



# Annual Audit Letter

*Year ending 31 March 2018*

## DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY

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NHS South Cheshire CCG  
July 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 NHS South Cheshire CCG 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 Governance and Audit Committee as those charged with governance in our Audit Findings Report on 24 May 2018.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the CCG's accounts to be £4,739,000, which is 1.8% of the CCG's gross revenue expenditure.
<b>Financial Statements opinion</b>	<p>We gave an unqualified opinion on the CCG's financial statements on 26 May 2018.</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>Our review of the CCG's expenditure highlighted the following issues which gave rise to a qualified regularity opinion.]</p> <ul style="list-style-type: none"> <li>• The CCG reported a deficit of 3.433 million against its total in-year revenue resource limit 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 ensure that its revenue resource use in a financial year does not exceed the amount specified by direction of the NHS Commissioning Board.</li> <li>• The CCG incurred expenditure on an exit package for an individual in complex and unusual circumstances. The expenditure was authorised by the CCG's Remuneration Committee in March 2017, but the Committee was not properly constituted as set out in its terms of reference.</li> </ul>
<b>NHS Group consolidation template (WGA)</b>	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.
<b>Use of statutory powers</b>	We referred a matter to the Secretary of State, as required by section 30 of the Act, on 9 <sup>th</sup> February 2018 because the CCG had or was forecasting to breach its revenue resource limit.

## 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

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**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 CCG reporting a deficit of £3.433 million in its financial statements. The CCG has not yet succeeded in addressing the underlying deficit and is forecasting a further deficit of £2 million for the year to 31 March 2019. We therefore qualified our value for money conclusion in our audit report to the members of the Governing Body on 26<sup>th</sup> May 2018.

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**Certificate**

We are unable to certify that we have completed the audit of the accounts of NHS South Cheshire CCG. The CCG is reviewing the information available at the time the Remuneration Committee authorised the exit package referred to on page 3 to confirm there are no wider governance weaknesses. Once it has done so, and we are satisfied there are no implications for our audit responsibilities, we will certify completion of the audit.

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**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, before the deadline.
- 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
- Providing training – we provided your teams with training on financial accounts and annual reporting
- Support outside of the audit – our advisory team supported you on the review of St Luke's Hospice.

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 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 £4,739,000, which is 1.8% 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 the Remuneration Report, £20,000, and for Related Party Transactions which was lower of £20,000 or 10% of the value of transactions with the Related party.

We set a lower threshold of £237,000, 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 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><b>Operating expenses – purchase of secondary healthcare</b>                      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 have:</p> <ul style="list-style-type: none"> <li>▪ gained an understanding of the financial reporting processes used for the purchase of secondary healthcare and evaluated the design of the associated controls</li> </ul> <p>We have substantively tested secondary healthcare costs including:</p> <ul style="list-style-type: none"> <li>– for a sample of high value contracts reconciled the closing contract expenditure to the original contract price</li> <li>– tested a sample of contract payment variations to underlying activity information, and</li> <li>– tested post year end payments to supporting information.</li> </ul>	<p>We tested contract expenditure to signed agreements. For the remaining expenditure we sample tested residual payments to supporting information.</p> <p>Our audit work did not identify any significant issues in relation to the risks identified.</p>
<p><b>Management override of internal controls</b>                      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. .</p> <p>The CCG faces pressure to meet external targets, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness</li> <li>• obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness</li> <li>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>	<p>Our audit work did not identify any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues</p>

# Audit of the Accounts

## Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 26 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 issues which gave rise to a qualified regularity opinion.

- The CCG reported a deficit of 3.433 million against its total in-year revenue resource limit 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 ensure that its revenue resource use in a financial year does not exceed the amount specified by direction of the NHS Commissioning Board.
- The CCG incurred expenditure on an exit package for an individual in complex and unusual circumstances. The expenditure was authorised by the CCG's Remuneration Committee in March 2017, but the Committee was not properly constituted as set out in its terms of reference.

## Preparation of the accounts

The CCG presented us with draft accounts 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 accounts

We reported the key issues from our audit to the CCG's Governance and Audit Committee on 24 May 2018.

In addition to the key audit risks reported above, we identified a number of disclosure amendments that the CCG's management agreed to implement.

- Correcting references in note 1.1
- Removing insignificant disclosures
- Updating accounting policies
- Correcting the analysis of the exit package.

## 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 accounts with supporting evidence.

## 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. On 9<sup>th</sup> February 2018 we reported to the Secretary of State that the CCG was forecasting a deficit outturn which would lead it to breach its revenue resource limit.

## Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of [name of CCG] in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We are unable to certify that we have completed the audit of the accounts of NHS South Cheshire. The CCG is reviewing the information available at the time the Remuneration Committee authorised the exit package referred to on page 3 to confirm there are no wider governance weaknesses. Once it has done so, and we are satisfied there are no implications for our audit responsibilities, we will certify completion of the audit.

# 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 risk we identified was the CCG's ability to deploy its resources in a sustainable manner because it is unable to secure a stable and sustainable financial position.

The CCG began the year with a planned deficit of £1.5 million. However, with NHSE agreement, this rose to £3.7 million and the CCG identified a potential further deficit of £1.7m which it described as 'at risk'.

As with many CCG's, new HRG and new Identification Rules were attributed as causing a significant element of the changed financial position.

The CCG had put in place an arrangement with its principal provider Trust to ensure an agreed final position and monitored this through the Financial Recovery Group which reported to the Governing Body.

The CCG was part of a wider Cheshire Capped Expenditure Programme and worked alongside other CCGs and provider trusts towards a system wide control deficit.

The CCG's outturn position was a deficit of £3.433 million which was within its revised plan.

The CCG has worked with all the CCGs and local authorities across Cheshire to develop a Joint Commissioning Committee to cover Health and Social Care as part of the ground work to establishing Accountable Care Organisations for Cheshire.

## Forward look

The CCG has made great progress towards stabilising its position, particularly with the local provider trust and through the work of the financial recovery group. It has engaged fully in the moves towards Cheshire wide Commissioning, and work to address structural challenges.

For 2018/19 the CCG has agreed a deficit position of £2 million. It is planning savings of £7.156 million and has profiled these savings across the year. This represents an increase in the savings achieved in 2017/18.

## Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matter we identified above, the CCG put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

## 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	January 2018
Audit Findings Report	May 2018
Annual Audit Letter	June 2018

### Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit	34,000	34,000	41,250
<b>Total fees</b>	<b>34,000</b>	<b>34,000</b>	<b>41,250</b>

### Fees for non-audit services

Service	Fees £
Joint Review - St Luke's Hospice (NHS South Cheshire CCG Share)	£10,000 (£5,000)

### 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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