



The Annual Audit Letter for NHS Eastern Cheshire CCG

Year ended 31 March 2019

26 June 2019



Contents



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Section

1. Executive Summary
2. Audit of the Financial Statements
3. Value for Money arrangements

Page

3
5
9

Appendices

- A Reports issued and fees

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at NHS Eastern Cheshire Clinical Commissioning Group (the CCG) for the year ended 31 March 2019.

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 Governing Body on 22 May 2019 and the Governance and Audit Committee on 24 May 2019.

Our work

Materiality

We determined materiality for the audit of the CCG's financial statements to be £5,447,000, which is 1.9% of the CCG's gross revenue expenditure.

Financial Statements opinion

We gave an unqualified opinion on the CCG's financial statements on 28 May 2019.

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. Based on our review of the CCG's expenditure we gave an unqualified regularity opinion.

NHS Group consolidation template (WGA)

We also reported on the consistency of the financial statements consolidation template provided to NHS England with the audited financial statements. We concluded that these were consistent with the statement of account.

We reported an unadjusted misstatement of £327k for an under accrual in the prior year statement of accounts as part of the NHS Group Consolidation template.

Use of statutory powers

We did not identify any matters which required us to exercise our statutory powers.

Respective responsibilities

We 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. We reflected this in our audit report to the members of the Governing Body on 28 May 2019.

The CCG met its agreed deficit control target and planned efficiency savings, and therefore received its planned £15m Commissioner Sustainability Funding which enabled it to post a small surplus. Looking ahead to 2019/20 the CCG has agreed a smaller deficit control total which reflects a positive direction of travel. It is important the CCG continues to closely monitor the delivery of the planned savings.

The CCG and the other CCGs in Cheshire are continuing to move forward in the plans for closer integration and joint working. A joint Accountable Officer was appointed last year and a shared Chief Financial Officer has now been identified. We will continue to track developments in this key area including how risks are being identified and managed.

Certificate We certified that we have completed the audit of the financial statements of NHS Eastern Cheshire CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 28 May 2019.

Working with the CCG

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

- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for continued work to be undertaken as the CCG looks to work closely with neighbouring CCGs
- 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 staff.

Grant Thornton UK LLP
June 2019

Audit of the Financial Statements

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 financial statements to be £5,447,000, which is 1.9% 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 of £20,000 for senior officer remuneration disclosed in the Annual Report

We set a lower threshold of £300,000, above which we reported errors to the Governance and 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 financial statements 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 Financial Statements

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>Secondary healthcare expenditure – contract variations</p> <p>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 primarily derived through block contracts that are agreed up front for a predetermined cost or level of activity. Contract variations are agreed with the supplier throughout the year to recognise demand and price adjustments against the agreed contracts. Costs related to contract variations are recognised when the adjustment has been agreed with the provider, 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 completeness of secondary healthcare expenditure – contract variations, and the accuracy and completeness of associated payables and accruals, as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Gained an understanding of, and documented, the financial reporting processes used for the purchase of secondary healthcare and evaluated the design of the associated controls • Undertaken a walkthrough of the key controls to confirm our understanding of the system • Completed substantive testing of secondary healthcare costs including agreement to out turn against block and activity based contracts • Using the DHSC mismatch report, we investigated unmatched expenditure and payable balances with NHS bodies over the NAO threshold of £300k, corroborating the unmatched balances used by the CCG to supporting evidence • Agreed on a sample basis, payable and accrual balances relating to secondary healthcare to supporting evidence 	<p>Our audit did not identify any issues in this area</p>

Audit of the Financial Statements - Continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>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.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have undertaken the following work in relation to this risk</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • 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 work has identified that senior members of finance staff have system rights which would allow them to both upload and approve a journal. This could increase the risk of misstatements, due to error or fraud. There is a retrospective monthly approval process of self authorised journals to ensure inappropriate journals are detected. However this is a detective control (that is after the event). The set up of the system is managed by NHSE and as such is set up on the basis that if you can post a journal then you can authorise it as well. Although this is a system weakness our testing of journals did not identify any instances where a user had self authorised and it is considered that the CCG have appropriate processes in place to mitigate the risk.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 28 May 2019.

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.

Based on our review of the CCG's expenditure we gave an unqualified regularity opinion.

Preparation of the financial statements

The CCG presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the CCG's Governance and Audit Committee on 25 May 2019. Our work identified one issue in regard to an over accrual of expenditure in 2017/18 based on information and contractual obligations arising in year. These were then reversed at the full accrual value in 2018-19

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. It provided these on a timely basis with the draft financial statements with supporting evidence.

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

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of NHS Eastern Cheshire CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 28 May 2019.

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 risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the CCG in May 2019, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the CCG put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money arrangements

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial Sustainability</p> <p>The financial health of the CCG remains a challenge and there is a continued pressure to meet the agreed control total in 2018/19 which is a £15m deficit. The 2018/19 budget assumes savings of £9.4m which the CCG is on track to deliver at month 9. Whilst there are potentially £3.6m of risks to delivering the forecast the CCG has mitigated the overall risk against the control total through other factors and is forecasting to meet its target. If the CCG meets its planned deficit then it is anticipating receipt of £15m of Commissioner Sustainability Funding to enable it to post a small accounting surplus.</p> <p>The future financial sustainability of the delivery of health care requires a new system wide approach. This includes the STP and ongoing consideration of wider working with partners to identify efficiencies within the system</p>	<p>In 2018/19 Eastern Cheshire CCG (the CCG) planned to deliver a deficit of £15m which, if met, would trigger access to £15m in Commissioner Sustainability Funds (CSF) and produce a breakeven position. As at 31 March 2019 the CCG has posted a £70k surplus. The achievement of the budget was based on the delivery of £9.4m QIPP savings. All reporting through the year has shown that the CCG was on target to deliver its control total and the QIPP target would be achieved.</p> <p>In setting the 2018/19 financial plan with a deficit of £15m, NHS England (NHSE) confirmed that the CCG was eligible for £15m of CSF subject to a number of conditions being met. One of these key conditions was the submission of a financial recovery plan (FRP) to NHSE. The FRP contains a number of key messages that the achievement of a balanced financial position, without CSF, by the end of 2019/20 will only be achievable through:</p> <ul style="list-style-type: none"> • significant transformation and structural reform of the provider market • significant reduction in system administrative costs, and • changes to the National thresholds for access to NHS Funded health care. <p>Despite the progress that has been made there is still more work to be done to deliver a sustainable financial position within the local health economy. The CCG is increasingly looking to work more closely with its neighbours, both through an integrated care system (ICS) and the joint executive team, to seek to address these issues.</p> <p>The closer working with the other three CCGs in Cheshire does not mitigate the need for Eastern Cheshire CCG to manage and maintain a position as a statutory body. The 2019-20 budget presented to Board in March 2019 is based on a number of assumptions including the requirement to deliver a balanced plan in line with the nationally set deficit financial control total of £10.8m. Subject to the plan being approved by NHSE, the CCG will receive £10.8m of CSF.</p> <p>As at month 2 the budget is showing a £3.5m unidentified savings which the CCG need to address. There are mitigating actions in place through application of reserves and other actions as shown within the budget book.</p>	<p>Overall it is considered that the CCG has adequate arrangements in place for financial sustainability. It is, however, noted that significant financial pressures remain within the CCG budget. The CCG must ensure that they continue to closely monitor and manage delivery of both the budget and the savings programmes and where risks to delivery are identified that these are addressed and dealt with appropriately and in a timely manner.</p>

Value for Money arrangements

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Senior Officer and Board Capacity for effective governance of the CCG</p> <p>The CCG is working with South Cheshire, West Cheshire and Vale Royal CCGs to identify ways of working in collaboration as part of the wider health economy to assist in identifying potential savings. A single Accountable Officer has been appointed across the four CCGs. The proposed single executive management team could have an impact in the CCG's senior management capacity.</p>	<p>The first steps to closer working ties occurred with the agreement for a single executive team by the four Governing Bodies in January 2018. This ratified the decision to create a single executive team with a remit to manage the four CCGs with a view to creating efficiencies and further savings to bring the local health economy back into balance.</p> <p>Within this framework a single Accountable Officer (AO) and all executive positions have been appointed with the exception of one that is due yet to be recruited to. The purpose of the close working, and proposed merger is to transform the system and not just to look to make savings and clear historic deficits.</p> <p>The capacity of management and the ability to deal with the ongoing requirements of the move towards closer working ties can be demonstrated through the achievement of targets and the consideration of future requirements. The outturn position shows that a £70k surplus has been posted, although this was after meeting a control total deficit position of £15m which resulted in the receipt of £15m in CSF. The CCG has forecast through the financial year that the budget would be achieved and the achievement of the financial position is a strong indicator that the governance arrangements were appropriate and that oversight was provided in a timely manner at the correct level.</p> <p>A review of performance against key KPIs shows either improvement on a quarter by quarter basis or level performance. The exception to this is A&E 4 hour wait which has deteriorated quarter on quarter although it is not entirely within the control of the CCG. The CCG continue to liaise with the provider to try and identify actions that can be taken in order to improve performance. The CCG are transparent in their reporting and have identified the issues that are impacting on performance. This allows members and the Governing Body to address the issues and identify potential solutions.</p> <p>Further assurance over the ability of the Governing Body to identify and manage risk is demonstrated by the Board Assurance Framework (BAF) which has identified and included a number of risk areas</p> <p>The achievement of the financial surplus and the achievement of savings also demonstrates that there is sufficient capacity and expertise within senior management at the CCG.</p>	<p>Overall we conclude that the CCG has adequate arrangements in place and the reasonable actions are in place for the development of the close workings with a single Senior Executive Team. As highlighted within the BAF more needs to be done to ensure that greater partnership working across the wider system translates into genuine transformation in the way health and social care is provided, which is capable of returning the system to a sustainable footing and bringing the local health economy back into balance</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services

Reports issued

Report	Date issued
Audit Plan	7 February 2019
Audit Findings Report	24 May 2019
Annual Audit Letter	18 May 2019

Fees

	Planned fees £	Actual fees £	2017/18 fees £
Statutory audit	38,000	38,000	38,000
Total fees	38,000	38,000	38,000

Fees for non-audit services

Service	Fees £
Mental Health Investment Standard	10,000*

*To be confirmed

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. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the CCG's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the CCG's policy on the allotment of non-audit work to your auditor



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