



Annual Audit Letter

Year ending 31 March 2018

NHS Eastern Cheshire CCG

20 June 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Eastern Cheshire Clinical Commissioning Group (the CCG) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the CCG and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the CCG's Audit Committee as those charged with governance in our Audit Findings Report on 25 May 2018.

Our work

Materiality	We determined materiality for the audit of the CCG's accounts to be £6,073,000, which is 2% of the CCG's gross revenue expenditure.
Financial Statements opinion	<p>We gave an unqualified opinion on the CCG's financial statements on 25 May 2018, confirming that they presented a true and fair view of the CCG's financial position.</p> <p>As well as an opinion on the financial statements, we are required to give a regularity opinion on whether expenditure has been incurred 'as intended by Parliament'. Failure to meet statutory financial targets automatically results in a qualified regularity opinion.</p> <p>We found that expenditure included in the financial statements has been applied for the purposes intended by Parliament except for the fact the CCG reported a deficit of £18.5 million for the year ending 31 March 2018, thereby breaching its duty to break even on its commissioning budget. We therefore issued a qualified regularity opinion.</p>
NHS Group consolidation template (WGA)	We also reported on the consistency of the accounts consolidation template provided to NHS England with the audited financial statements. We concluded that these were consistent.
Use of statutory powers	We referred a matter to the Secretary of State, as required by section 30 of the Act, on 6 March 2018 because the CCG was planning to breach its revenue resource limit for the year ending 31 March 2018.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the CCG's financial statements and regularity assertion (section two)
- assess the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the CCG's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements

We were satisfied that the CCG put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for the arrangements for planning finances effectively to support the sustainable delivery of strategic priorities. The CCG continues to face a challenging financial position and reported an £18.5m deficit in the year, significantly more than originally expected. The CCG continues to work with partners but at this stage there is more that needs to be done to deliver a plan for a sustainable local health economy. We therefore issued a qualified 'except for' Value for Money conclusion.

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.

Working with the CCG

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in May releasing your finance team for other work.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the CCG's officers and Governing Body members. We look forward to continuing to work with you going forward.

Grant Thornton UK LLP
June 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the CCG's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the CCG's accounts to be £6,073,000 which is 2% of the CCG's gross revenue expenditure. We used this benchmark as, in our view, users of the CCG's financial statements are most interested in where the CCG has spent its allocation in the year.

We also set a lower level of specific materiality for related party transactions and senior officer remuneration.

We set a lower threshold of £300,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give sufficient assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and are adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Annual Report to check it is consistent with our understanding of the CCG and with the accounts included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the CCG's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Operating expenses – purchase of secondary healthcare A significant percentage of the CCG's expenditure is on contracts for healthcare with NHS providers and non-NHS providers, such as operations and hospital care. 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 accuracy and occurrence of contract variations as a risk requiring special audit consideration.</p>	<p>As part of our audit work we undertook the following 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 systems to confirm our understanding ▪ agreement of significant contracts to signed contracts ▪ testing of the residual balance to ensure that variations and non-contracted activity has been treated correctly ▪ agreement of NHS creditors to the agreement of balances confirmation. 	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<p>Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The CCG faces external pressures to meet agreed targets, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"> – review of accounting estimates, judgements and decisions made by management – testing of journal entries – review of unusual significant transactions – review of significant related party transactions outside the normal course of business. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

Audit of the Accounts

Significant Audit Risks Continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>We rebutted this presumed risk for 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>As we were able to rebut this presumed risk, no specific audit procedures were required</p> <p>We therefore did not consider this to be a significant risk for the CCG.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 25 May 2018, in advance of the national deadline.

As well as an opinion on the financial statements, we are required to give a regularity opinion on whether expenditure has been incurred 'as intended by Parliament'. Failure to meet statutory financial targets automatically results in a qualified regularity opinion.

Our review of the CCG's expenditure highlighted the following issue which gave rise to a qualified regularity opinion.

- As has already been noted the CCG reported a deficit of £18.5m in its financial statements for the year ending 31 March 2018, 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. As such we issued a qualified regularity opinion.

Preparation of the accounts

The CCG presented us with draft accounts in accordance with the national deadline, and provided working papers to support them. The finance team responded promptly to our queries during the course of the audit. The CCG included a clear note setting out that it has begun a course of action that involves closer working with the other three CCGs in Cheshire.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the CCG's Governing Body on 23 May 2018 and the Governance & Audit Committee on 25 May 2018.

Annual Report, including the Governance Statement

We are also required to review the CCG's Annual Report and the Governance Statement included within the Annual Report. We provided comments on the original draft of the Annual Report and the Annual Governance Statement which were addressed in a final revised versions.

Whole of Government Accounts (WGA)

We issued a group return to the National Audit Office in respect of Whole of Government Accounts, which did not identify any issues for the group auditor to consider.

Other statutory powers

We are also required to refer certain matters to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014. We referred a matter to the Secretary of State, as required by section 30 of the Act, on 6 March 2018 because the CCG was planning to breach its revenue resource limit for the year ending 31 March 2018

Certificate of closure of the audit

We are also required to 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.

Value for Money arrangements

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. The key risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

The CCG continues to face a challenging financial position and reported an £18.5m deficit in the year, significantly more than originally expected. The CCG continues to work with partners but at this stage there is more that needs to be done to deliver a plan for a sustainable local health economy.

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 issued a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

Value for Money arrangements

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial position</p> <p>At the time of our planning the CCG continued to face an increasingly difficult financial position in 2017/18 following a £12.4m deficit outturn in 2016/17. The Financial Plan 2017/18 required savings of £17.9m to meet the NHS approved control deficit of £13.4m. The CCG was assessed as 'Required improvement' in the first NHS England assessment framework.</p> <p>There was 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 2017/18 financial outturn position and performance during the year.</p> <p>We examined the CCG's arrangements for putting together and agreeing its Financial Plan from 2018/19 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 agreed with NHSE and the Governing Body a £13.4m control total deficit in its 2017/18 Financial Plan. The Plan required £17.9m QIPP savings to deliver this position of which identified schemes were £10.8m and £7m at risk. Throughout the year the CCG has set out the risks associated with the achievement of the Financial Plan position in finance reports to the Governing Body. The financial position at the year end is an £18.5m deficit which is in line with forecasts. This reflects the delivery of identified QIPP schemes of £8.2m.</p> <p>The CCG has held ongoing discussions with NHSE and its Governing Body in the development of its Financial Plan for 2018/19 and formally submitted this at the end of April 2018. The 2018/19 position is a planned £15m deficit with a £9.3m QIPP target, of which £3.4m is at high risk of delivery. The current QIPP schemes are draft in proposal and subject to further validation and assurance. If the CCG delivers the £15m deficit control total it expects to receive £15m additional allocation from the new Commissioner Sustainability Fund to achieve a financially balanced position.</p> <p>Eastern Cheshire CCG has continued to work with NHSE as part of the national support process to examine QIPP governance and opportunities in 2017/18 with the intention to reduce the risks around deliverability. This programme continues by examining the readiness of 2018/19 schemes with potential additional support. The CCG is also part of the NHSE's Capacity and Capability Programme which is supporting chosen Executive leads across various areas.</p> <p>The Financial Plan contains a section on risks and emerging pressures and the likely impact on meeting the nationally set control total. ECCCCG continues to discuss its financial position with NHSE and the deliverability of its Financial Plan target.</p> <p>We therefore concluded that there were weaknesses and significant risks associated with the CCG's arrangements for planning finances effectively to deliver its strategic priorities.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	April 2018
Audit Findings Report	May 2018
Annual Audit Letter	June 2018

Fees for non-audit services

Service	Fees £
None	Nil

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit	38,000	38,000	46,000
Total fees	38,000	38,000	46,000



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