



Annual Audit Letter

Year ending 31 March 2018

NHS Greater Preston Clinical Commissioning Group

June 2018



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Your key Grant Thornton team members are:

Gareth Kelly

Engagement Lead

T: 0141 223 0891

E: gareth.kelly@uk.gt.com

Gareth Winstanley

Audit Manager

T: 0161 234 6343

E: gareth.j.winstanley@uk.gt.com

Richard Watkinson

Audit In-charge

T: 0161 234 6345

E: richard.watkinson@uk.gt.com

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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 Greater Preston 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 22 May 2018.

Our work

Materiality

We determined materiality for the audit of the CCG's accounts to be £5,974,000, which is 2% of the CCG's total operating expenditure.

Financial Statements opinion

We gave an unqualified opinion on the CCG's financial statements on 25 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)

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 Greater Preston Clinical Commissioning Group, 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

- Providing training and added value – we provided your team with training on financial accounts and annual reporting via the chief accountant workshops and the benchmarking of annual reports review.

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

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 £5,974,000, which is 2% of the CCG's total operating 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 remuneration in the Remuneration Report of £0.014m based on 2% of the total executive and non-executive directors remuneration
- related party transactions £0.141m based on 2% of total related party transactions expenditure.

We set a lower threshold of £300,000, 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</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 have:</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; ▪ confirmed that the main contracts have been signed and confirmed the annual amounts; ▪ at interim audit, substantively tested secondary healthcare costs to month 9, sample tested payments to contracts and variations to supporting correspondence and other appropriate evidence; ▪ at year-end, completed further substantive testing of secondary healthcare costs in months 10 to 12; and ▪ reviewed the Department of Health and Social Care (DHSC) mismatch report, identified and reviewed any unmatched items above the NAO threshold of £0.3m. 	<p>Our audit work did not identify any issues in respect of revenue recognition.</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. We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</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 and identified and tested unusual journal entries for appropriateness; and ▪ 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 Committee on 22 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. We suggested a small number of amendments to both the Annual Report and Governance Statement, which management did change.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of NHS Greater Preston 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.

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 reporting, outturn and sustainability</p> <p>The CCG is operating within an extremely challenging financial environment and there is a structural deficit within the local health economy. The CCG is forecasting delivery of a surplus of £2.9m at year-end and delivery of QIPP efficiency savings of £9.0m. It is important the CCG has robust arrangements in place to regularly monitor its financial and operational performance, and to keep the Governing Body informed of the financial and operational performance against plan and targets, together with any recovery action being put in place.</p> <p>We have reviewed the monitoring arrangements in place to keep the Governing Body and management informed of the progress against the target year-end financial position and to assess how the CCG manages the risk of any non-achievement</p>	<p>The CCG met its target surplus of £2.9m and delivered planned productivity and efficiency savings of £9.5m. Meeting these targets has been a huge challenge during the year and is testament to the hard work within the CCG in managing and monitoring its finances over the past twelve months.</p> <p>The CCG undertook an exercise during the year to review its own internal financial reporting arrangements. Previously financial reporting to the Governing Body was primarily through the Integrated Board Reports, which included a section on financial sustainability.</p> <p>From July, these arrangements changed and a separate stand alone finance report was taken to Governing Body meetings. The new finance reports not only provide a summary of the financial position to date compared to budget, but also now outlines an analysis of QIPP performance at each work stream level, with additional information on the forecasted QIPP performance for the remaining months of the year. The finance reports have been enhanced by the inclusion of a section on the main risks to achieving the financial targets. The identified risks are valued based on the worst case scenario and to also provide detail on the actions being taken by the CCG to try and reduce the level of risk. There is a RAG (red/amber/green) assessment on the risk of delivering the QIPP target, and details of any mitigations are also provided within the report. Review of the finance reports showed that the financial information is being reporting only one month in arrears, demonstrating that the reports produced are timely and up to date.</p> <p>As the frequency of the Governing Body meetings are held every two months, there remains a possibility that some Governing Body members may not always be fully aware of the latest financial position, as a number of months may have passed since the previous meeting. The Joint Finance Delivery Group, which was scheduled to meet monthly, was disbanded during the year and whilst this has been replaced by the IPIG group, representation here is mainly made up of CCG performance and finance staff, with no governing body representation. As a result there is a likelihood that two months could pass before members are updated on the latest financial position of the CCG. We suggest that the CCG considers whether the availability of timely finance information to governing body members is sufficient in light of the increasing financial challenges that the CCG continues to face.</p>	<p>We conclude that the CCG has appropriate arrangements in place for reporting and monitoring its financial position.</p>

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>Informed Decision Making</p> <p>There has been a number of recent high profile reports, which have required implementation of a number of recommendations. Management and the Governing Body expect progress to be made in addressing these issues to assist their decision making arrangements.</p> <p>We reviewed the CCG's arrangements for addressing the issues raised arising from the Provex financial review of the CCG and the Governing Body review of the single tender waiver process.</p>	<p>In May 2017, Provex undertook a review, commissioned by NHS England, into the financial performance of the CCG during 2016/17 with an outlook for 2017/18. The 68 page report made a series of recommendations over 5 areas. The areas reviewed were:</p> <ul style="list-style-type: none"> • Preparation of a Central Lancashire recovery plan; • Improved evidencing of the benefits of investment plans; • Greater involvement from providers in CCG cost improvement plans and an extension of CCG excellent PMO arrangements; • Signalling 'turnaround status' and strengthening internal processes; and • Review of risk identification and management. <p>The report was presented to the Joint Finance Delivery Group at the end of May 2017 and actions plans highlighting progress on the recommendations were presented to Governing Body meeting in July, September and November. Appropriate arrangements have therefore been put in place by the CCG to address the recommendations raised by the Provex report in a timely manner, allowing Governing Body members to regularly track progress.</p> <p>In September 2017, a report was presented to the Governing Body Meeting following a review into the single tender waiver process in relation to the awarding of the contract to deliver the extended pilot phase of the Clinical Triage Programme. The report made a number of recommendations to strengthen the process in the future. A response to this report was taken to the January 2018 Audit Committee, which highlighted the progress made in addressing the issues raised.</p> <p>As noted above we are satisfied that the CCG has appropriate arrangements in place for timely responses to issues raised.</p>	<p>We conclude that the CCG has appropriate arrangements in place for responding to recommendations raised from the Provex and single tender waiver reviews</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and also confirm there were no fees for the provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	December 2017
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	42,000	42,000
Total fees	42,000	42,000



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