

The Annual Audit Letter for NHS East Lancashire Clinical Commissioning Group

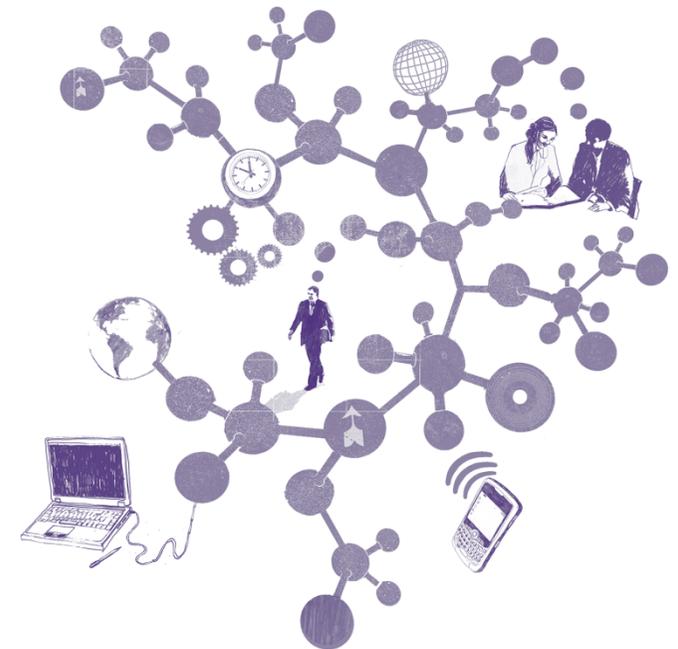
Year ended 31 March 2014

18 July 2014

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Section 1: Executive summary

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Executive summary

Purpose of this letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the work that we have carried out at NHS East Lancashire Clinical Commissioning Group ('the CCG') for the year ended 31 March 2014:

- auditing the 2013/14 accounts (section two)
- assessing the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources (section three)

The Letter is intended to communicate key messages to the CCG and external stakeholders, including members of the public.

We reported the detailed findings from our audit work to the Audit Committee in the Audit Findings Report on 2 June 2014.

Responsibilities of the external auditors and the CCG

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and of Audited Bodies, Local NHS bodies, April 2014 issued by the Audit Commission ([Statement-of-responsibilities-NHS-April-2014.pdf](#)).

The CCG is responsible for preparing and publishing its financial statements accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with our Audit Plan issued in March 2014 and is conducted in accordance with the Audit

Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2013/14 are as follows:

Financial statements opinion - We provided an unqualified opinion on the financial statements which give a true and fair view of the CCG's financial position as at 31 March 2014 and of net expenditure recorded by the CCG for the year.

Regularity opinion - 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.

We are pleased to report that, based on our review of the CCG's expenditure we gave an unqualified regularity opinion.

Value for money (VfM) – We concluded that there were no issues to report arising from our work assessing the CCGs arrangements for securing economy, efficiency and effectiveness in its use of resources

Whole of Government Accounts (WGA)

A group assurance certificate - issued to the National Audit Office - in respect of Whole of Government Accounts identified one issue for the group auditor to consider. This related to an unadjusted misstatement of £1.3m, resulting in expenditure being overstated and NHS pre-payments and accrued income being understated by £1.3m. The misstatement was due to the accounting for the maternity pathways not following guidance issued in March 2014.

Key areas for the CCG's attention

2013/14 was the first year of operation of the CCG. During the year the CCG has:

- put effective governance arrangements in place
- met all its statutory financial targets
- begun to work with partners to promote more integrated health and social care
- in its role as commissioner, worked effectively to help to address the issues raised in the Keogh review of East Lancashire NHS Trust; and
- prepared and submitted its 5 year strategic plan.

This was a considerable achievement at the same time as commissioning care services for the people of East Lancashire in accordance with its commissioning plan, managing contracts with providers and overseeing the quality of care commissioned.

The CCG is well aware of the challenges it faces in responding to the growing demand for healthcare whilst improving the quality of healthcare in an environment of reducing financial resources.

In this context key aspects to build on will include:

- ensuring the local partnership working with providers, local authorities and voluntary organisations translates into improved integrated care for people in the community and reduced urgent care in hospitals
- developing, with partners, clear governance arrangements across the whole of Lancashire for delivering the Better Care Fund initiatives in a way which is efficient and delivers the desired outcomes
- ensuring more effective delivery of planned efficiency schemes so that the CCG is not dependent on slippage or unforeseen underspends elsewhere to maintain financial balance.

Acknowledgments

This Letter has been agreed with the Chief Finance Officer and the Deputy Chief Finance Officer.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the CCG's staff and also the finance team at the Commissioning Support Unit (CSU).

Grant Thornton UK LLP
July 2014

Section 2: Audit of the accounts

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Audit of the accounts

Audit opinion

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

We received draft financial statements and accompanying working papers on 22 April 2014 at the commencement of our audit work, in accordance with the national NHS deadline.

Issues arising from the audit of the accounts

The Chief Finance Officer amended the accounts for the disclosure changes identified during the audit. These were primarily to improve the presentation of the accounts. They followed inconsistencies between the NHSE statutory direction, manual for accounts and the accounting guidance issued which was subsequently clarified following release of the draft accounts. They are not a reflection of poor processes by the CCG.

Maternity Pathway

Expenditure in the CCGs accounts incorrectly included an estimated £1.3m of prepayments for the maternity pathway. The CCG makes one payment covering the whole of the maternity pathway at the point at which the 'patient' first presents for treatment. In March 2014 the accounting treatment was confirmed by the Department of Health which meant a prepayment should be accrued for within the accounts for the element of the payment after 1 April 2014 up to the date the pregnancy ending. This would have the impact of reducing the value of in-year expenditure.

The CCG however included the full value of the payments in the accounts year expenditure, without making such an accrual. The CCG has informed us that this was consistent with the Trust's treatment and was supported by the agreement of balances exercise. The amount was not considered to be material and no amendment was made to the accounts.

Annual Governance Statement and Annual Report

The annual governance statement and the annual report are consistent with our understanding of the CCG.

A number of amendments were made to the remuneration report included within the annual report to ensure that it complied with the requirements. This again followed clarification of the requirements after the draft report had been issued.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance'. We presented our report to the Audit Committee on 2 June 2014 and summarise only the key messages in this Letter. The Governing Body then considered our report prior to approving the accounts.

We issued an unqualified opinion on the CCG's 2013/14 accounts on 5 June 2014, meeting the deadline set by the Department of Health (DH). Our opinion confirms that the accounts give a true and fair view of the CCG's financial affairs and of the income and expenditure recorded by the CCG.

Financial performance 2013/14

The CCG's Performance against its financial targets is set out in the table below:

	Target	Actual	Met?
Expenditure not to exceed income	503,726	493,723	Yes
Revenue resource use does not exceed the amount specified in direction	501,907	491,904	Yes
Revenue administration resource use does not exceed the amount specified in Directions	8,880	8,029	Yes

The CCG achieved an overall surplus of £10.003m which was slightly higher than the initial target. In addition the CCG maintained its administration running costs within its allocation of £8.88m.

The key factor in achieving the financial performance targets was the effective financial management which was exercised throughout the year at the CCG. Through ensuring financial risks were identified and managed the CCG ensured that all of the targets were met.

Looking forward

The CCG has recognised cost pressures which will affect delivery of its 2014/15 financial plan. The pressures include demand led activity changes, prescribing and uncertainties over the cost and volume of continuing care packages. The CCG will therefore have to continue to closely manage its finances to ensure it meets its targets for 2014/15 and in future years.

The CCG's five year financial plan provides a good framework to enable it to deliver its objectives within the financial challenges it faces. Achievement of the QIPP savings which are included within it will be critical to delivering this.

Section 3: Value for Money

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Value for Money

Scope of Value for Money work

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are also required by the Code to report any matters that prevent us being satisfied that the audited body has put in place such arrangements.

In recognition that CCGs are new organisations, the Audit Commission has not specified reporting criteria for the VfM conclusion at CCGs for 2013/14. Our VfM conclusion is based on:

- reviewing the CCG's annual governance statement
- reviewing the results of the work of relevant regulatory bodies or inspectorates (including NHS England reviews), to consider whether there is any impact on our responsibilities.

Our work focused on the following key themes identified in the Audit Commission's guidance:

- leadership
- commissioning
- financial planning and management
- data quality
- external relationships.

This work included a more detailed review of the arrangements for the Better Care Fund to inform our risk assessment of commissioning and external relationships.

For 2014/15 the approach will be based on criteria specified by the Audit Commission relating to financial resilience and prioritising resources, and will require a positive conclusion on the arrangements in place.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance published by the Audit Commission, we have concluded that there are no matters which we are required to report

Key findings

The CCG Governing body has approved its financial plan for 2014/15, planning to meet its financial duties and clearly linked to its commissioning plan. The plan sets out the material risks and cost pressures which could affect delivery of the plan including demand led activity changes, prescribing and continuing care packages.

The CCG was unable to meet its QIPP target of £10m during 2013/14. During the year the CCG reported an expected gap of £2.9million. Whilst the gap was met by contingencies, slippage and reserves from elsewhere in the CCG's budgets, not meeting the QIPP target by such a value is a concern. By not achieving its QIPP target the CCG has to find additional efficiencies in future years. The 2014-15 financial plan includes a brief summary of the schemes totalling £9m.

The findings of the Keogh Rapid Responsive Review of East Lancashire Hospitals NHS Trust were presented to a Risk Summit, led by NHS England on the 5th July 2013. Both the Trust and the CCG recognised the need to work closely and collaboratively together to provide assurance to patients, stakeholders and the local community that the Keogh recommendations are being addressed. Since then the CCG has developed a specific Quality Assurance Framework covering four themes of: Governance & Leadership; Alignment of Strategies; Organisational Development, Values and Behaviours; and Patient Experience. By developing the framework the CCG is able to monitor the progress being made by the Trust.

Value for Money (Continued)

Key findings (continued)

The CCG continues to develop its external relationships and partnerships. Examples of this includes the Pennine Lancashire Clinical Transformation Board where several partners across East Lancashire meet to work together to improve health services across the area and also the 'Listening Events' that have taken place across East Lancashire.

At this early stage it is not possible to fully conclude on the effectiveness of partnership arrangements, given that they are still developing. Furthermore the complexities of the Lancashire health economy is an additional challenge to the CCG. However we found that the CCG is working to develop those arrangements, for example in working with the Lancashire Public Health team and developing good relationships with GPs which allows the sharing of 'soft intelligence' on issues such as Trust performance. The embedded CSU team at the CCG has also helped develop the relationship between the two organisations.

The Better Care Fund (BCF) was announced by the Government in June 2013 and involves the pooling of some £3.8 billion nationally with effect from April 2015. The aim of the BCF is to improve outcomes by integrating care services across primary and secondary healthcare and the social care provided by local government. This requires commissioners, providers and local government working together. The BCF is not new money but brings together a number of existing funding streams.

Key findings from our review of the BCF included

- the BCF plans were submitted to the appropriate deadlines
- the BCF is still at an early stage of development
- BCF structures and processes are being worked through around governance, hosting and risk sharing arrangements
- local performance measures had not been developed beyond the national 'metrics' and detailed work around the costing of 7 day services and assessment of individual and joint management capacity to develop the BCF plan has not yet been worked through.

More work needs to be done across partners to develop arrangements to deliver the Better Care Fund Plan including:

- establishing effective governance structures
- developing detailed project plans with measurable outcomes to aid performance management of delivery
- clarifying the full financial implications including agreeing a financial risk pooling
- ensuring the planned initiatives do translate into reduced spend on acute and nursing care.

Appendices

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £
Statutory audit	99,000	99,000
Total fees	99,000	99,000

Fees for other services

Service	Fees £
None	0

The Audit Commission approved a rebate in the planned fee of £9,000 funded by them, leading to the cost to the CCG being £90,000 + VAT.

Reports issued

Report	Date issued
Audit Plan	March 2014
Audit Findings Report	June 2014
Annual Audit Letter	July 2014



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