



# Annual Audit Letter

*Year ending 31 March 2018*

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NHS Warrington Clinical Commissioning Group

**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 Warrington Clinical Commissioning Group (the CCG) for the year ended 31 March 2018. 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 in our Audit Findings Report on 23 May 2018 and also to the Governing Body on 23 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 £5,343,000 which was based on 1.9% of the CCG's central allocation for revenue expenditure for 2017/18.
<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>Based on our review of the CCG's expenditure we gave an unqualified regularity opinion.</p>
<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 did not identify any matters which required us to exercise our statutory powers.

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# Executive Summary

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## Value for Money arrangements

We completed our risk based review of the CCG's value for money arrangements and 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.

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## Certificate

We certify that we have completed the audit of the accounts of NHS Warrington 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

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 and shared our thought leadership reports.
- Sharing our wider insights – our healthcare advisory colleague met with management to discuss issues around data integrity.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the CCG's officers and Governing Body members. We look forward to continuing to work with you going forward.

**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 £5.343 million which was based on 1.9% of the CCG's central resource allocation for revenue expenditure, as reported in our Audit Plan. 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 £20k specific materiality for senior officer remuneration given the potential public interest in such disclosures.

### 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> </ul> <p>We have substantively tested secondary healthcare costs including:</p> <ul style="list-style-type: none"> <li>– for a sample of high value contracts reconciled the closing contract expenditure to the original contract price</li> <li>– tested a sample of contract payment variations to underlying activity information, and</li> <li>– tested post year end payments to supporting information.</li> </ul>	<p>We tested contract expenditure to signed agreements. For the remaining expenditure we sample tested residual payments to supporting information.</p> <p>Our audit work did not identify any significant issues in relation to the risks identified.</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. .</p> <p>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, identified and tested 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 did not identify any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</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. 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 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 23 May 2018. Our audit did not identify any material errors or uncertainties in the financial statements. The Chief Finance Officer amended the accounts for a small number of disclosure changes and omissions identified during the audit which were primarily to improve the presentation of the accounts and to correct Note 2 – Financial Performance targets.

## **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 accounts with supporting evidence.

We reviewed the Annual Report promptly and provided feedback and comments to help ensure the Annual Report met the required disclosure requirements.

The CCG made a small number of corrections to the entries required within the remuneration and staff report prior to issue of the final version.

Our review of the CCG's Annual Governance Statement did not identify any significant errors or omissions.

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

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

During the year the CCG monitored its budget performance promptly and appropriately, reporting to the Governing Body for decision making and to the Audit Committee for scrutiny of the risk management of financial performance and the related controls.

Financial performance is clearly linked to the broader strategic objective of the CCG and addressed in the assurance framework which include details of RAG rating, controls, and mitigating actions. The CCG has obtained further assurance over the robustness of the assurance framework through the Head of Internal Audit Opinion.

Monitoring arrangements in place at the CCG enabled early identification of financial pressures in year, with management initiating an internal 'turnaround' process' to mitigate the risks identified.

The CCG engages with provider trusts and other partners to address financial and clinical performance challenges and continues to plan for sustainable use of its resources.

The CCG continues to be effective in its financial management, however, there are continuing and significant challenges in the local health economy which will continue to require monitoring and management by the CCG.

The CCG retained its overall rating of 'Good' in the latest NHS England assessment rating and delivered against its control total in 2017/18.

## 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. We issued an unqualified value for money conclusion on 31 March 2018.

# 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	March 2018
Audit Findings Report	May 2018
Annual Audit Letter	July 2018

## Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit	38,000	38,000	52,500
<b>Total fees</b>	<b>38,000</b>	<b>38,000</b>	<b>52,500</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 confirms that we did not provide any non-audit services.



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