

The Annual Audit Letter for NHS Liverpool CCG

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 June 2019

Year ended 31 March 2019

June 2019



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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 2019.

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 21 May 2019. This report went to the Governing Body on 24 May 2019.

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.

Materiality	We determined materiality for the audit of the CCG's financial statements to be £18,151,000, which is 2% of the CCG's 2017/18 gross revenue expenditure.
Financial Statements opinion	<p>We gave an unqualified opinion on the CCG's financial statements on 28 May 2019.</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 financial statements 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.
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 dated 28 May 2019.
Certificate	We certified that we completed the audit of the financial statements of NHS Liverpool CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 28 May 2019.

Executive Summary

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.
- 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

Acknowledgement

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the CCG's staff.

Audit of the Financial Statements

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 financial statements to be £18,151,000 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 office remuneration and related party transactions.

We set a lower threshold of £300,000 above which errors were reported to the Audit, Risk and Scrutiny Committee and to the Governing Body 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 financial statements 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 Financial Statements

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 primarily derived through block contracts that are agreed up front for a predetermined cost or level of activity. Contract variations are agreed with the supplier throughout the year to recognise demand and price adjustments against the agreed contracts. Costs related to contract variations are recognised when the adjustment has been agreed with the provider, 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 completeness of secondary healthcare expenditure – contract variations, and the accuracy and completeness of associated payables and accruals, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We performed the following procedures:</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 using the DHSC mismatch report, we investigated unmatched expenditure and payable balances with NHS bodies over the NAO £0.3m threshold, corroborating any unmatched balances not included in the CCG's financial statements to supporting evidence the CCG's financial statements to supporting evidence obtained a listing of payments made after year end and agree, on a sample basis, that relevant payments for NHS and non-NHS secondary healthcare expenditure have been accounted for in the correct financial period through agreement to supporting evidence. agreed, on a sample basis, contracts, contract variations and associated payables and accruals relating to secondary healthcare to supporting evidence. 	<p>Our work identified that CCG included an accrual within the financial statements of £1.487m in relation to the Royal Liverpool and Broadgreen University Hospital Trust. Our understanding is that this is a historic amount relating to partially completed spells which is assessed annually by the CCG. The CCG did not provide any supporting information to support the basis of the accrual. The CCG makes the accrual on the basis that at the end of the year there will be partially completed spells where the CCG would be liable to make a payment if the contract with the Royal for this type of treatment was not renewed and/or was awarded elsewhere. Our view is that the Acting as One contract removes the risk of under/over performance within contracts so we would not expect the CCG to accrue for additional expenditure. The CCG chose not to amend the accounts so in our view expenditure is overstated by £1.487m</p> <p>We did not identify any further significant issues in relation to this risk.</p>

Audit of the Financial Statements

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>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 external pressures to meet agreed targets, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • Tested unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 28 May 2019.

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 financial statements

The CCG presented us with draft financial statements 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 financial statements

We reported the key issues from our audit to the CCG's Audit, Risk and Scrutiny Committee on 21 May 2019. The report went to the Governing Body on 24 May 2019.

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 financial statements with supporting evidence.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of NHS Liverpool CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 28 May 2019.

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 risks where we concentrated our work.

The 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 2019, 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 2019.

Value for Money arrangements

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 has a brought forward cumulative surplus of £20.45m and has agreed a target outturn of a break even position in 2018/19. In order to achieve this the CCG will need to deliver CRES savings of £8.787m. The month 8 finance report forecasted that the CCG would meet its break even target.</p>	<p>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 identification of savings plans; and its arrangements for monitoring and managing delivery of its budget and savings plans for 2018/19.</p>	<p>The CCG met its control total for 2018/19 and achieved its financial duties. Expenditure was monitored and reported to the Governing Body through the year, with the CCG achieving its breakeven target. The CCG delivered around £9.6m of savings in 2018/19 (against a target of £8.8m).</p> <p>The CCG again managed its finances well whilst operating within what is continuing to be a very challenging financial environment.</p> <p>The CCG has set a savings requirement of around £13.8m for 2019/20 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>The CCG is mindful of financial pressure points and for 2019/20 has again agreed 'Acting as One' contracts with its main providers to mitigate some of these key pressures.</p> <p>CCG also continues to work with the council to ensure the Better Care Fund delivers its objectives and promotes closure links for health and social care.</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.

Report	Date issued
Audit Plan	February 2019
Audit Findings Report	24 May 2019
Annual Audit Letter	June 2019

Fees	Planned	Actual fees	Prior year fees
	£	£	£
Statutory audit	54,256	54,256	54,256
Mental Health Investment Standard	10,000	TBC	N/a
Total fees	64,256	TBC	54,256

Non-audit fees

External auditors have been asked to provide assurance on the CCG's compliance with the Mental Health Investment Standards for 2017/18 and 2018/19. This work is scheduled to take place in August & September 2019. The estimated fee for this work is £10,000 excluding VAT.



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