

Annual Audit Letter

Year ending 31 March 2018

NHS Milton Keynes Clinical Commissioning Group

Final - June 2018



Contents



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Section

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

Page

- 3
5
9

Appendices

- A Reports issued and fees

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at NHS Milton Keynes 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 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 £7,120,000, which is 2% of the CCG's gross revenue expenditure.

Financial Statements opinion We gave an unqualified opinion on the CCG's financial statements on 25 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.

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 Audit Committee on 24 May 2018.

Certificate We certify that we have completed the audit of the accounts of Milton Keynes CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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

Working with the CCG

During the year, we have delivered a number of successful outcomes with you:

- An efficient audit – in our first year of working with you we established strong relationships, understood your business and delivered an efficient audit, issuing the opinion 4 days before the deadline.
- Understanding your business – through the value for money conclusion we provided you with assurance on your arrangements. We highlighted that improvements can be made to your arrangements to identify, monitor and report on non-financial benefits or consequences in relation to your QIPP schemes.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Supporting development – we provided a joint facilitated workshop for the Audit Committees of Milton Keynes, Luton and Bedfordshire on Audit Committee effectiveness and assurance frameworks
- Shared learning – we are planning a joint session of the finance teams of Milton Keynes, Luton and Bedfordshire to feedback on this year's audit process and share best practice.

We would like to record our appreciation for the helpful assistance and co-operation provided to us during our audit by the CCG's management and 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 £7,120,000, 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 set a lower threshold of £300,000, above which we reported errors to the Audit/Other 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 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; and • Substantively tested secondary healthcare costs including: <ul style="list-style-type: none"> <input type="checkbox"/> review of the Department of Health (DH) agreement of balances data, investigating significant differences; <input type="checkbox"/> considered the rationale for significant contract adjustments in material contracts; and <input type="checkbox"/> reviewed post year end adjustments in the prior period for evidence of any reversals. 	<p>Conclusion: There is nothing to report as a result of work performed.</p>
<p>Management override of internal controls 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 completed;</p> <ul style="list-style-type: none"> • Gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; • Obtained a full listing of journal entries and tested unusual journal entries for appropriateness; • Evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Finding: Our testing identified four journals which were posted and authorised by the same user. We have performed work on each of these journals and satisfied ourselves that they are free from material error and fraud. This issue was communicated to the Audit committee on 24 May 2018 and management has agreed to enhance the control environment in respect of this aspect.</p> <p>Conclusion: Our audit work has provided us with reasonable assurance to conclude no material error in the accounts in respect of this risk.</p>

Audit of the Accounts

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Going concern material uncertainty disclosures</p> <p>As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern.</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none">• Discussed the financial standing of the CCG with officers• Reviewed management’s assessment of going concern assumptions and supporting information, e.g. 2018/19 and 2019/20 budgets and cash flow forecasts and associated sensitivity analysis• Evaluated the completeness and accuracy of disclosures on material uncertainties with regard to going concern in the financial statements.	<p>Conclusion: There is nothing to report as a result of work performed.</p>

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 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 Committee on 24 May 2018.

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. We have nothing to report in respect of work completed.

Whole of Government Accounts (WGA)

We issued a group return to the National Audit Office in respect of Whole of Government Accounts, which did not identify any issues for the group auditor to consider.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Milton Keynes CCG in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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 whether:

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.

The key 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 2018, we agreed one recommendation to address our findings.

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.

Value for Money arrangements

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial position and sustainability In Month 4, the CCG put itself into financial turnaround after identifying a number of headwinds to achieving the breakeven position at year end.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> Reviewed the outturn position and whether the CCG achieved its forecasted surplus Assess the reasonableness of financial assumptions you have made in your Medium Term Financial Plan 	<p>Findings: We had nothing to report in respect of this significant risk. Conclusion: We concluded that the CCG has proper arrangements in respect of the financial position and sustainability.</p>
<p>Delivery of QIPP Schemes Milton Keynes has a challenging QIPP target of £10.5m for 2017/18, There is risk with achieving this target if Milton Keynes or its STP partners do not adhere to plans, or if savings are achieved outside the financial year.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> Reviewed the arrangements for identifying, setting, monitoring and reporting your saving plans. Our review considered the arrangements for 2017/18 as well as those in relation to future plans i.e. 2018/19. 	<p>Findings: We had nothing to report in respect of this significant risk. Conclusion: We concluded that the CCG has proper arrangements in respect of QIPP delivery.</p>
<p>Achievement of health outcomes In Milton Keynes' drive to make services sustainability for the future years, it will need to balance spend against health outcomes</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> Conducted a review into the arrangements for monitoring health outcomes and how they are assessed alongside service redesign and efficiencies. 	<p>Findings: One recommendation was made in respect of our work against this risk area. The CCG has implemented, and continues to implement, a number of 'savings' schemes, known as QIPP schemes, which change the nature of healthcare and health pathways provided to the public. These schemes aim to reduce the cost of healthcare to the CCG, restrict the offering of procedures of 'limited clinical value', and provide more effective and efficient healthcare pathways where possible. Recommendation: Consider whether sufficient focus is applied to the non-financial aspect of QIPP scheme delivery, including monitoring the impact on health outcomes of QIPP schemes and assessing the extent, if any, to which financial gains made in year may result in increased costs in future years if health outcomes are impacted. Conclusion: Notwithstanding the above recommendation, we concluded that the CCG has proper arrangements to secure value for money in respect of this risk area.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	15 March 2018
Audit Findings Report	17 May 2018
Annual Audit Letter	21 June 2018

Fees 2017-18

	Planned £	Actual fees £
Statutory audit	34,417	34,417
Total fees	34,417	34,417

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.

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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