



# The Annual Audit Letter for NHS Wigan Borough CCG

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Year ended 31 March 2019

30 June 2019



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## Your key Grant Thornton team members are:

Andrew Smith

Director

T: 0161 253 6900

E: [Andrew.j.smith@uk.gt.com](mailto:Andrew.j.smith@uk.gt.com)

Simon Hardman

Manager

T: 0161 234 6379

E: [simon.hardman@uk.gt.com](mailto:simon.hardman@uk.gt.com)

Fay Hutchinson

In-charge

T: 0161 953 6954

E: [fay.a.hutchinson@uk.gt.com](mailto:fay.a.hutchinson@uk.gt.com)

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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 Wigan Borough 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 22 May.

## 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.

<b>Materiality</b>	We determined materiality for the audit of the CCG's financial statements to be £9.476m, which is 1.8% of the CCG's allocation.
<b>Financial Statements opinion</b>	<p>We gave an unqualified opinion on the CCG's financial statements on 28 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>
<b>NHS Group consolidation template (WGA)</b>	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.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the CCG put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for weaknesses in the CCG's arrangements for setting a sustainable budget and delivering planned cost and efficiency savings. We reflected this in our audit report to the members of the Governing Body on 28 May 2019.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of NHS Wigan Borough CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 28 May 2019.

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# Executive Summary

## 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.
- 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

## Acknowledgement

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the CCG's staff.

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# Audit of the Financial Statements

## 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 £9.476m, which is 1.8% of the CCG's planned allocation. 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.

We set a lower threshold of £0.3m 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><b>Secondary Healthcare expenditure – Contract Variations</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 primarily derived through block contracts that are agreed up front for a predetermined cost or level of activity.</p> <p>Contract variations are agreed with the supplier throughout the year to recognise the demand and price adjustments against the agreed contracts. Costs related to contract variations are recognised when the adjustment has been agreed with the provider, 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 secondary healthcare expenditure contract variations, and the existence of associated payables and accruals, as a significant risk, which was one of the most significant assessed risks of material misstatement.</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 evaluate the design of the associated controls</li><li>agreed a sample of contract expenditure to signed annual contracts</li><li>agree, on a sample basis, invoices for variations to secondary healthcare contracts to supporting evidence</li><li>agreed, on a sample basis, payable and accrual balances relating to secondary healthcare to supporting evidence</li><li>reviewed the DH mismatch report to identify and review any unmatched items above the NAO threshold (£300k)</li></ul>	<p>Our audit work has not identified any issues in respect of secondary healthcare expenditure – contract variations.</p>

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# 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.

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Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<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 external pressures to meet agreed targets, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we completed:</p> <ul style="list-style-type: none"><li>• evaluated the design effectiveness of management controls over journals</li><li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals</li><li>• tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration</li><li>• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness</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 Financial Statements

During the course of the audit we identified a further significant audit which had not been communicated in the Audit Plan.

Issue	Commentary	Auditor view
Accounting for the £16 million contribution received by the CCG from Wigan Council through the section75 (s75) agreement.	<ul style="list-style-type: none"> <li>Total revenue income in the accounts totals £17.250m, with £16m relating to additional monies given to the CCG through the s75 agreement by Wigan Council. We agreed the value to invoices raised, the receipt of income and the s75 variation agreement.</li> <li>In 2015/16 the CCG entered into a s75 agreement with Wigan Council to pool resources in order to improve the health and social care outcomes for the residents of the borough under the Better Care Fund (BCF). The pool arrangements are set out in a signed s75 agreement and supporting variations that devolve decision making for BCF to a joint committee. Decisions require the approval of Council and CCG officers. Wigan Council host the pool and provide documented evidence of agreed expenditure to relevant committees.</li> <li>The 2018/19 deed of variation includes provisions to vary the financial arrangements of the pool in order for Wigan Council to provide investment funding to the CCG to provide for the longer term financial stability of the CCG and the local health and care economy.</li> <li>In deciding upon the accounting treatment for the CCG's transactions with the pool, including the £16m, the CCG considered; IFRS 10 (Consolidated Financial Statements); IFRS 11 (Joint Arrangements); IFRS 15 (Revenue from Contracts with Customers) and IFRS 20 (Government Grants).</li> <li>IFRS 15 is deemed not applicable as the receipt is neither based on a contract or with a customer. At the same time the payment is not a grant as it has been paid through the s75 agreement. The CCG considered the issue of control and, as stated in the s75 agreement, all decisions regarding the application of the pooled funds require the consent of both parties. Given that no partner has sole control and no separate vehicle has been created, the CCG consider there to be joint control of the pool. Therefore the transactions, including the £16m, under the s75 agreement states that the pool will be classified as a joint operation under IFRS 11. In effect the income and expenditure incurred in the pooled budget are accounted for by the responsible organisation and similar accounting arrangements have existed in previous years.</li> <li>One other issue is that the deed of variation included an annex that set out a number of conditions, The Council's informal legal view indicated that the conditions are worded in such a way that it would be very difficult to enforce. They are aspirational terms so it would be very difficult to point to any sufficiently clear obligation which the CCG could be said to have breached.</li> </ul>	We have accepted the CCG's accounting treatment, on the understanding that we will receive the appropriate representations from the Governing Body.

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# Audit of the Financial Statements

## Audit opinion

We gave an unqualified opinion on the CCG's financial statements on 29 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 working papers to support them. The finance team responded promptly 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 22 May 2019. Management agreed to make a small number of amendments to the financial statements and no major issues were identified.

## 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 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 Wigan Borough CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 28 May 2019.

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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 risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the CCG in May 2019, we agreed recommendations to address our findings. The recommendations were aimed at helping the CCG to develop its financial reporting to the Governing Body.

## 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 except for matters identified relating to weaknesses in the CCG’s arrangements for setting a sustainable budget and delivering planned cost and efficiency savings.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p><b>Financial Sustainability</b></p> <p>There remain risks to the financial position of the CCG that might result in it missing its control totals this year and in the future.</p>	<p>The CCG had its most challenging financial year in 2018/19. The QIPP efficiency savings target of almost £30m, to address structural deficits, was always going to be difficult to achieve. During most of the year the CCG was reporting that it was unlikely to achieve the savings target and there was real concern that the organisation was not going to achieve its financial performance requirements.</p> <p>The CCG, towards the end of the financial year, reported that it was going to underachieve on the target by £23.7m. The majority of the shortfall was met by additional funding through the s75 agreement by Wigan Council. In the last quarter of the year, the CCG received an additional contribution of £16m to support the transformation of services in the borough. Without this receipt, the CCG would have failed to achieve its financial duties.</p> <p>Reflecting on the 2018-19 financial plan it is now clear that the QIPP target was not realistic. On 27 February 2018, the Governing Body received a presentation indicating 11 schemes had been identified totalling £20.4m, with a further £4.2m to be determined. By July 2018, the CCG was reporting that the QIPP Plan submitted and approved was unachievable.</p> <p>Whilst in-year reporting on QIPP has been completed regularly we noted that little written detail was provided to the Governing Body. Within the finance report the CCG produced a risk register where the likelihood of non-achievement of QIPP was scored as 4 out of 5, reducing to 3 later towards the end of the financial year. Such scoring appeared inconsistent with actual performance.</p> <p>The CCG introduced weekly QIPP meetings during 2018-19, however these have tended to concentrate on ensuring robust plans are in place for 2019-20</p> <p>The pressures within the commissioning of acute services is evidenced by the fluctuations in the financial forecast during the year. As the CCG received more information on activity, the forecast overspend for acute services increased from £4.3m at the end of month 6, to £9.8m at the end of month 9 and then £18.6m at the end of month 11.</p> <p>The CCG's QIPP target for 2019-20 is £27.2m and the weekly meetings referred to above should ensure greater ownership and challenge regarding the delivery of savings. The meetings were chaired by the Accountable Officer and included a membership of the Clinical Chair, Chief Financial Officer, Directors and Senior Members of the team at the CCG</p> <p>The financial plan for 2019/20 identifies a number of risks and it acknowledges that without mitigation then the CCG will inevitably move into a financial deficit position.</p>	<p>Without the support provided by the Council, the CCG would have posted a large deficit position</p> <p>The failure to deliver the QIPP in 2018-19 may reflect that it was an unachievable target and there was not a sufficient plan in place at the start of the year.</p> <p>Given the two issues above, and after internal consultation within Grant Thornton, we concluded that a qualified 'except for' VFM Conclusion was appropriate.</p>

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit.

<b>Report</b>	<b>Date issued</b>
Audit Plan	January 2019
Audit Findings Report	22 May 2019
Annual Audit Letter	June 2019

<b>Fees</b>	<b>Planned</b>	<b>Actual fees</b>	<b>Prior year fees</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Statutory audit	44,950	44,950	44,950
Mental Health Investment Standard	10,000	TBC	N/a
<b>Total fees</b>	<b>54,950</b>	<b>TBC</b>	<b>44,950</b>

## Non-audit fees

External auditors have been asked to provide assurance on the CCG's compliance with the Mental Health Investment Standards for 2017/18 and 2018/19. This work is scheduled to take place in August & September 2019. The estimated fee for this work is £10,000 excluding VAT.



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