities that will improve the economy's financial position, rather than at individual organisation level.</p> <p>The CCG has recently received a feedback report from the first phase of the national support programme. The report included a number of recommendations around QIPP governance on which the CCG is now taking action. The report also concurred with the CCG's assessment of the level of financial risk to the delivery of the overall QIPP plan for 2017/18 as reported to the Governing Body. It identified some potential for additional QIPP schemes which the CCG is exploring.</p> <p>The CCG's latest Financial Plan indicates that of the £17.9m required QIPP for 2017/18 there is £4m of schemes that will require intensive intervention to deliver in year in addition to the unidentified £7m. The CCG is exploring all options to achieve financial balance. It has identified a number of more radical and contentious schemes around transformation and levels of service which would need Governing Body and Regulator support. These are not factored into current plans.</p> <p>The CCG recognises the implementation of the Cheshire and Merseyside Sustainability & Transformation Plan (STP), plus the outcome of the Caring Together (CT) Programme Board are key to the future provision of services within Eastern Cheshire.</p>

Significant risk	Work to address	Findings and conclusions
<p>Financial position (contd)</p>		<p>We have discussed the various programmes of support that are ongoing across the Cheshire Health economy and examined financial and strategic reporting during the year. Whilst we are satisfied that the CCG is actively engaged in the redesign of the health economy across Cheshire and working to achieve future financial sustainability there is currently no agreed plan to achieve financial balance.</p> <p>We have therefore concluded that there are weaknesses and significant risks associated with the CCG’s arrangements for planning finances effectively to deliver 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">On 17 January 2017 we referred a matter to the Secretary of State under section 30 of the Act in relation to NHS Eastern Cheshire CCG's planned breach of its revenue resource limit for the year ending 31 March 2017.
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

Additional audit costs

- In line with the provisions in the Code of Audit Practice, we are considering an additional fee of £1000 to reflect the additional costs incurred as a result of the s30 Report on the Breach of the revenue Resource Limit. This additional fee is subject to approval by Public Sector Audit Appointments Ltd.

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 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 requirement of the Auditing Practices Board's Ethical Standards

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the CCG. No- non-audit services were provided to the CCG in 2016/17.

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 of audit matters with those charged with governance

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. 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		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

ISA (UK and Ireland) 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 here.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

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.

Appendices

A. Audit Opinion

Appendix A: Audit opinion

We anticipate we will provide the CCG with a modified 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 2017 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, as interpreted and adapted by the Department of Health Group Accounting Manual 2016/17 (the "2016/17 GAM") and the requirements of the Health and Social Care Act 2012.

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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 as required by the Act.

As explained in the 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 by exception where we are not satisfied.

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 Performance Report and the Accountability 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 2016, 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 2017, 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.

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 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Department of Health Group Accounting Manual 2016/17 and the requirements of the Health and Social Care Act 2012.

Basis for qualified opinion on regularity

The CCG reported a deficit of £12.4 million in its financial statements for the year ending 31 March 2017, thereby breaching its duty under the National Health Service Act 2006, as amended by paragraph 223I of Section 27 of the Health and Social Care Act 2012, to break even on its commissioning budget.

Qualified Opinion on regularity

In our opinion, except for the effects of the matter described in the Basis for qualified opinion on regularity paragraph, 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 Accountability Report to be audited have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Department of Health Group Accounting Manual 2016/17 and the requirements of the Health and Social Care Act 2012; and
- the other information published together with the audited financial statements in the Performance Report and the Accountability Report for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if 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.

On 17 January 2017 we referred a matter to the Secretary of State under section 30 of the Act in relation to NHS Eastern Cheshire CCG's planned breach of its revenue resource limit for the year ending 31 March 2017.

We are required to report to you if we are not satisfied that the CCG has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Basis for qualified value for money conclusion

The CCG reported a deficit of £12.4 million in its financial statements for the year ending 31 March 2017. In addition, the CCG has not yet succeeded in addressing the underlying financial position within the health economy and is forecasting a further deficit of £13.4 million for the year ending 31 March 2018.

The deterioration in the CCG's financial position in 2016/17 was due to unanticipated increases in costs including Funded Nursing Care, Stroke transfer, Continuing Healthcare and the non-delivery of agreed savings (£3.7 million). The projected deficit of £13.4 million in 2017/18 will require the delivery of a further £17.9 million of savings not all of which are currently agreed. There is a considerable risk that further unanticipated costs and non-delivery of savings will mean the planned deficit could be exceeded.

This issue is evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Qualified Value for Money Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller & Auditor General in November 2016, except for the effects of the matter described in the Basis for qualified value for money conclusion paragraph, we are satisfied that, in all significant respects, NHS Eastern Cheshire CCG has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We have nothing to report in respect of the following matters where we are required to report by exception if:

- in our opinion the Governance Statement does not comply with the guidance issued by the NHS Commissioning Board; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the CCG under section 24 of the Act in the course of, or at the conclusion of the audit.

Certificate

We certify that we have completed the audit of the financial statements of NHS Eastern Cheshire CCG in accordance with the requirements of the Act 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



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