

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

ARSC 26-18

NHS Liverpool CCG

24 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 Liverpool 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, Risk and Scrutiny 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 £17.761m, 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.</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>Based on our review of the CCG's expenditure we gave an unqualified 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.
Use of statutory powers	We did not identify any matters which required us to exercise our statutory powers.

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. We reflected this in our audit report to the members of the Governing Body on 25 May 2018.

Certificate

We certify that we have completed the audit of the accounts of NHS Liverpool 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, delivering the accounts 4 days 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

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 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 £17.761m 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 senior officer remuneration and related party transactions.

We set a lower threshold of £29,500 for senior officer remuneration and £186,600 for related party transactions, 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 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. 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:</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. • agreeing contract payment variations to underlying activity information • confirming post year end payments to closing contract liabilities 	<p>Our audit work did not identify any issues in respect of the accuracy and occurrence of contract variations</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. 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;</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 unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions 	<p>Our audit work did not identify any issues in respect of management override of controls</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.

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 25 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. It provided these on a timely basis with the draft accounts with supporting evidence.

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

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of NHS Liverpool CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice. We issued our certificate on 25 May 2018.

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.

As part of our Audit Findings report agreed with the CCG in May 2018, we agreed recommendations to address our findings.

Overall Value for Money 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 2018.

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 sustainability</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. The CCG's financial position needs careful management and reporting to the Governing Body around this needs to be comprehensive and clear.</p>	<p>As part of our work we reviewed the CCGs efforts to secure financial stability and sustainability through its internal arrangements and engagement with partner organisations across the wider Merseyside health economy. We reviewed the CCG's savings plans; and its arrangements for monitoring and managing delivery of its budget for 2017/18.</p>	<p>The CCG met its control total for 2017/18 and achieved its financial duties. Expenditure was monitored and reported to the Governing Body through the year, with the CCG achieving an in year surplus of £4.073m. The CCG delivered around £21m of savings in 2017/18 (against a target of £26m).</p> <p>The CCG managed its finances well whilst operating within what is continuing to be a very challenging financial environment.</p> <p>The CCG set a savings requirement of around £9m for 2018/19 and has identified the areas to source these savings from. The CCG will need to monitor these areas carefully to ensure savings are achieved.</p> <p>Based on the work we performed to address the significant risk, we are satisfied that the CCG has put into place proper arrangements.</p>
<p>NHS Directions</p> <p>The CCG was placed under legal directions by NHS England in August 2017 in relation to its remuneration and governance arrangements.</p>	<p>We reviewed the CCG's response to the formal Directions and the arrangements put in place as part of that response.</p>	<p>The CCG identified a series of actions in order to address the requirements of the legal directions from NHSE.</p> <p>The CCG monitored progress against the actions required and regularly reported on this to the Governing Body. The terms of reference of the remuneration committee and governance arrangements around remuneration have been revised and the Constitution updated and approved accordingly.</p> <p>Conflicts of interest training was provided to Governing Body members and an independent consultant carried out a review of Governing Body remuneration. Four new lay members were appointed to the CCG with the new Chair of the Audit, Risk and Scrutiny Committee taking up post from May 2017 and the remaining lay members from January 2018.</p> <p>At the time of writing the CCG is awaiting the lifting of the legal directions.</p> <p>Based on the work we performed to address the significant risk, we are satisfied that the CCG has put into place proper arrangements.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit.

Reports issued

Report	Date issued
Audit Plan	February 2018
Audit Findings Report	25 May 2018
Annual Audit Letter	July 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit	54,256	54,256	71,250
Total fees	54,256	54,256	71,250

Fees for non-audit 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. None were identified.



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