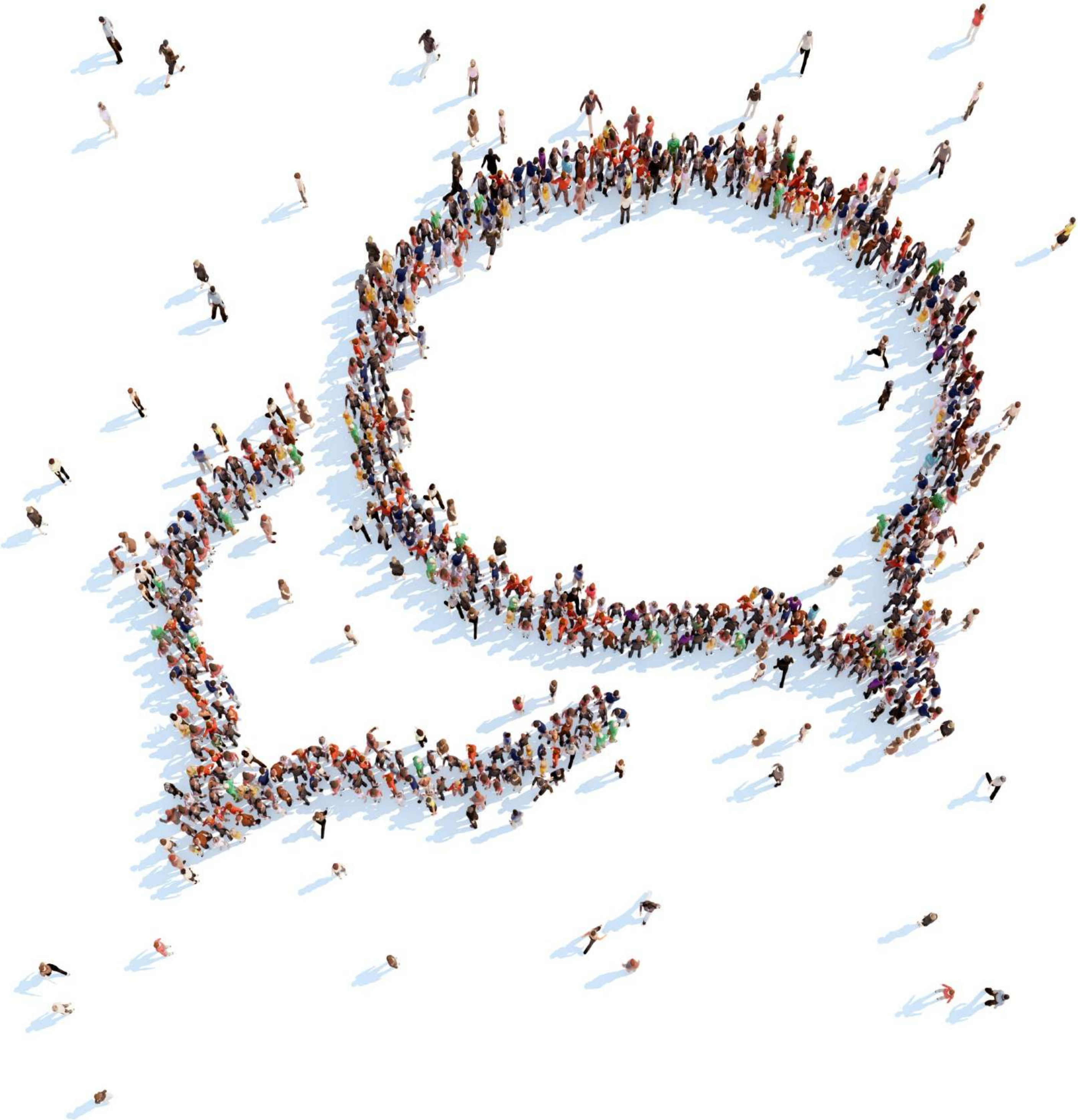
Annual Audit Letter

NHS Vale of York Clinical Commissioning Group

Year ending 31 March 2018



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Reports and letters prepared by the auditor and addressed to the CCG are prepared for the sole use of the CCG and we take no responsibility to any member or officer in their individual capacity or to any third party.

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

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 2018. 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 responsibility	Summary
Audit of the financial statements	Our audit report issued on 25 May 2018 included our opinion that: • the financial statements give a true and fair view of the CCG's financial position as at 31 March 2018 and of its financial performance for the year then ended; and • Income and expenditure has, in all material respects, been applied for the purposes intended by Parliament except for the failure to meet the statutory duty for expenditure not to exceed income in year.
Value for Money conclusion	Our audit report stated that we had matters to report in respect of the CCG's arrangements to secure economy, efficiency and effectiveness in its use of resources in relation to understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management, managing risks effectively and maintaining a sound system of internal control, planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions and working with third parties effectively to deliver strategic priorities..
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 25 May 2018 we reported that the CCG's consolidation schedules were consistent with the audited financial statements.
Statutory reporting	Our report also outlined that we made a referral to the Secretary of State under s30 of the 2014 Act, in relation to the breech of financial duties.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	**Unqualified**
Opinion on regularity	**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 2018 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 (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.

The Code of Audit Practice also requires us 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 (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 have 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) because of 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 levels applied in the audit of the financial statements for the year ended 31 March 2018:

Financial statement materiality	Our financial statement materiality is based on 2% of gross revenue expenditure.	£9.548 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£286,000
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - exit packages - senior officer remuneration	 £10,000 £150,000

2. AUDIT OF THE FINANCIAL STATEMENTS

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.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls 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. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	We addressed this risk by performing audit work in the following areas: • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements	Our work has provided us with the assurance we sought and did not highlight any material issues to bring to your attention.
Revenue recognition In all entities, there is a risk of fraud in financial reporting relating to revenue recognition as there is 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; • reviewing inter-NHS reconciliations and data matches provided by the NHSE (income and receivables); and • if necessary, seeking direct confirmation from third parties or their external auditors. This work will also inform our conclusion on the regulatory element of our audit opinion.	Our work has provided us with the assurance we sought and did not highlight 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 declarations 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 did not highlight any material issues to bring to your attention.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion	Adverse

Audit approach

We are required to consider whether the CCG made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. The NAO issues guidance to auditors that underpins our work and sets out the criterion and sub-criteria that we are required to consider. We are only required to report if we conclude that the CCG has not made proper arrangements..

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; and
- working with partners and other third parties.

Our audit report, issued to the CCG on 25 May 2018 outlined our qualified conclusion on the CCG's arrangements to secure economy, efficiency and effectiveness in its use of resources.

Sub-criteria	Commentary	Matters to report
Informed decision making	The CCG has governance arrangements in place.. At the beginning of the year, however, there was some conflict between the financial reporting required by NHS England, reporting the capped expenditure process (CEP) forecast outturn, rather than the more likely actual forecast outturn. Additional reporting of detail was subsequently added to fully explain the financial position. In addition, the Constitution has not been publicly updated since October 2015 and arrangements have changed significantly since then.	Yes. While the CCG has taken action to improve financial information reported to members and has submitted an updated Constitution to NHS England, those arrangements were not in place for a significant proportion of the financial year.
Sustainable resource deployment	The CCG has made a deficit for the last three financial years and is operating under legal directions. The CCG has stabilised the underlying deficit position in 2017/18 and is forecasting a further deficit of £14.0 million for 2018/19. Under the new Commissioner Sustainability Fund, however, the £14.0 million deficit may be funded if the CCG meets the control total. The 2018/19 financial plan includes a challenging £14.6 million QIPP programme.	Yes. Deficits are evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities.
Working with partners and other third parties	The CCG is in special measures, operating under legal directions. Part of the savings agreed for 2017/18 required the main hospital services provider to let performance against the constitutional targets slip, i.e., allow waiting times to increase. Subsequently NHS Improvement informed the hospital that this was not acceptable. As a consequence, hospital activity increased in order to meet constitutional targets. The CCG's QIPP targets were not met and the deficit increased compared to the forecast position.	Yes. The CCG has attempted to improve arrangements but more work is needed to address over performance by the local hospital trust.

3. VALUE FOR MONEY CONCLUSION

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the CCG being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant Value for Money risk. The work we carried out in relation to the significant risk is outlined below.

Risk	Work undertaken	Conclusion
Financial position In 2016/17 the CCG reported a cumulative deficit of £23.8 million. The CCG continued to face several financial challenges in 2017/18, including the need to achieve significant QIPP savings in-year. In addition, the CCG was operating under legal directions and within the CEP with York FT and Scarborough and Ryedale CCG. The CCG was forecasting that it would not meet the requirement, under section 223H (1) of the NHS Act 2006 (as amended), to ensure expenditure in a financial year did not exceed income. When a 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 monitoring the progress the CCG made in delivering its financial plan as the year progressed and considering the impact on our audit report.	The CCG set a deficit budget of £6.3 million for 2017/18 and recorded an in-year deficit of £20.1 million. We made a referral to the Secretary of State in January 2018 and qualified our statutory value for money conclusion.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**Matters to report**
Governance Statement	**No matters to report**
Consistency of consolidation data with the audited financial statements	**Consistent**
Other information published alongside the audited 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 powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

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

We have a duty under the Local Audit and Accountability Act 2014 to refer the matter to the Secretary of State if we have a reason to believe that the CCG, or an officer of the CCG, is about to make, or has made, a decision involving unlawful expenditure, or is about to take, or has taken, unlawful action likely to cause a loss or deficiency.

On 31 January 2018, we issued a report to the Secretary of State for Health under section 30(a) 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 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.

We are also required to report if, in our opinion, the governance statement does not comply with the guidance issued by NHS England or is inconsistent with our knowledge and understanding of the CCG. We did not identify any matters to report in this regard.

Reporting to the NAO in respect of consolidation data

The NAO, as group auditor, 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.

5. OUR FEES

Fees for work as the CCG's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit Committee in [month] 2017.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice	£42,950	£42,950

Fees for other work

We confirm that we have not undertaken any non-audit services for the CCG in the year.

6. FORWARD LOOK

Financial outlook

The CCG has stabilised the underlying deficit position in 2017/18 at £21.7 million, from £22.4 million in 2016/17 and is forecasting a further deficit of £14.0 million for 2018/19. Under the new Commissioner Sustainability Fund, however, the £14.0 million deficit may be funded if the CCG meets the control total.

The 2018/19 financial plan includes a challenging £14.6 million QIPP programme which has been subject to internal confirm and challenge and external scrutiny on behalf of NHS England. The summary outcome of this review is that the majority of schemes have been rated as amber or red, medium to high risk, because they are in early stages of development.

The most recent feedback from NHS England has raised concerns about the CCG's ability to deliver the forecast position in 2018/19 and further work is being undertaken to provide more assurance.

Challenges

In seeking to address over performance by healthcare providers the CCG recognises the need to work collaboratively. Vale of York and Scarborough and Ryedale CCGs have developed a medium-term system financial recovery plan across the Vale and Scarborough system. The plan includes agreeing and implementing acute service transformation to reduce costs while also providing a framework for the local hospital to achieve constitutional targets.

The Vale and Scarborough Health and Care Partnership Board has been established to develop an integrated care system. The Board includes the two CCGs, the main hospital service providers, GP practices, and local authority representatives. To ensure sufficient activity is commissioned to meet population needs while providers have sufficient resources to meet demand, the CCG and providers all need to agree affordable demand and capacity solutions. While overseeing the collaboration needed and setting the direction for financial recovery, the Governing Body will require assurance on the basis and progress of the changes to activity plans and pathways that need to be made to achieve financial sustainability.

Future actions

The CCG continues to face financial pressures and is well aware of the challenges and risks involved in delivering its future plans. Going forward the whole CCG needs to be focussed on systemic change including challenging current behaviours that lead to increased activity and difficult decisions around the range and level of services provided.

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.

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