

Annual Audit Letter

Year ending 31 March 2018

NHS Heywood, Middleton and Rochdale Clinical Commissioning Group

25 June 2018



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1. Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at NHS Heywood, Middleton and Rochdale 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 ISA260 Report on 22 May 2018.

Our work

Materiality	<ul style="list-style-type: none">We determined materiality for the audit of the CCG's accounts to be £7.06M, which is 2% of the CCG's gross revenue expenditure.
Financial Statements opinion	<ul style="list-style-type: none">We gave an unqualified opinion on the CCG's financial statements on 24 May 2018.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)	<ul style="list-style-type: none">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	<ul style="list-style-type: none">We did not identify any matters which required us to exercise our statutory powers.
Value for Money arrangements	<ul style="list-style-type: none">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 24 May 2018.
Certificate	<ul style="list-style-type: none">We certify that we have completed the audit of the accounts of the CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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

Working with the CCG

We received draft financial statements on 20 April 2018 and accompanying working papers at the commencement of our work, in accordance with the national deadline. The accounts and working papers were of a good standard which contributed to a smooth and efficient audit process.

Regular liaison meetings were held between the audit team and key finance officers prior to preparation of the draft accounts, and during the fieldwork, which enabled early resolution of emerging issues.

Through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for continued financial resilience in your financial position and partnership working with the Council in the pooled budget.

We believe we enjoy a good professional relationship with you, including:

- engaging with you on key governance areas – the CCG performed well in producing draft versions of both the Annual Governance Statement (AGS) and Annual Report on a timely basis, allowing us and other relevant stakeholders appropriate time to comment and review them
- sharing our insight – we provided regular audit committee updates covering best practice and emerging accounting and governance developments. 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 2018

2. 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 £7.06m, 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 set a lower threshold of £0.3m, 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</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.</p> <p>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 completed the following in respect of this risk:</p> <ul style="list-style-type: none"> • gained an understanding of the financial reporting processes used for the purchase of secondary healthcare and evaluated the design of the associated controls • substantively tested secondary healthcare costs, including: <ul style="list-style-type: none"> - for a sample of high value contracts reconciling the closing contract expenditure to the original contract price - testing contract payment variations to underlying information - testing post year end payments to supporting information. 	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<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.</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 completed the following in respect of this risk:</p> <ul style="list-style-type: none"> • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness • obtained a full listing of journal entries, identified and tested a sample of journal entries which could be deemed 'unusual' for appropriateness • reviewed the accounts for any changes in accounting policies • reviewed the accounts for significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p> <p>In particular the findings of our review of journal controls and testing of possible 'unusual' journal entries did not identify any significant issues.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 24 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.

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

Issues arising from the audit of the accounts

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

We did not identify any adjustments to the financial statements that would result in any change to the CCG's retained surplus position of £8.5m. We recommended a small number of adjustments to improve the presentation of the financial statements.

We did not raise any recommendations for management as a result of our audit work in 2017-18.

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 which allowed us and other stakeholders, the opportunity to review, comment and suggest enhancements to both documents.

Based on our review of the CCG's Annual Report and AGS, we were satisfied that they were consistent with the audited financial statements and are not inconsistent with our knowledge of the CCG.

No significant inconsistencies were identified, minor presentation changes to the Annual Report and AGS were discussed and updated by management. We issued an unqualified opinion in this respect

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of the CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice. We certified closure of the audit on 24 May 2018.

3. 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

We were 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 2018.

Value for Money arrangements

Key Value for Money Risks

Risks identified in our Audit Plan	Our findings and how we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <p>The CCG continues to face significant financial challenges as set out in the Rochdale Locality Plan – with a funding gap of £35.7m to 2020-21. The CCG is working with Rochdale MBC through its shadow pooled budget and with provider partners to address the financial challenges.</p> <p>We will consider the CCG's actions to secure financial stability and sustainability through its internal arrangements and engagement with partner organisations across the locality.</p>	<p>The CCG has effectively managed its finances to deliver a surplus of £8.5m for 2017-18 and fully achieved its QIPP target of £4m using recurrent measures.</p> <p>The delivery of the CCG's financial plan for 2018-19 requires a significantly higher QIPP saving of £10m (£8m attributable to the pool and £2m attributable to the CCG). The CCG has already identified savings of £6m through a number of measures, including deflections on an agreed contract with the CCG's main provider Trust and through prescribing initiatives.</p> <p>Of the £2m attributed to the CCG, only £200k has yet to be identified. The CCG is actively working on plans to address the remaining gap, associated with the Pooled Fund, and is in discussions with relevant stakeholders on this.</p> <p>Indeed, in a report presented to the Governing Body in May, there was a list of mitigating actions to address the residual gap. The CCG remains very confident of closing the remaining gap by 31 March 2019 as a result of its past track record on savings delivery, and the contingencies and mitigations available to support achievement.</p> <p>We have considered the CCG's arrangements to ensure financial sustainability and overall, based on our considerations of the CCG's financial plans and performance, we are satisfied proper arrangements are in place.</p>	<p>We concluded that the CCG has proper arrangements to plan finances effectively and provide reliable financial reporting to support the delivery of its strategic priorities.</p>
<p>Establishing the Local Care Organisation (LCO)</p> <p>The CCG has worked closely with Rochdale MBC in the development of integrated commissioning and is now progressing to the creation of an LCO from 1 April 2018.</p> <p>We will consider the developments during the shadow period of the Rochdale Local Care Organisation, including due diligence arrangements in place to establish the LCO and set a pooled budget for adults health, social care and public health.</p>	<p>The CCG and Council have developed a revised Section 75 agreement to enable the pooling of budgets for Integrated Commissioning which has been operational from April 2018.</p> <p>The LCO is one of the most advance models in Greater Manchester. Whilst the LCO is moving at pace some of the original deadlines have slipped. The CCG and Council integrated commissioning functions have put in place a number of due diligence gateways for each 'set of services' to be taken on by the LCO. The due diligence process is operating effectively, given the examples of slippage that have occurred, providing assurance over the governance of the arrangements in place.</p> <p>The revision of the initial timetable has occurred as a result of the LCO wanting to ensure appropriate arrangements are in place, for example, that the LCO has the capacity and capability to take on new services and delivery models a part of the transformation agenda.</p> <p>We have considered the CCG's arrangements to establish the LCO and overall, we are satisfied proper arrangements are in place.</p>	<p>We concluded that the CCG has proper arrangements in place for working effectively with third parties to deliver 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	February 2018
Audit Findings Report	May 2018
Annual Audit Letter	June 2018

Fees for non-audit services

Service	Fees £
None	Nil

Fees

	Planned £	Actual fees £
Statutory audit	38,050	38,050
Total fees	38,050	38,050



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