

# The Annual Audit Letter for NHS Southport and Formby CCG

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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 Southport and Formby Clinical Commissioning Group (the CCG) for the year ended 31 March 2019.

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 Committee as those charged with governance in our Audit Findings Report on 23 May 2019.

### Our work

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#### Materiality

We determined materiality for the audit of the CCG's financial statements to be £3,739,000, which is 2% of the CCG's 2017/18 gross revenue expenditure.

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#### Financial Statements 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.

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#### 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.

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#### Use of statutory powers

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

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### 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.

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# Executive Summary

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<b>Value for Money arrangements</b>	<p>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 28 May 2019.</p> <p>The CCG achieved approximately half of its planned efficiencies in the year but was able to meet its financial targets through other mitigating actions. For 2019/20 the CCG's target is to breakeven although that requires the delivery of £11m of savings. It will be important the CCG continues to monitor and assess the delivery of these planned savings.</p>
<b>Certificate</b>	<p>We certified that we have completed the audit of the financial statements of NHS Southport and Formby CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 28 May 2019.</p>

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## 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

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 2019

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# Audit of the Financial Statements

## 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 financial statements to be £3,739,000 which is 2% of the CCG's 2017/18 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 £186,000 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 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><b>Operating expenses – purchase of secondary healthcare</b></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 occurrence of secondary healthcare expenditure – contract variations, and the existence 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"> <li>▪ gain an understanding of the financial reporting processes used for the purchase of secondary healthcare and evaluate the design of the associated controls</li> <li>▪ agree, on a sample basis, invoices for variations to secondary healthcare contracts to supporting evidence</li> <li>▪ using the DHSC mismatch report, we will investigate unmatched expenditure and payable balances with NHS bodies over the NAO £0.3m threshold, corroborating the unmatched balances included in the CCG’s financial statements to supporting evidence, and</li> <li>▪ agree, on a sample basis, payable and accrual balances relating to secondary healthcare to supporting evidence.</li> </ul>	<p>Our audit work did not identify any issues in respect of secondary healthcare expenditure – contract variations.</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><b>Management override of internal controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override 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"><li>• evaluated the design effectiveness of management controls over journals</li><li>• analysed the journals listing and determine the criteria for selecting high risk unusual journals</li><li>• tested unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration</li><li>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness</li><li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li></ul>	<p>Our audit work did not identify any issues in respect of management override of controls</p>

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# 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 Committee on 23 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 Southport and Formby CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 28 May 2019.

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# 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.

## **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><b>Financial Sustainability</b></p> <p>The CCG has a brought forward cumulative deficit of £10.295m and has agreed a target outturn of a £1m surplus in 2018/19. In order to achieve this the CCG will need to deliver QIPP savings of £5.210m. The month 8 figures showed a year to date deficit of £900k with a best case scenario of a year end £1m surplus. The likely year end position being forecast at that time is a deficit of £3.221m.</p>	<p>We reviewed the CCG's arrangements for updating, agreeing and monitoring its financial plans, and for communicating key findings and actions to be taken as reported to the Governing Body.</p> <p>We assessed the progress of the CCG against the agreed control total of £1m surplus in year reviewed the reasonableness of its financial plans for 2019/20.</p>	<p>The CCG, along with the wider Cheshire and Merseyside Health economy, continued to face an increasingly significant financial challenge in 2018/19. The 2018/19 control total was a £1m surplus for the year and the CCG achieved this total. During 2018/19 the Governing Body received regular finance reports that set out key financial forecasts and risks alongside analysis of progress toward the required QIPP target</p> <p>The QIPP requirement for 2018/19 was £5.210m. As at 31st March 2018 the CCG reported that £2.745m of the QIPP requirement had been delivered and this represented 53% of the requirement.</p> <p>For 2019/20 the CCG target is breakeven. The CCG has set an ambitious target of £11m QIPP savings in 2019/20 and has identified potential opportunities for the required savings. However, the majority are rated as 'red' so will need careful monitoring through the year. The CCG also held a Governing Body development session in order to take account of members views and to reinforce key messages around QIPP.</p> <p>Although in 2018/19 the CCG did not achieve all the savings it had originally planned, through identifying mitigating actions and agreeing these with the Governing Body, the CCG was able to achieve it's control total of £1m surplus in the year. Overall the CCG remains in deficit with a cumulative deficit of £9.295m</p> <p>Based on the above, we have concluded appropriate arrangements are in place. Looking ahead it is important that the delivery of the QIPP programme is closely monitored and the CCG needs to continue to work effectively with partners to seek to address the underlying issues in the local health economy.</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	January 2019
Audit Findings Report	23 May 2019
Annual Audit Letter	June 2019

## Fees

	Planned fees	Actual fees	2017/18 fees
	£	£	£
Statutory audit	42,000	42,000	42,000
Mental Health Investment Standard	TBC	TBC	N/A
<b>Total fees</b>	<b>TBC</b>	<b>TBC</b>	<b>42,000</b>

### Audit related services:

Mental Health Investment Standard Compliance Statement - we anticipate that this work will be completed by the end of September and that the estimated fees will be £10k. A formal letter of engagement has not yet been agreed



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