

Annual Audit Letter 2016

NHS Vale of York Clinical Commissioning Group

June 2016



Mazars LLP
Rivergreen Centre
Aykley Heads
Durham
DH1 5TS
June 2016

The Governing Body
NHS Vale of York Clinical Commissioning Group
West Offices
Station Rise
York
YO1 6GA

Dear Governing Body Members

Annual Audit Letter 2015/2016

I am delighted to present to you our Annual Audit Letter for the 2015/16 audit year. The purpose of this document is to summarise the outcome of the audit of NHS Vale of York Clinical Commissioning Group's (CCG) 2015/16 annual accounts and our work on the value for money conclusion.

We carried out our audit in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Local Audit and Accountability Act 2014 and delivered in line with the timetable established by the Department of Health and NHS England.

I would like to express my thanks for the assistance of the CCG finance team as well as management, you and the Audit Committee.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

Mark Kirkham
Mazars LLP

Contents

01 Key messages	3
02 Financial statements.....	4
03 Securing economy, efficiency and effectiveness – value for money conclusion	6
04 Future challenges	7
05 Fees.....	9

This Annual Audit Letter is prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies 2015-16’ issued by Public Sector Audit Appointments Ltd. It is addressed to the Governing Body as those charged with governance of the CCG. We, as appointed auditor, take no responsibility to any third party.

01 Key messages

In 2015/16 our audit of the CCG included the following main elements:

- auditing your financial statements, including a review of the Annual Governance Statement and Annual Report, including auditing certain sections of the Remuneration report; and
- assessing arrangements for achieving value for money (vfm) in your use of resources.

We reported the detailed findings from our audit work to the Audit Committee in our Audit Completion Report on 24 May 2016. We also confirmed that your consolidation information was consistent with the audited financial statements.

The key conclusions for each element are summarised below:

Audit of the financial statements

We issued an audit report including an unqualified opinion on your financial statements on 26 May 2016. The audit progressed smoothly and did not identify any material errors which required adjustment.

There were some national issues relating to the provision of source documentation to support the primary care co-commissioning expenditure in your accounts but we carried out additional local testing to gain the necessary audit assurance.

We did not identify any differences between the accounts consolidation template and the financial statements. We issued our report on your accounts consolidation template on the 26 May 2016.

Value for money

We carried out sufficient, relevant work, in line with the National Audit Office's guidance, so that we could conclude on whether you had in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We were required to consider our conclusion based on the criterion - 'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people'.

We issued a qualified (adverse) value for money conclusion on 26 May 2016, reporting the following matters on an exception basis:

- The CCG reported a deficit of £6.295 million in its financial statements for the year ending 31 March 2016, thereby breaching its duty under the National Health Service Act 2006, as amended by paragraphs 223(2) and (3) of Section 27 of the Health and Social Care Act 2012, to break even on its commissioning budget.
- The CCG has not yet succeeded in addressing the underlying deficit in its budget and is forecasting a cumulative year end deficit of £13.3 million for 2016/17.
- This issue is evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

02 Financial statements

Audit of the financial statements

We audited your financial statements in line with auditing standards and we reported our detailed findings to the meeting of the Audit Committee on 24 May 2016 in our Audit Completion Report and subsequent follow up letter. Our report included an unqualified opinion on your financial statements and the remuneration report. The CCG was then able to submit the audited annual report and accounts to NHS England by the 27 May 2016 deadline.

Our work on your financial statements aims to provide reasonable assurance that your accounts are free from material misstatement. The assessment of materiality is, therefore, a key part of our work and we specify an overall materiality threshold, based on your gross revenue expenditure, together with lower materiality values for accounting entries we consider to be more sensitive, such as officer and member remuneration, and members' interests.

We consider materiality when planning and performing our work and in assessing the results.

At the planning stage, we make a judgement about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We updated our materiality calculation when we received the draft accounts and set the overall level at £4.4m.

In applying our view of materiality we identified the following three significant risks:

- management override of controls;
- revenue recognition; and
- GPs as related parties.

We carried out a programme of work to address these risks which included including the testing of journals, transactions and disclosures. Our work did not identify any issues to report.

In completing our work we assess the scale of errors and uncertainties using our materiality calculation to determine the impact on our audit reports. We did not identify any material errors in your statement of accounts.

Our other audit findings include:

- The CCG presented us with draft accounts in accordance with the national deadline. Working papers and other supporting evidence were produced on a timely basis throughout the audit.
- The draft financial statements were of a good quality as was the standard of supporting working papers. The statements were amended for some disclosure changes identified during the audit.
- We reviewed the draft of your annual report and did not highlight any significant issues. A few amendments were made to the Remuneration Report.
- The Annual Governance Statement (AGS) is drafted to provide assurance that the CCG is managing risks. We reviewed the AGS to see whether it complied with relevant guidance and whether it was misleading or was inconsistent with what we know about the CCG. We found no areas of concern to report in this context.

Regularity opinion

We give our opinion on whether you have used the CCG's allocation of resources as Parliament intended and whether you have done so in accordance with the various authorities governing the transactions. We issued a qualified regularity opinion on 26 May 2016 because the CCG failed to meet its statutory duties under:

- section 223H(1) of the NHS Act 2006 (as amended) to ensure expenditure did not exceed income in 2015/16; and
- section 223I(3) of the NHS Act 2006 (as amended) to ensure revenue resource use does not exceed the amount specified in the Direction.

Except for the incurrence of expenditure in excess of the specified targets, in our opinion, in all material respects the expenditure and income reflected in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Weaknesses in internal control

Our work on primary care co-commissioning expenditure highlighted that the CCG does not have access to the source documents to confirm that the expenditure is accurate but relied on the systems and processes in place within NHSE and its service organisations.

We recommended the CCG should establish control arrangements to ensure that the primary care co-commissioning expenditure in its ledger and financial statements is accurate.

Consistency report

On 26 May 2016 we reported to the CCG that no differences had been identified with the consolidation template and the audited accounts.

03 Securing economy, efficiency and effectiveness – value for money conclusion

Value for money

For 2015/16, we were required to report on an exception basis on the CCG's arrangements to secure value for money (vfm) in its use of resources, based on the overall reporting criterion:

'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people'.

Our work includes:

- reviewing your annual governance statement;
- considering the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities (none in 2015/16); and
- carrying out any risk-based work we determined to be appropriate.

In planning our work we decided that the CCG's deteriorating financial position presented a significant audit risk for our vfm conclusion and made a report to the Secretary of State for Health under Section 30 of the Local Audit and Accountability Act 2014 on 22 January 2016. We then reviewed your arrangements and reported our findings to the Audit Committee on 24 May 2016.

Our audit findings led to a qualified vfm conclusion. The CCG reported a deficit of £6.295 million for 2015/16 and is facing an underlying recurrent deficit of £13.56 million. In addition the CCG is forecasting a cumulative year end deficit of £13.3 million in 2016/17 as part of a four year recovery plan which aims to return the CCG to a balanced position by the end of 2018/19 and a surplus position by the end of 2019/20.

Overall conclusion

The matters arising from our vfm work meant that we needed to qualify our report to reflect the weaknesses in arrangements that have led to the deficit position and the failure to meet statutory financial targets. We concluded that we were not satisfied the CCG put in place proper arrangements to secure vfm in its use of resources for the year ended 31 March 2016. Our key findings were:

- The CCG reported a deficit of £6.295 million in its financial statements for the year ending 31 March 2016, thereby breaching its duty under the National Health Service Act 2006, as amended by paragraphs 223I (2) and (3) of Section 27 of the Health and Social Care Act 2012, to break even on its commissioning budget.
- The CCG has not yet succeeded in addressing the underlying deficit in its budget and is forecasting a cumulative year end deficit of £13.3 million for 2016/17.
- There is evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

04 Future challenges

Financial challenges

The CCG is forecasting a cumulative year end deficit of £13.3 million in 2016/17 as part of a four year recovery plan which aims to return the CCG to a balanced position by the end of 2018/19 and a surplus position by the end of 2019/20.

The financial recovery plan was updated and submitted to NHSE in April 2016 as part of the medium term financial plan. NHSE currently classify the CCG as an organisation in turnaround with no assurance over leadership, resilience, financial sustainability or service transformation.

The CCG has also identified a number of risks which may affect the financial position in 2016/17:

- acute services contract overtrade;
- increasing out of contract mental health costs;
- under delivery of QIPP schemes;
- primary care investment to transform services; and
- Better Care Fund contributions.

The CCG has acknowledged that its overall governance arrangements and controls have not been strong enough to address the financial pressure it faces and an action plan is in place to improve arrangements and:

- improve financial planning;
- strengthen project management arrangements;
- use additional turnaround support and capacity from external consultants;
- develop GP engagement;
- review organisational development arrangements; and
- sharpen the focus on finance in the Quality and Finance Committee.

Other Challenges

The CCG faces a number of other challenges in the coming year which we will take account of in our audit plans. These challenges include:

- risks to the delivery of services by the Partnership Commissioning Unit in relation to the provision of fast track continuing health care packages and capacity within the finance team; and
- potential failure to meet constitutional targets, particularly around accident and emergency and cancer targets.

With a financial outlook that is increasingly challenging and a heightened level of scrutiny of future plans, to develop locally responsive services that maintain standards of access and quality, the CCG will need to:

- carefully forecast and effectively monitor budgets in line with the revised recovery plan to manage the planned deficit position and return to balance and surplus;
- identify and address financial pressures as they emerge, including managing the risk inherent in the recovery plan and detailed plans to address the current £0.625 million unmitigated QIPP savings;

- deliver a longer term strategic plan that addresses immediate pressure and the underlying deficit position while allowing scope for strategic service change alongside the development of the wider Humber, Coast and Vale sustainability and transformation plan;
- maintain effective arrangements for public engagement to manage public expectations and shape procurement exercises; and
- use constructive partnership relationships in the wider social care arena, particularly to agree better care funding arrangements with City of York and North Yorkshire County Council as a matter of urgency.

05 Fees

We can confirm the final audit fee for 2015/16 was £60,000 plus VAT.

We have discussed this letter with the Chief Finance Officer and intend to present it to the Audit Committee in July 2016.

During the audit year we have continued to support the CCG in a variety of ways including:

- Attending Audit Committees where we inform the Committee about progress on the audit, report our key findings and provide briefings on developments in the NHS, CCGs, and the wider environment.
- Using data analytics to gain a comprehensive understanding of your processes and share the results with you.
- Compiling a risk management report that benchmarked the top risks facing CCGs and the controls identified to mitigate those risks.
- Hosting events for staff, such as our NHS Accounts workshops.
- Holding a seminar in York to clarify the implications for health care commissioners of our independent review of deaths of people with disability or mental health problems in contact with Southern Health NHS FT.

Further detailed findings, conclusions and recommendations in the areas covered by the audit are included in the reports issued to the CCG during the year, which are summarised below:

Report	Date issued
2015/16 Audit Fee Letter	April 2015
Audit Strategy Memorandum	March 2016
Director declarations	March 2016
Progress reports to Audit Committee	To each Audit Committee meeting
Audit Completion Report, including review of vfm arrangements	May 2016
Audit Opinion on the Financial Statements	May 2016

The CCG has taken a positive and constructive approach to our audit and we wish to thank the Governing Body, Audit Committee, and officers for the support and co-operation provided during our audit.

We are committed to supporting the CCG move forward with clarity of purpose and strong governance and accountability arrangements. Mazars currently audits a further ten CCGs and advises many other NHS bodies across the country. We will meet with the management to learn lessons from the 2015/16 audit and will continue to share our insights from other CCGs, across the NHS and relevant knowledge from the wider public and private sector.

Mark Kirkham

Partner

June 2016