



The Annual Audit Letter for NHS East Leicestershire and Rutland CCG

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 East Leicestershire and Rutland 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 Committee as those charged with governance in our Audit Findings Report on 21 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.

Our work

Materiality	We determined materiality for the audit of the CCG's financial statements to be £8,350,000, 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 24 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.

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 21 May 2019.
Certificate	We certified that we have completed the audit of the financial statements 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 on 24 May 2019.

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 financial statements 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 2019

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 £8,350,000, 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 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 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 • substantively tested secondary healthcare costs including <ul style="list-style-type: none"> • identifying all significant secondary healthcare contracts and confirming annual amounts to signed annual contracts • testing of a sample of variations to contracts, confirm to supporting correspondence and other appropriate evidence. • review the DoH Mismatch Report and identify any unmatched items above the NAO threshold (£300k). 	<p>Our audit work has not identified any issues in respect of the purchase of secondary healthcare.</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 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"> • gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtained a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work has not identified 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 24 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 21 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. The CCG 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 East Leicestershire and Rutland CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 24 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.

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>The financial position of the CCG is becoming increasingly challenging. At month 7 the CCG is reporting an adverse variance of £2.079m against plan. The CCG is currently forecasting a breakeven position at the year end, but achievement of this is dependent on the delivery of stretch mitigations schemes of £1.818m which have been identified by the CCG.</p> <p>Risks which adversely affect the CCG's financial position for 2018/19 include the non achievement of QIPP schemes. The CCG has a QIPP target of £19.6m in 2018/19. At month seven the CCG is currently forecasting delivery of £18.97m resulting in a shortfall of £0.68m.</p>	<p>We have reviewed the work that the CCG are undertaking to address its financial position. This included assessing whether the CCG was:</p> <ul style="list-style-type: none"> • producing and using appropriate and reliable financial information to support informed decision making and performance management • producing reliable and timely financial reporting that supports the delivery of strategic priorities • 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 18/19, performance of the QIPP savings plan and work on the financial recovery / medium term financial plan. 	<p>The CCG responded robustly to reduce the forecast variance at month 7. The outturn for 2018/19 showed an underspend of £0.012m against control total.</p> <p>The CCG has set a balanced budget for 2019/20. This includes a QIPP programme of £26.4m of which £5.9m remains unidentified. The CCG is working collaboratively across the LLR system to identify savings and has already identified potential areas of savings.</p> <p>The CCG has worked with other CCGs in the LLR patch to set up a joint project management office that reviews and challenges QIPP performance across LLR.</p> <p>The CCG has appropriate arrangements in place to monitor and manage its financial position. The Governing Body is kept informed of financial performance during the year in a timely manner.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	January 2019
Audit Findings Report	May 2019
Annual Audit Letter	June 2019

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	36,690	36,690	36,690
Mental Health Investment Standard	10,000	TBC	N/A
Total fees	46,690	36,690	

Fees for non-audit services

Service	Fees £
Mental Health Investment Standard	10,000

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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