



# Annual Audit Letter

*Year ending 31 March 2018*

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NHS East Leicestershire and Rutland CCG  
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 East Leicestershire and Rutland 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.

## 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.

## Our work

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<b>Materiality</b>	We determined materiality for the audit of the CCG's accounts to be £8,255,000, which is 2% of the CCG's gross revenue expenditure.
<b>Financial Statements opinion</b>	<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 issue which gave rise to a qualified regularity opinion.</p> <ul style="list-style-type: none"><li>• the CCG has incurred unlawful expenditure as a result of not meeting two of its statutory targets: it exceeded its Revenue Resource Limit by £5.23m and made an in-year deficit of the same amount. Both of these failures arose because the CCG, acting in good faith, believed that its full allocation, including a brought forward surplus, would be used as the measure for achievement of its break-even duty, when the formal Direction issued by NHS England showed that this was not the case. The allocation, including the brought forward from 2016/17 had been communicated to it through the monthly updated allocation by the NHS England Regional Team, but the brought forward value was not included in the allocation formally confirmed to the CCG in the Accounts Direction, issued in April 2018 by NHS England.</li></ul>
<b>NHS Group consolidation template (WGA)</b>	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.
<b>Use of statutory powers</b>	We referred a matter to the Secretary of State, as required by section 30 of the Act, on 25 May 2018 the CCG's spending exceeded its formal in-year allocation, although we note that the CCG was in good faith managing to a higher allocation as notified to it by NHS England more locally.

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# Executive Summary

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## **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 24 May 2018.

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## **Certificate**

We certify that we have completed the audit of the accounts of NHS East Leicestershire and Rutland CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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## **Working with the CCG**

- 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
- Where difficult issues arose, we worked hard to communicate openly with you and listened to your views on these issues.

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**

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# 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 £8,255,000, 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 officer remuneration and CETV disclosures.

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><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 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"> <li>• gained an understanding of the financial reporting processes used for the purchase of secondary healthcare and evaluated the design of the associated controls</li> <li>• substantively tested secondary healthcare costs including               <ul style="list-style-type: none"> <li>• identifying all significant secondary healthcare contracts and confirming annual amounts to signed annual contracts</li> <li>• testing of a sample of variations to contracts, confirm to supporting correspondence and other appropriate evidence.</li> <li>• review the DoH Mismatch Report and identify any unmatched items above the NAO threshold (£300k).</li> </ul> </li> </ul>	<p>Our audit work has not identified any issues in respect of the purchase of secondary healthcare.</p>
<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 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 have;</p> <ul style="list-style-type: none"> <li>• gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness</li> <li>• obtained a full listing of journal entries, identify and test unusual journal entries for appropriateness</li> <li>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>	<p>Our audit work has not identified any issues in respect of management override of controls.</p>

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# 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 issue which gave rise to a qualified regularity opinion.

- the CCG has incurred unlawful expenditure as a result of not meeting two of its statutory targets: it exceeded its Revenue Resource Limit by £5.23m and made an in-year deficit of the same amount. Both of these failures arose because the CCG, acting in good faith, believed that its full allocation, including a brought forward surplus would be used as the measure for achievement of its break-even duty, when the formal Direction issued by NHS England showed that this was not the case. The allocation, including the brought forward from 2016/17 had been communicated to it through the monthly updated allocation by the NHS England Regional Team, but the brought forward value was not included in the allocation formally confirmed to the CCG in the Accounts Direction, issued in April 2018 by NHS England.

## **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 25 May 2018 we reported to the Secretary of State that the CCG's spending exceeded its formal in-year allocation, although we note that the CCG was in good faith managing to a higher allocation as notified to it by NHS England more locally.

## **Certificate of closure of the audit**

We are also required to certify that we have completed the audit of the accounts of NHS East Leicestershire and Rutland CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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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 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 financial position of the CCG is becoming increasingly challenging. The CCG are forecasting (at the time of our risk assessment) a deficit of £8.1m against its control total for 2017/18.</p> <p>Risks which adversely affect the CCG's financial position for 2017/18 include the non achievement of QIPP schemes. The CCG has a QIPP target of £17.1m in 2017/18. At month seven, £3.25m is RAG rated red / amber indicating a level of risk of non-delivery.</p>	<p>As part of our work we have reviewed the work that the CCG are undertaking to address its current financial position. This included assessing whether the CCG was:</p> <ul style="list-style-type: none"> <li>• producing and using appropriate and reliable financial information to support informed decision making and performance management</li> <li>• producing reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>• planning its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. This will include considering the CCG's finances in 17/18, performance of the QIPP savings plan and work on the financial recovery / medium term financial plan.</li> </ul>	<p>During the year the CCG reported significant financial pressures in its financial position. The Accountable Officer and Audit Committee Chair commissioned an independent review to look at the circumstances that led to the financial pressures.</p> <p>The independent review identified that the key issues which led to the financial pressures, some of which also affected other CCGs in the health economy, were:</p> <ul style="list-style-type: none"> <li>• Actual outcomes against 2016/17 accruals</li> <li>• A budget-setting error relating to the Better Care Fund</li> <li>• Double counting of QIPP savings.</li> </ul> <p>The report made a number of recommendations that the CCG is currently implementing and we are encouraged by the progress being made in both implementing the recommendations and recovering the financial position, including the volume of QIPP delivered.</p> <p>The year-end outturn for the CCG showed an overspend against the 2017/18 control total of £5.226m. This is in line with the revised position agreed with NHSE in advance of the year end, and represents a significant improvement on the mid-year position.</p> <p>The CCG have set a 2018/19 budget with an in-year breakeven position. The CCG has a fully identified QIPP programme in place for 2018/19 and has made improvements to its arrangements for QIPP implementation and project management.</p> <p>The CCG has now improved its arrangements and is in a far better financial position than it was mid-year.</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	January 2018
Audit Findings Report	May 2018
Annual Audit Letter	July 2018

## Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit	36,690	36,690	N/A
<b>Total fees</b>	<b>36,690</b>	<b>36,690</b>	

## 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. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the CCG's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the CCG's policy on the allotment of non-audit work to your auditor



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