

The Annual Audit Letter for NHS Liverpool Clinical Commissioning Group

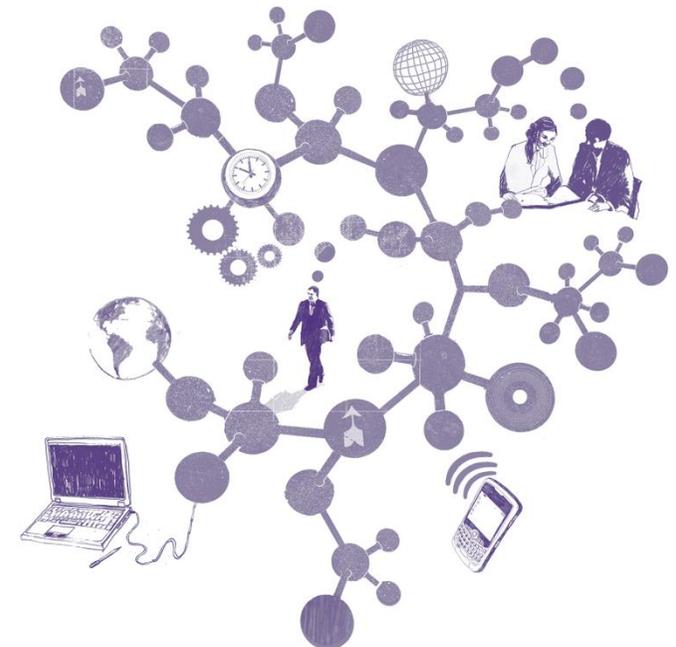
Year ended 31 March 2017

July 2017

Robin Baker
Engagement Lead
T 0161 214 6399
E robin.j.baker@uk.gt.com

Georgia Jones
Engagement Manager
T 0161 214 6383
E georgia.s.jones@uk.gt.com

Bev Waugh
Executive
T 0151 224 0870
E bev.a.waugh@uk.gt.com



Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	5
3. Value for Money conclusion	10
Appendices	
A Reports issued and fees	

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Liverpool 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 Audit, Risk and Scrutiny Committee as those charged with governance in our Audit Findings Report on 30 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

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

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.

Consolidation template

We also report 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

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

Value for money (VfM) conclusion

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 report on the financial statements on 30 May 2017.

The CCG had effective financial planning and management arrangements in place and delivered a surplus of £16.38m in 2016/17 in line with the plan agreed with NHSE. The CCG was rated 'good' by NHS England and continues to prioritise the needs of the local health economy and its ambitions to improve health outcomes via the Healthy Liverpool programme. The CCG is looking for more efficient ways of delivering services.

Looking ahead the CCG has a good understanding of the challenges that it faces and is engaged with partners to seek to identify solutions to the financial challenges. The CCG has taken steps to gain some financial stability with the signing of block contracts with its main providers covering the next two years. The CCG has identified £25.5m of required QIPP savings in 2017/18 in order to meet its financial plans and this will need careful monitoring through the year.

Certificate

We certify that we have completed the audit of the accounts of Liverpool Clinical Commissioning Group in accordance with the requirements of the Code of Audit Practice.

Working with the CCG

During the year we have worked with the CCG to deliver a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in May.
- 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 staff.

Events after the year end

As a result of a question asked in Parliament by the MP for West Lancashire, NHS England asked its internal auditors to undertake a review of the governance arrangements and decisions making processes in relation to the remuneration of Governing Body members at the CCG. The review is now complete and a number of recommendations have been made to strengthen arrangements around governance, decision making and the management of conflicts of interest. The CCG has an action plan in place and is working with NHS England to ensure these recommendations are addressed. We will monitor the CCG's progress against the action plan and consider the findings of the report as part of our risk assessment going forward.

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 £17.369m 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 disclosures of senior manager salaries and allowances in the remuneration report and related party transactions.

We set a lower threshold of £20k, above which we reported errors to the Audit, Risk and Scrutiny 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 cycles include fraudulent transactions</p> <p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. Auditors may rebut this presumption depending on the circumstances of the client.</p>	<p>We rebutted this presumed risk for Liverpool 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>We therefore did not consider this to be a significant risk for Liverpool CCG.</p>	<p>Over 99% of the CCG's revenues are attributable to direct allocations from NHS England and these have been agreed to independent verifications.</p> <p>No further work required.</p>
<p>The expenditure cycle includes fraudulent transactions</p> <p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially where the body is required to meet targets. Given the financial pressures and targets affecting CCGs we consider that this risk does apply, most specifically to secondary healthcare expenditure where there are risks that activity variation adjustments to expenditure and payments made outside contracts may not be correct either due to fraud or error.</p>	<p>Work completed:</p> <ul style="list-style-type: none"> We have considered this risk and do not consider it to require additional audit procedures as any inherent risks in relation to secondary healthcare expenditure is addressed by our existing procedures (see next page). Our work in relation to other major sources of expenditure including primary healthcare commissioning will also provide assurance in this area. For expenditure relating to prescribing expenditure, included under primary healthcare commissioning, these costs are notified to you by the Prescription Pricing Authority and so the risk of material error is deemed to be low. 	<p>Our audit work to date did not identify any issues in respect of expenditure transactions.</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>Secondary Healthcare 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>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> document and identify the process and key controls in the CCG's secondary healthcare commissioning cycle walk through procedures to confirm our understanding review of the CCG's most significant secondary healthcare contracts to understand their basis and to develop expectations relating to year end expenditure consider the service auditor's full report in respect of relevant controls operated by the CSU and of the gap assurances provided by the CSU examine month 12 intra-NHS agreement of balances agreeing expenditure to contracts sample testing to ensure payments are in line with contracts sample testing adjustments/contract variances to ensure they are appropriate and that year-end transactions are accounted for correctly sample test items of expenditure to ensure they are valid payments review and testing of April 2017 payments to ensure allocation to the correct financial year. 	<p>Total expenditure on secondary healthcare in 2016/17 by the CCG was £678.361m. The eight largest contracts totalling £520.368m have been agreed to supporting documentation/contracts. We tested a sample of the remainder of the expenditure and agreed this back to supporting documentation.</p> <p>Our audit work did not identify any significant issues in relation to the risk identified.</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 Co-Commissioning</p> <p>Expenditure not accounted for correctly</p>	<ul style="list-style-type: none"> • Documentation of the financial reporting arrangements for commissioning GP services including an assessment of the controls in operation. This will include consideration of the service auditor's report on the Health and Social Care Information centre (HSCIC) controls over software data maintenance of Exeter and on the recording of primary care activity by Capita. • Sample test items of expenditure to ensure they are valid and appropriately coded. 	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<p>Better Care Fund</p> <p>Expenditure not accounted for correctly</p>	<ul style="list-style-type: none"> • Documentation of the financial reporting arrangements for commissioned GP services including an assessment of the controls in operation. • Sample test items of expenditure to ensure they are valid and appropriately coded. 	<p>Our audit work has not identified any significant issues in relation to the risk identified. Better Care Fund transactions were accounted for in line with guidance.</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.

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, Risk and Scrutiny Committee on 30 May 2017.

In addition to the key audit risks reported above, we identified the following issues/adjustments:

- We identified one inconsistency where two salaried GPs on the Governing Body were included in the related party transactions note but one was not. The note was amended to include the additional disclosure.
- We identified that the audit fee shown in note 5 was incorrect. The fee disclosed was £77k but should have been £86k.. The note was amended to the correct figure.

- Note 2 in relation to financial performance 2016-17 was amended as it previously incorrectly excluded income from the figures.

Annual Governance Statement and Annual Report

We are also required to review the CCG's Annual Governance Statement and Annual Report. It provided these on a timely basis with the draft accounts with supporting evidence. We identified two issues:

- The notes to the salary table were amended to clarify employment status of GP Governing Body members
- Staff numbers were incorrectly based on headcount rather than whole time equivalent. The relevant tables were amended to correct 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. We did not identify any reporting requirements under other statutory powers.

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.

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 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.

Value for Money conclusion

Significant risk	Work to address	Findings and conclusions
<p>Financial outturn</p> <p>The CCG has had a history of delivering against its financial targets. The CCG faces a significant challenge to meet its target of a cumulative surplus of £16.4m, consisting of 1% surplus of £8.012m plus 1% non recurrent headroom of £8.362m</p> <p>The CCG is managing a number of operational pressures and further savings are required in order for the CCG to deliver its planned surplus. A financial recovery plan is in place to facilitate the CCG in achieving this.</p> <p>The CCG's financial position needs careful management and reporting to the Governing Body around this needs to be comprehensive and clear.</p>	<p>We reviewed the CCG's arrangements for putting together and agreeing its budget, including identification of savings plans; and its arrangements for monitoring and managing delivery of its budget and savings plans for 2016/17</p>	<p>The CCG continues to manage its finances well in order to deliver services aligned to the needs of the local health economy. In terms of overall financial performance, the CCG has again delivered financial outturn within its resource limit.</p> <p>The CCG was required to deliver a 1% surplus of £8.012m in order to operate within the 'business rules' set for commissioning organisations. The CCG was later asked to deliver a further surplus of 1% of non-recurrent headroom in order to support the financial position nationally. This equated to an additional £8.362m made a revised target surplus for the year of £16.38m. The CCG successfully achieved this revised target for 2016/17. Performance against both this, and the initial financial plan was monitored and reported to the Governing Body through the year.</p> <p>The CCG met its QIPP target for 2016/17 and as part of the financial process for 2017/18 has set a QIPP target of £25.5m. Savings to meet this target have been identified and will need careful monitoring throughout 2017/18 to ensure they are achieved.</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>

Value for Money conclusion

Significant risk	Work to address	Findings and conclusions
<p>Better Care Fund The CCG has a long track record of working in partnership with the Council and has committed £40m million to the Liverpool Better Care Partnership to improve the integration of health and social care provision across the City. However governance arrangements and plans between the constituent entities may not yet be fully developed.</p>	<p>We reviewed the CCG's arrangements for working with other parties as part of the Better Care Partnership, its processes for managing risks arising from this, and how it monitors the effectiveness of the Partnership in delivering improvements to services.</p>	<p>The Better Care Fund plan for 2016-17 was approved by the Health and Wellbeing Board on 29 April 2016 with an update report being presented to the Social Care and Health Select Committee of Liverpool City Council on 29 July 2016.</p> <p>Integrated Performance Reports are submitted to the Joint Commissioning Group on a regular basis. These performance reports set out the impact of schemes within the BCF. The membership of the joint commissioning group consists of the senior officers of the CCG (including Chief Officer, Chief Finance Officer, Programme Directors) and thus monitoring and communication takes place across the participants at a senior level.</p> <p>In order to improve reporting arrangements with regards to CCG contribution to BCF schemes a Better Care Funding Finance sub-group was set up during 2016-17. The initial focus of the group was to assess the schemes included within the Better Care Fund in order to review and refresh plans for 2017-18. It also enabled partner sign off ahead of schedule ensuring financial information was available on a timely basis to inform the financial plan for the CCG.</p> <p>Overall arrangements in place are adequate with reporting and monitoring taking place on a regular basis. However this is fairly high level. The setting up of the finance sub group will assist in improving the reporting of expenditure in more detail and the CCG acknowledges this requires development during 2017-18.</p> <p>In addition there are no formal risk management arrangements in place. The CCG should also consider whether more specific risk management is required as even though LCCG/LCC pay their own share of demand led services, it is not clear what would occur if one organisation failed to fund their element or the likelihood of this.</p> <p>We concluded that the CCG has proper arrangements to monitor and report on progress against the delivery of the Better Care Fund.</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit.

Fees

	Planned £	Actual fees £	2015/16 fees £
Statutory audit	71,250	71,250	71,250
Total fees	71,250	71,250	71,250

Reports issued

Report	Date issued
Audit Plan	February 2017
Audit Findings Report	May 2017
Annual Audit Letter	July 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 confirms that no non-audit services were identified.



© 2017 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk