



Annual Audit Letter

Year ending 31 March 2018

NHS Dudley CCG

3 July 2018



Contents



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Section

1. Executive Summary
2. Audit of the Accounts
3. Value for Money arrangements

Appendices

- A Reports issued and fees

Page

3

5

8

9

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at NHS Dudley 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 & Governance 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 £9.1m, which equates to 2% of your gross revenue expenditure for the prior year. We set separate lower materiality levels for certain disclosures in the Remuneration Report. In view of the sensitivity of these disclosures to the reader of the Report, we set a materiality level of £100k in respect of the table of in-year remuneration and £250k for the cash equivalent transfer value disclosures of pension entitlement.

Financial Statements opinion

We gave an unqualified opinion on the CCG's financial statements on 24 May 2018.

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.

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

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

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 & Governance Committee on 24 May 2018.
Certificate	We certify that we have completed the audit of the accounts of NHS Dudley 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, completing our on site testing well 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.
- Providing training – we provided your teams with training on financial accounts and annual reporting.
- Benchmarking information – we provided benchmarking on your annual report.

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 £9.1m, which equates to 2% of your gross revenue expenditure for the prior year. 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 set separate lower materiality levels for certain disclosures in the Remuneration Report. In view of the sensitivity of these disclosures to the reader of the Report, we set a materiality level of £100k in respect of the table of in-year remuneration and £250k for the cash equivalent transfer value disclosures of pension entitlement.

We set a lower threshold of £300,000, above which we reported errors to the Audit & Governance 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:</p> <ul style="list-style-type: none"> substantively tested secondary healthcare costs including large contracts and a residual population reviewed the DoH Mismatch Report to identify any unmatched items above the NAO threshold (£300k). 	<p>Our audit work did not identify any issues in respect 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. We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> reviewed accounting estimates, judgements and decisions made by management tested journal entries reviewed unusual significant transactions 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 24 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 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 & Governance Committee on 24 May 2018:

- there were no adjustments to any of your primary statements;
- Officers made a number of minor changes to the financial statements to correct typographical errors and ensure consistency with reporting guidance; and
- the Agreement of Balances exercise showed a number of mismatches above the £300k threshold. In each case we agreed that the CCG was correct, or the CCG amended its submission, so we did not report any mismatches to the National Audit Office.

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.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of NHS Dudley CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice, which we did on 24 May.

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 any key risks where we would concentrate our work. We did not identify any significant risks. We continued our review of relevant documents up to the date of giving our report, and did not identify any further significant risks where we need to perform further work.

In reviewing relevant documents, we noted that the CCG achieved a cumulative surplus of £13.6m (in-year surplus £2.6m), slightly exceeding its' revised control total. The gross QIPP target for 2018/19 is £16.99m. Recurrent savings of £19.1m have been identified in the latest QIPP programme. Officers anticipate that these schemes will deliver the in-year target of £16.99m with the balance of £2.11m contributing to the 2019/20 QIPP programme.

We are also aware that the CCG is entering a crucial phase in the procurement of the proposed MCP contract over the coming months. We identified the procurement as a significant risk for our 2016/17 audit and concluded that adequate governance arrangements were in place and that it did not need to be identified as a significant risk for 2017/18.

Over the coming months, the procurement will go through a number of crucial stages. The dialogue phase ended in March, and Final Tenders were required by 8 May, with evaluation taking place from 17 May. The next steps are:

- The outcomes of the evaluation will be reported to the CCG Board and Council Cabinet in July.
- One of the two Judicial Reviews in relation to the national process was dismissed in May 2018. The outcome of the second judicial review is expected by the end of July.

The CCG Board will review the submission for Checkpoint 2 of the NHS England ISAP (Integrated Support and Assurance Process) in September.

It is vital that throughout this period the CCG ensures that it is adhering to the highest standards in terms of governance and risk management. The CCG needs to constantly abide by the statement included in the ISAP Guidance, that:

'Each CCG and local authority is accountable for its decisions when carrying out its statutory functions and the ISAP is not a substitute for their governance and assurance processes.'

The proposed MCP is clearly a highly innovative arrangement, involving a high value long-term contract. One particular challenge which is highly unusual in the context of healthcare contracting is that the provider vehicle does not yet exist in its expected form, meaning that there are particular challenges around the CCG's ability to carry out due diligence processes to assess the organisational and financial strength of the provider. While the ISAP process, with its aim of providing a system-wide assurance process, can help with this, the CCG's own Board needs to be satisfied that it has sufficient assurance from all available sources before formally entering into the contract.

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.

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
Progress Report	March 2018
Audit Findings Report	May 2018
Annual Audit Letter	June 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit	46,500	46,500	60,000
Total fees	46,500	46,500	60,000

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.



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