



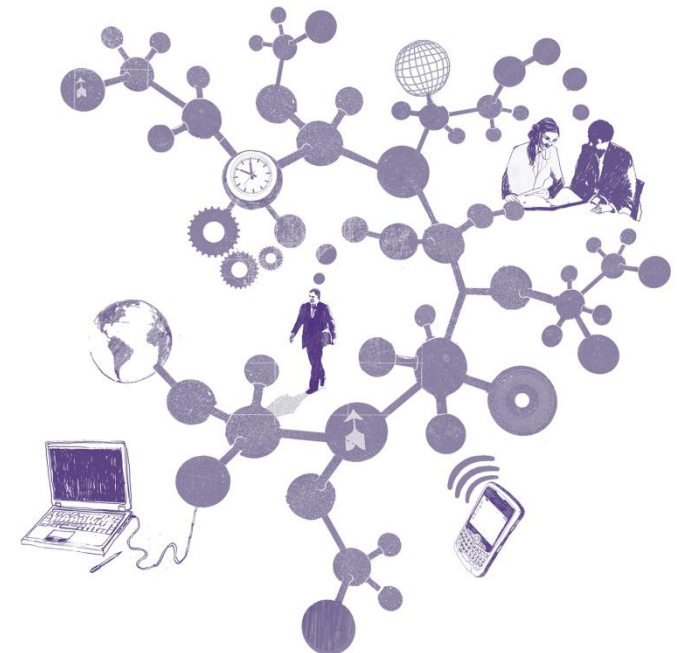
The Annual Audit Letter for NHS Vale Royal Clinical Commissioning Group

Year ended 31 March 2017

20 July 2017

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings from the work that we have carried out at NHS Vale Royal Clinical Commissioning Group (the CCG) for the year ended 31 March 2017.

The 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 26 May 2017.

Our 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 (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 and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

Our work

Financial statements opinion

We gave an unqualified opinion on the CCG's financial statements on 30 May 2017, confirming that they provided a true and fair view of the CCG's financial position at 31 March 2017, of its expenditure and income for the year then ended, and the financial statements were prepared properly in accordance with the relevant accounting and reporting standards and Department of Health framework.

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.

As expected the CCG incurred a deficit of £1.722M which gave rise to a qualified regularity opinion.

Consolidation template

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

It was clear from early in the year that the CCG would not be able to maintain its expenditure within its Revenue Resource Limit of £145M. As consequence we referred the matter to the Secretary of State on 17 January 2017, as required by section 30 of the Act. because the CCG was planning to breach its revenue resource limit.

Value for money (VfM) conclusion

It has been a challenging year for the CCG. The CCG worked effectively to manage its in-year position and to limit the size of the deficit. Despite the effort that have been made we concluded that there was a significant risk.; the CCG has not yet succeeded in addressing its underlying deficit and is forecasting a further deficit for the year to 31 March 2018.

We were satisfied that the CCG put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources in most respect with the exception of planning sustainable resource deployment. We therefore issued a qualified value for money conclusion in our report on the financial statements on 30 May 2017.

Looking ahead, the CCG has a good understanding of its financial challenges and the changes it needs to bring about. Together with NHS South Cheshire CCG, it is working on several projects to re-shape the delivery of Health and Social Care across Cheshire and bring stability to the local health economy.

Certificate

We certify that we have completed the audit of the accounts of NHS Vale Royal CCG in accordance with the requirements of the Code of Audit Practice.

Other work completed

We have not undertaken any other work for the CCG during the financial year to 31 March 2017.

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, delivering the accounts before the deadline, 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. We highlighted the need to work with partner to develop a viable and sustainable financial solution for the local health economy.
- Sharing our insight – we provided regular governance and 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

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
July 2017

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 £2,639,000, 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 related party transactions and senior officer remuneration of £20,000.

£131,000

We set a lower threshold of, 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 reasonable 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 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 Ireland) 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

These are the 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>The revenue cycle includes fraudulent transactions Under ISA (UKA and Ireland) 240, there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>We were able to rebut this presumed risk for NHS Vale Royal CCG because :</p> <p>Revenue does not primarily involve cash transactions</p> <p>Revenue is principally an allocation from NHS England</p> <p>We therefore did not consider this to be a significant risk or NHS Vale Royal CCG.</p>	<p>Our audit work did not identify any issues in respect of revenue recognition. The Revenue Resource Limit notification from the Department of Health of £144,924,000 was properly disclosed in the accounts.</p>
<p>Secondary Care Commissioning 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>As part of our audit work we;</p> <p>Documented and identified the process key controls in the CCG's commissioning cycle.</p> <p>Walked through a sample item to confirm our understanding</p> <p>Reviewed and sample tested secondary healthcare activity variation expenditure for the four largest providers</p> <p>Reviewed the month 12 intra-NHS agreement of balances exercise.</p> <p>Considered the service auditor's report in respect of relevant controls operated by SBS and CSU.</p> <p>Reviewed and tested a sample of year end debtor and creditor balances.</p>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Secondary Health Care contracts as reported in the accounts amount to £104 million. Of which £80 million were agreed to signed contract contracts and the balance tested by review of a random sample of invoiced payments.</p>

Audit of the accounts

These are the 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>Primary Care commissioning. This was regarded as a risk because it was a new activity involving complex accounting and new accounting practises and systems.</p>	<p>As part of our audit work we:</p> <p>Documented the systems and procedures followed by the CCG for capturing and recording expenditure on primary care co-commissioning and obtained an understanding of the key controls.</p> <p>Completed walk through testing to confirm the operation of the system and procedures as documented.</p> <p>We reported to the Audit and Governance Committee that we were aware of weaknesses in committee that we are aware of weaknesses in systems operated by third party providers that prevented us from relying on systems controls and so followed a fully substantive audit.</p> <p>We undertook substantive testing of expenditure undertaken substantive testing of substantive testing of expenditure through out the year.</p>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>We tested a statistical sample of 37 invoiced payments to GP practices.</p>
<p>Employee remuneration Employee remuneration is a material figure in the financial statements which is unusual for CCGs</p>	<p>As part of our audit work we completed:</p> <p>Documented and identified the processes and key controls in the CCG's payroll cycle.</p> <p>Reconciled of year end payroll reports to the general ledger.</p> <p>Investigated significant adjusting items.</p> <p>Analysed month-on-month variations in gross pay and on-costs</p> <p>Confirmed that all payroll interfaces have been included.</p>	<p>Our audit work identified no significant issues.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 30 May 2017, 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.

The CCG was planning to report a deficit for the Year to 31 March 2017; this was confirmed in the draft financial statements and gave rise to a qualified regularity opinion.

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.

The draft financial statements were prepared from template provided by NHS England to all CCGs. This is a generic document and the first draft included a number of nil or not applicable disclosures that were removed from the final set of financial statements approved by the Governing Body.

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 26 May 2017.

We completed a significant portion of our planned testing at the interim stage in December and January. As a consequence we were able to minimise the on-site work required in May which minimised the burden on your team. In addition we were able to complete more work remotely which helped us overcome a number of practicable difficulties presented by the cyber-attack on the NHS.

There were no adjustments to the financial statements other than those that were clearly trivial in nature.

Annual Governance Statement and Annual Report

We are also required to review the CCG's Annual Governance Statement and Annual Report. These were provided on a timely basis with the draft accounts and supporting evidence.

The Annual Governance Statement identified the breach of the Revenue Resource Limit as a control risk during the year and both the 'Conclusion to the Governance Statement' and the 'Statement of Accountable Officer's of Responsibilities' were tailored to reflect this.

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 17 January 2017 we reported to the Secretary of State that the CCG expected to breach its Revenue resource Limit. The CCG had set a deficit budget for the year and at that time was forecasting a deficit of £2.5 million, although steps were being taken to limit this. The final position reported in the financial statements was a deficit of £1.722 million.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2016 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.

The CCG started the year with a forecast deficit and shortly after received an assessment rating from NHS England of 'Requires Improvement' based significantly on weakness in planning. The CCG took action to address the situation. It put in place arrangements to monitor both financial performance and savings plans, and when further in-year challenges arose, worked with partners to address them. Outturn results were better than originally expected but sustainable planning and budgeting remains a challenge. The CCG is forecasting a deficit again for 2018 and there are significant uncertainties within the plan yet to be resolved.

As part of our Audit Findings report agreed with the CCG in May 2017, we agreed recommendations to address our findings.

Overall VfM conclusion

We are satisfied that, in all significant respects, except for the matter we identified below, the CCG put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Looking ahead

The CCG has good understanding of its financial challenges, the actions it can take to address those challenges and what it needs to do with partner organisations to bring about a sustainable health economy across Cheshire. Joint working with NHS South Cheshire CCG is continuing and together both CCGs are participating in a Capped Expenditure Programme which is bringing together and coordinating the savings programmes of both providers and commissioners.

Together the CCGs are working to bring about the Sustainability and Transformation Plan for Cheshire and Merseyside. Under the banner Unified Cheshire a joint committee is working to create in shadow a single Accountable Care Organisation to transform Health and Social Care for the benefits of services users and taxpayers.

Value for Money conclusion

Significant risk	Work to address	Findings and conclusions
<p>Financial sustainability The CCG faced an increasingly difficult financial position. It was originally forecasting an overspend of £2.5 million against its resource limit of £144 million.. This was reduced by the release of the NHSE mandated 1% uncommitted reserve of £1.404 million to give an underlying deficit of £1.722 million: We looked ahead to 2017/18 and identified a significant gap in the savings required to deliver the planned financial position and difficulties agreeing a contract with the main provider.</p>	<p>We reviewed the CCG's arrangements for identifying, agreeing and monitoring its sustainability and operational plans, and communicating key findings to the Governing Body. We considered the arrangements for monitoring and managing delivery of its budget and savings plans. We held discussions with management and reviewed documents provided to us in support of those discussions.</p>	<p>The CCG performed slightly better than plan in delivering a deficit of £1.722 million although it fell short on its proposed QIPP savings by £1.9 million. The CCG put in place proper arrangements for managing the in year position, it established jointly with NHS South Cheshire CCG a Financial Recovery Group that monitored and challenged progress on QIPP projects and contract delivery. The CCG took part in a Non-Elective Procedures Review to identify and resolve differences in interpretation between the CCG and its main provider Trust over recording of activity and engaged fully with the contract dispute resolution arrangements. The CCG engaged with NHS England throughout. The CCG planned and budgeted for a deficit in 2017/18 of £3.85 million returning to in-year balance thereafter, however the budget submitted to NHS England in February was predicated on the main provider Trust agreeing activity and payment arrangements the value of which was materially different to that which the Trust was planning. The CCG followed the Expert Determination arrangement established to resolve such differences. After the year end, the CCG agreed with NHS England a revised deficit of £2.85 million but had still not reached agreement with the Trust</p> <p>We concluded there were significant risks to the CCG's financial plans and these were indicative of weaknesses in the CCG's arrangements for planning finances to support its strategic priorities.</p>

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit	41,250	41,250	41,250
Total fees	41,250	41,250	41,250

Reports issued

Report	Date issued
Audit Plan	15 March 2017
Audit Findings Report	26 May 2017
Annual Audit Letter	June 2017

Fees for other services

Service	Fees £
None	Nil

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.



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