



Annual Audit Letter

Year ending 31 March 2018

NHS St Helens CCG

18 June 2018



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Your key Grant Thornton team members are:

Mark Heap

Director

T: 0161 234 6375

E: mark.r.heap@uk.gt.com

Katie Whybray

Manager

T: 0117 305 7601

E: Katie.v.Whybray@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 St Helens 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 24 May 2018.

Our work

Materiality	We determined materiality for the audit of the CCG's accounts to be £6,630,000, 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>Our review of the CCG's expenditure highlighted the following issues which gave rise to a qualified regularity opinion.</p> <ul style="list-style-type: none">The CCG reported a deficit of £4.843 million 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.
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	On 8 March 2018 we referred a matter to the Secretary of State under section 30 of the Local Audit and Accountability Act in relation to the CCG's planned breach of 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. We reflected this in our audit report to the members of the Audit Committee on 24 May 2018.

Certificate

We certify that we have completed the audit of the accounts of NHS St Helens 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 before the deadline, 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 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 £6,630,000 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 unusual related party transactions and senior officer remuneration.

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 undertook the following work in relation to this risk</p> <ul style="list-style-type: none"> ▪ documentation of our understanding of processes and key controls over the transaction cycle ▪ walkthrough of the key systems to confirm our understanding ▪ agreement of significant contracts to signed contracts ▪ testing of the residual balance to ensure that variations and non-contracted activity has been treated correctly ▪ agreement of NHS creditors to the agreement of balances confirmation. 	<p>Our audit work did not identify any significant issues in relation to the risk identified.</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 external pressures to meet agreed targets, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<ul style="list-style-type: none"> • The work performed included: <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 of significant related party transactions outside the normal course of business. 	<p>Our audit work did not identify any evidence of management over-ride of controls. In particular, the findings of our review of journal controls and testing of journal entries did not identify any significant issues.</p> <p>Our work identified a system function that allows the CFO to post journals. From our review we confirmed no journals were posted by the CFO in 2017/18. However, in line with best practise we reported this issue to the audit committee.</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>The 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 St Helens 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 issues which gave rise to a qualified regularity opinion.

- The CCG reported a deficit of £4.843 million 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.

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 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. 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.

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. On 8 March 2018 we referred a matter to the Secretary of State under section 30 of the Local Audit and Accountability Act in relation to the CCG's planned breach of its revenue resource limit for the year ending 31 March 2018.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of NHS St Helens 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

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>The CCG is managing a number of operational pressures and further savings are required in order for the CCG to deliver its planned deficit. 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 will review the CCG's efforts to secure financial stability and sustainability through its internal arrangements and engagement with partner organisations across the Cheshire and Merseyside Health and Social Care Partnership. We will review the CCG's identification of savings plans; and its arrangements for monitoring and managing delivery of its budget and savings plans for 2017/18.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> • Reviewed key financial and operational documents • Discussed key relevant matters with senior management 	<p>In 2017/18 the CCG planned to achieve an in-year deficit of £4.987 million in addition to the £8.727 million retained deficit brought forward from previous years. The CCG successfully achieved against its planned budget with an in-year deficit of £4.843 million, £0.144m improvement on the planned deficit. The CCG delivered £11.7 million of savings in year out of the planned QIPP schemes target of £13.5 million.</p> <p>The CCG's in-year financial reporting identified in Month 6 significant slippage against plan based on midyear trajectories. This was due to a number of pressures emerging, in particular regarding acute demand and unidentified QIPP. Due to the CCG's early identification of this, a number of mitigating actions were able to be implemented and the CCG were able to successfully return to their planned outturn.</p> <p>The CCG begins 2018/19 with a cumulative deficit of £13.57 million and a budgeted in year break-even position. The financial plan includes significant QIPP savings of £14.7 million (4.4% of allocation) of which all schemes have been identified. Delivery of this level of savings represents a significant risk to the CCG and any slippage which isn't mitigated against alternative schemes is likely to result in the CCG moving into an in-year deficit position. It is clear that achievement of the 2018/19 QIPP plans will be a significant challenge for the CCG.</p> <p>It is acknowledged that the future financial sustainability of healthcare across the Cheshire and Merseyside Health and Social Care Partnership requires a new and system wide approach with all responsible bodies in an area working together to effect efficiencies and improvements in care delivered to the local population. There is a clear direction in the STP for developing place based care going forward and the CCG has made significant progress developing the St Helens Cares Model.</p> <p>Overall we have concluded that the arrangements in place for financial sustainability are adequate and significant progress has been made regarding engaging with partner organisations across the Cheshire and Merseyside Health and Social Care Partnership. We do, however, recognise that significant pressures remain within the system and continued close in year monitoring and timely corrective action will be required to ensure budgets are delivered and service redesign with partners implemented.</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	June 2018

Fees for non-audit services

Service	Fees £
None	Nil

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit	38,000	38,000	48,750
Total fees	38,000	38,000	48,750



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