Annual Audit Letter

NHS Vale of York CCG

For the year ended 31 March 2017

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Executive summary

Purpose of this report

Our Annual Audit Letter summarises the work we have undertaken as the auditor for NHS Vale of York CCG (the CCG) for the year ended 31 March 2017. Although this letter is addressed to the CCG, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of work	Summary
Financial statement and regularity opinions	On 25 May 2017 we issued our opinion that: • the financial statements give a true and fair view of the CCG's financial position as at 31 March 2017 and of its financial performance for the year then ended; and • except for the incurrence of expenditure in excess of the specified targets, expenditure has, in all material respects, been applied for the purposes intended by Parliament.
Opinions on other matters	On 25 May 2017 we issued our opinion that: • the auditable elements of the Remuneration and Staff Report have been prepared in accordance with requirements; and • the Annual Report published with the financial statements, is consistent with those financial statements.
Value for Money conclusion	On 25 May 2017 we issued our conclusion that we are not satisfied that, in all significant respects, NHS Vale of York put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.
Consolidation data	In line with the group audit instructions issued by the NAO, on 25 May 2017 we reported to them that the CCG's consolidation schedules were consistent with the audited financial statements.
Matters that we report by exception	We have not identified any matters to report in relation to: • whether the Annual Governance Statement is in line with our understanding of the CCG; and • reports in the public interest or written recommendations made under s24 of the 2014 Act. On 15 March 2017, we issued a report to the Secretary of State for Health under section 30 of the Local Audit and Accountability Act 2014, for the breach of financial duties under: • section 223H(1) of the NHS Act 2006 (as amended) to ensure expenditure did not exceed income in 2016/17; 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.

Audit of the financial statements

Financial statements opinion	**Unqualified**
Regularity opinion	**Modified**

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the CCG and whether they give a true and fair view of the CCG's financial position as at 31 March 2017 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing for the UK and Ireland (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the CCG's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

We are also required to form and express an opinion on whether the CCG's expenditure has been, in all material respects, applied for the purposes intended by Parliament. This is our regularity opinion.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2017:

Financial statement materiality	£4.665 million
Specific materiality	We have applied a lower level of materiality to the following items of account: • termination benefits; and • senior officer remuneration.
Trivial threshold	£140,000

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the CCG's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Significant risk	How we addressed the risk	Audit conclusion
Management override of control In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	Auditing standards mandate an element of substantive testing for every audit regardless of the operating effectiveness of the system of internal control. The standards require us to: • test the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements; • review the key areas within the financial statements where management has used judgement and applied estimation techniques and consider whether there is evidence of unfair bias; and • review significant transactions outside the normal course of business or that otherwise appear to be highly unusual.	We found no evidence of management override of controls. We have assessed the nature of the errors identified and concluded that there is no evidence of manipulation. We reviewed key areas of management judgement including estimation techniques and concluded that, taking account of materiality, the judgements are reasonable and there is no evidence of unfair bias. We reviewed your accounting policies and found no significant variations from the Group Accounting Manual. We tested journal entries recorded in the general ledger and other adjustments made in preparing the financial statements and identified no inappropriate transactions. We found no significant transactions that we considered outside the normal course of business within an NHS context. We undertook cut-off testing on income around the year end and found no non trivial errors. Our work has provided us with the assurance we sought and has not highlighted any material issues to bring to your attention.

Significant risk	How we addressed the risk	Audit conclusion
Revenue recognition There is a risk of fraud in financial reporting relating to revenue recognition due to the potential to inappropriately record income in the wrong period. This is not to imply we suspect actual fraud, but that we approach our audit maintaining due professional scepticism.	We addressed this risk by: • undertaking cut-off testing of receipts around the year-end; • sample testing income transactions throughout the year; • sample testing material year-end receivables; and • reviewing inter-NHS reconciliations and data matches provided by the NHSE (income and receivables).	We found no evidence of fraudulent misreporting relating to revenue recognition or accounting for assets through our testing of income and the data matching exercise. Our work has provided us with the assurance we sought and has not highlighted any material issues to bring to your attention.
Related party transactions GPs are members of the governing body and also potential service providers.	We addressed this risk by: • reviewing the CCG's arrangements for identifying and recording potential related party transactions; • reviewing a range of documents including minutes of meetings and registers of interest for evidence of potential related party transactions; and • testing disclosures in the financial statements.	Our work has provided us with the assurance we sought and has not highlighted any material issues to bring to your attention.

Value for Money conclusion

Value for Money conclusion	Adverse

Summary of our work

We are required to form a conclusion as to whether the CCG made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the CCG had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

The following table provides commentary of our findings in respect of each of the sub-criteria and an indication as to whether proper arrangements are in place.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	The CCG has governance arrangements in place and takes regular, reliable reports to members. However, reporting shows worsening financial position and failure to meet the budget and statutory targets and risk management arrangements failed to stop identified risks materialising into events.	No
Sustainable resource deployment	The CCG has made a deficit for the last two financial years and is operating under legal directions. The medium term financial plan shows further expected deficits for 2017/18, 2018/19 and 2019/20 with an in year surplus forecast for 2020/21.	No
Working with partners and other third parties	Demand and cost pressures in the local health economy highlight difficulties in working with third parties including the Foundation Trust and local authorities to deliver the CCG's financial recovery plan. In 2017/18 joint scrutiny by NHSE and NHSI has been introduced together with a new capped expenditure process.	No

Significant Value for Money risks

As part of our continuous planning processes, we carry out work to identify whether or not a risk to the VFM conclusion exists. In our Audit Strategy Memorandum, we reported that we had identified one significant VFM risk(s). The work we carried out in relation to significant risks is outlined below.

Value for Money conclusion risk	Work undertaken	Conclusion
Financial position Clinical commissioning groups have a number of financial duties under the NHS Act 2006 (as amended). In particular, section 223H (1) states that CCGs have a statutory duty to ensure expenditure in a financial year does not exceed income. When the CCG breaches this statutory duty, even if this is agreed with NHS England, we are under a duty to make a report to the Secretary of State for Health under Section 30 of the Local Audit and Accountability Act 2014.	We addressed this risk by reviewing and monitoring: • the financial recovery plan; • finance and performance reporting; • risk management and assurance reporting; • progress on QIPP savings and Better Care Funding; and • outputs from ongoing NHSE assessment.	The CCG did not plan to achieve surplus in 2016/17 and it became clear as the year progressed that the CCG would not meet the deficit budget set.

Other reporting responsibilities

Exercise of statutory reporting powers	**We issued a report to the Secretary of State for Health under Section 30 of the Local Audit and Accountability Act 2014 on 15 March 2017**
Governance Statement	**No matters to report**
Consistency of consolidation data with the financial statements	**Consistent**
Other information published alongside the financial statements	**Consistent**

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the CCG's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters which we report by exception

The 2014 Act provides us with specific reporting powers where matters come to our attention that require reporting to parties other than the CCG. We have the power to:

- report in the public interest;
- make a referral to the Secretary of State where we believe that a decision has led to, or would lead to unlawful expenditure, or an action has been, or would be, unlawful and likely to cause loss or deficiency; and
- make statutory recommendations to the CCG, which must be responded to publicly.

We are also required to report if, in our opinion, the governance statement does not comply with the guidance issued by the NHS Commissioning Board or is inconsistent with our knowledge and understanding of the CCG.

We made a referral to the Secretary of State due to the failure to meet statutory financial targets but did not exercise any of our other reporting powers during our 2016/17 audit. We had no matters to report to the CCG in relation to the Governance Statement.

Reporting to the NAO in respect of consolidation data

The NAO requires us to report to them whether consolidation data that the CCG has submitted is consistent with the audited financial statements. We have concluded and reported that the consolidation data is consistent with the audited financial statements.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the CCG. In our opinion, the information in the Annual Report is consistent with the audited financial statements.

Future challenges

Outlook

In response to the legal directions, the CCG has strengthened the arrangements in place by:

- improving capacity with additional leadership appointments and a new chief officer;
- introducing more focussed governance arrangements including the new Executive Board and revised supporting Committees;
- developing the medium term financial strategy and new ways of working, such as the accountable care system; and
- identifying areas of immediate financial opportunity to support the challenging QIPP savings needed to return to financial sustainability.

The CCG continues to face increasing financial pressures and is well aware of the challenges and risks involved in delivering its future plans.

Achievement of NHS constitutional challenges also remains an area of focus for the CCG. There is scope for improvement in the following areas:

- accident and emergency response times;
- referral to treatment waiting times;
- ambulance response times;
- healthcare acquired infections; and
- diagnostics (six week standard).

Sustainability and Transformation Plan

2016/17 has seen the start of work in earnest on the Humber, Coast and Vale Sustainability and Transformation Plan (STP). Significant work has been undertaken already however this undoubtedly remains an extremely challenging programme of work to deliver.

How we will work with the CCG

We are grateful to the CCG, its Members and officers for the cooperation and open dialogue during the year and look forward to continuing to work closely with the CCG in delivering our Code of Audit Practice responsibilities.