



Annual Audit Letter

Year ending 31 March 2018

NHS South Sefton 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 South Sefton 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 £4.93 million 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 £2.99 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 in relation to 2017/18, although there was an inconsistency carried over from 2016/17 which we reported. This made no overall difference to the CCG reported figures and was just a classification movement.
Use of statutory powers	We referred a matter to the Secretary of State, as required by section 30 of the Act, on 9 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. Despite the CCG's efforts to provide increased financial stability through the 'Acting as One' contracts, the financial position within the local health economy remains challenging. The CCG recorded a deficit in the year and failed to meet its original agreed control total. Further progress needs to be made with local partners to develop a coherent plan to address the underlying deficit in the 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 South Sefton 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
July 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 £4.93 million 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 £160,000, 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"> ▪ gained an understanding of the financial reporting processes used for the purchase of secondary healthcare and evaluate 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 underlying information 	<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 the completeness of expenditure focusing on cut-off testing and transactions posted in the early weeks of the 2018/19 financial year 	<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 the 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 £2.99m 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 well 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 as those charged with governance on 24 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. A number of amendments were made to the remuneration report to ensure disclosures complied with guidance.

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 9 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 certified that we have completed the audit of the accounts of NHS South Sefton 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

Despite the CCG's efforts to provide increased financial stability through the 'Acting as One' contracts, the financial position within the local health economy remains challenging. The CCG recorded a deficit in the year and failed to meet its original agreed control total. Further progress needs to be made with local partners to develop a coherent plan to address the underlying deficit in the 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>We identified a risk that the CCG is unable to deploy its resources in a sustainable manner because it is unable to secure a stable and sustainable financial position.</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, along with the wider Cheshire and Merseyside Health economy, continues to face an increasingly significant financial challenge in 2017/18 and beyond. The 2017/18 control total was to break even, however the CCG has reported a £2.99m deficit for 2017/18.</p> <p>The financial plan for 2017/18 set out that there were significant cost pressures that needed to be addressed if the forecast position was to be delivered. During 2017/18 the Governing Body has received regular finance reports that set out key financial forecasts and risks alongside analysis of progress toward the required QIPP target.</p> <p>The CCG began the year with a QIPP requirement of £8.48m and identified key schemes to support delivery of the required position. As at 31st March 2018 the CCG reported that £2.765m of the QIPP requirement had been delivered and this represents 33% of the requirement.</p> <p>In 2017/18 in an effort to reduce cost pressures, the CCG implemented Acting as One contracts with its main providers for 2 years. These contracts have a positive effect in that they protect against over performance but there is also reduced opportunity to achieve QIPP savings.</p> <p>The CCG has put into place a financial plan for 2018/19 with the target of a £1m surplus in the year. To achieve this the CCG needs to deliver QIPP savings of £5.329m. The CCG has identified these savings of which around £3.3m are high risk.</p> <p>It is clear that the CCG faces a considerable challenge to deliver the required 2018/19 financial position and it remains our view the CCG has more to do to demonstrate that there is a sustainable plan to deliver health care services going forward.</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	July 2018

Fees for non-audit services

Service	Fees £
None	Nil

Fees

	Planned £	Actual fees £
Statutory audit	38,000	38,000
Total fees	38,000	38,000



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