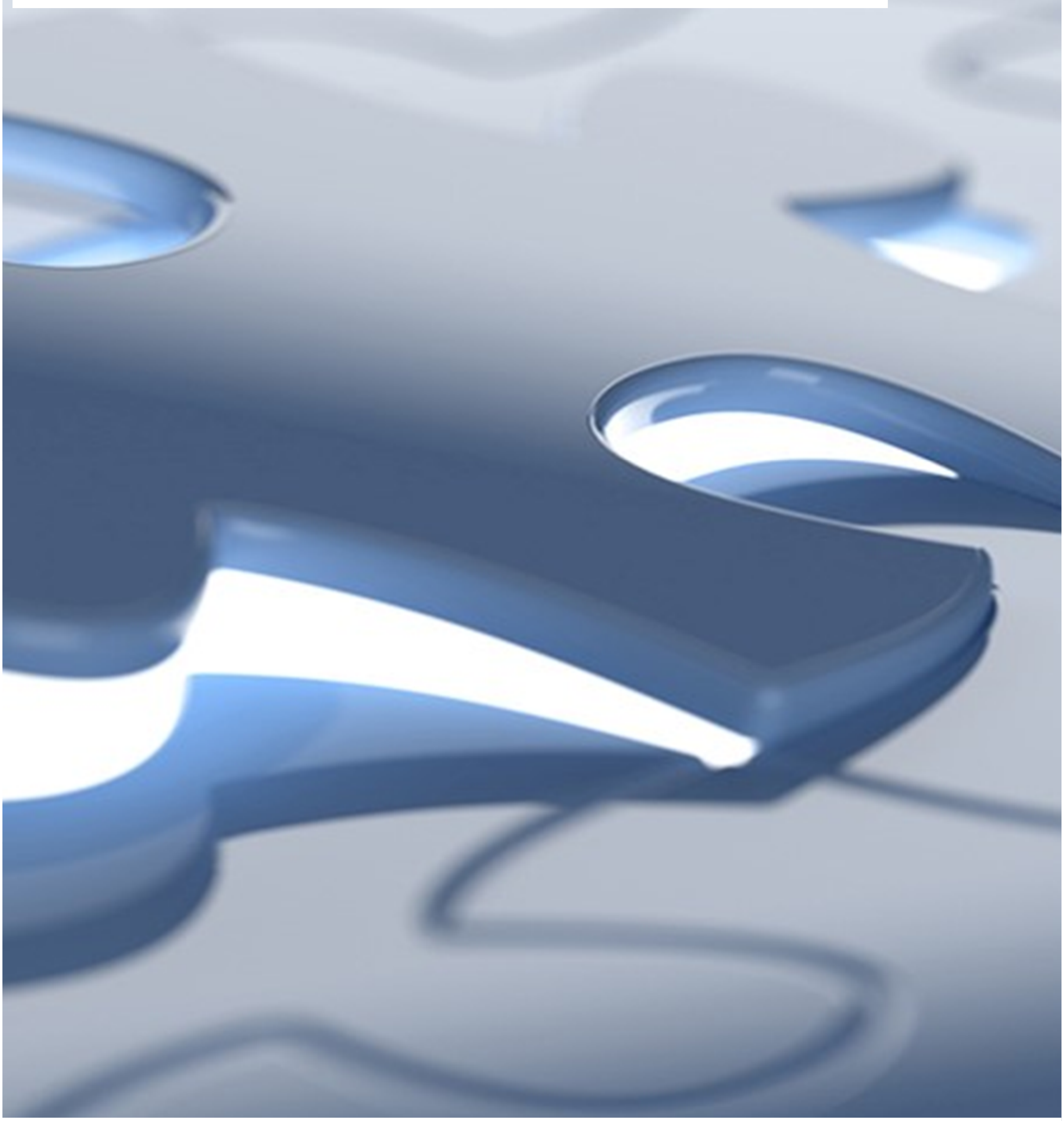
Annual Audit Letter

Vale of York Clinical Commissioning Group

Year ending 31 March 2019



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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 Vale of York CCG (the CCG) for the year ended 31 March 2019. 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 auditor's report issued on 24 May 2019 included our opinion that: • the financial statements give a true and fair view of the CCG's financial position as at 31 March 2019 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.
Value for money conclusion	In our qualified conclusion we reported exceptions in respect of 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 24 May 2019 we reported that the CCG's consolidation schedules were consistent with the audited financial statements.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the CCG. The report also outlined that we made a referral to the Secretary of State under s30 of the 2014 Act, in relation to the breach 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 2019 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.

Our auditor's report, issued to the CCG on 24 May 2019, stated that, in our view, the financial statements give a true and fair view of the CCG's financial position as at 31 March 2019 and of its financial performance for the year then ended.

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 auditor's report also confirmed that, in our view, income and expenditure has, in all material respects, been applied for the purposes intended by Parliament except for the reported deficit of £18.6 million which breaches the CCG's duty under the National Health Service Act 2006, as amended by paragraph 223I of the Health and Social Care Act 2012, to ensure revenue resource use does not exceed the amount specified in the Direction.

2. AUDIT OF THE FINANCIAL STATEMENTS

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) if there are items of account that require a lower materiality level. 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 2019:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure	£9.797 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£294,000

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 provided us with the assurance we sought.
Revenue Recognition In all entities, 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; and • reviewing inter-NHS reconciliations and data matches provided by the NHSE (income and receivables).	Our work provided us with the assurance we sought.
Related Parties 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 provided us with the assurance we sought.

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Qualified - Adverse

Our audit approach

We are required to consider whether the CCG has 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. 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 auditor's report, issued to the CCG on 24 May 2019 confirmed that we had matters to report in respect of the CCG's arrangements to secure economy, efficiency and effectiveness in its use of resources.

Sub-criteria	Commentary	Matters to report
Informed decision making	Our audit work has confirmed there is evidence that the CCG acts in the public interest, demonstrating and applying the principles and values of sound governance. The CCG has in place an Audit Committee and the Constitution sets out delegation of responsibilities to the formal Committees and Officers. The Constitution has been updated to reflect current arrangements and approved in year. We have seen evidence that the CCG understands and uses appropriate and reliable financial and performance information to support informed decision making and performance management, for example, regular finance and performance reports are taken to the Governing Body. Financial data is presented alongside activity data and reports are presented to allow the CCG time to deal with issues that arise. Based on our review of minutes and attendance at Audit Committee, we are aware that the impact and purpose of proposals are scrutinised and that there is consideration of strategic objectives and their delivery. The CCG reports key risks to the Governing Body and the Audit Committee through the board assurance framework. No significant internal control issues have been identified as part of our work or have been reported to the Audit Committee through internal audit work or as part of the Annual Governance Statement.	None

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Matters to report
Sustainable resource deployment	The CCG has a cumulative deficit of £43.8 million from previous years. For the 2018/19 financial year, the CCG agreed an in-year deficit budget of £14 million with NHSE. The deficit was to be funded by Commissioner Sustainability Funding (CSF) in the event that the CCG achieved that year-end position. This would have led to the CCG meeting its in-year allocation. The outturn position is a total deficit of £18.6 million, after quarter one CSF of £1.4 million, against the 2018/19 in-year allocation of £469.3 million. For 2018/19 the Vale and Scarborough Health and Care Partnership Board was established to develop an integrated care system. The CCG, as part of the Partnership Board, agreed an aligned incentive contract with the local Foundation Trust (FT) for 2018/19 which included the FT committing to savings of £10m, none of which have been achieved. The initial 2019/20 financial plan submitted in February 2019 included a £4.3 million gap to a control total deficit of £14 million. The CCG plan did not align to that submitted by York FT. The CCG sought joint regulator and system transformation partnership mediation to close the contractual gap of £20.6 million. A revised plan was submitted in April 2019 with a planned deficit of £21 million against the £14 million deficit control total and a further plan submitted in May 2019 with a planned deficit of £18.8 million.	Yes
Working with partners and other third parties	Our audit work has confirmed there is evidence the CCG works with third parties to deliver strategic priorities. A number of policies and frameworks for partnership working are on the publications section of the external website including the Commissioning plan. The CCG has involvement in pooled budget arrangements for the Better Care Fund with: City of York Council; East Riding of Yorkshire Council; and North Yorkshire County Council. These plans are monitored and managed throughout the year. As part of the financial planning process for 2019/20, referred to above, the CCG alongside other system partners submitted revised final plans in May. Plans of key system partners are aligned in that submission. The aligned plans do not allow the CCG to meet its control total. The Sustainability and Transformation Partnership (STP) is currently carrying out two pieces of work to look at options for more collaborative working. The Scarborough Acute Services Review aims to consider how to provide the best care for local people who need to use acute hospital services within the resources (money, staffing and buildings) that are available to the local NHS. The Humber Acute Services Review is doing a similar piece of work.	Yes

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 our value for money conclusion exists. Risk, in the context of our 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 audit risk. The work we carried out in relation to significant risks is outlined below.

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. In 2017/18 the CCG failed to achieve its financial duties but is on track to do so in 2018/19, We have, however, noted the following elements of risk: • the need to achieve significant savings in-year Quality, Innovation, Productivity and Prevention (QIPP) savings of £14 million; • joint commissioning with Scarborough and Ryedale CCG for services at York Teaching Hospitals Foundation Trust subject to a new but untested aligned incentive contract; and • as at May 2018 there is risk of £3.26 million to the delivery of the financial plan, although the CCG has mitigating plans in place.	We addressed this risk by monitoring the progress the CCG made in delivering its financial plan and control total as the year progressed.	The CCG: • recorded a deficit of £18.6 million, after quarter one CSF of £1.4 million, against the agreed £14 million deficit budget; and • has not been able to agree a 2019/20 financial plan which meets the agreed control total.

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 a 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 24 January 2019, 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 2018/19; 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 the Audit Committee in November 2018.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£42,950 + vat	£42,950 + vat

Fees for other work

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

We anticipate being engaged by the CCG to carry out work mandated by NHS England in respect of the Mental Health Investment Standard for 2018/19. The review will be conducted according to a standard scope agreed by NHS England. While the engagement has not yet been formally agreed, the fee is expected to be £7,500 (excluding VAT). The final fee will be dependent on any potential changes to the scope of the work following national consideration of the outcomes from pilot sites.

6. FORWARD LOOK

Financial outlook

The CCG recorded a £18.6 million deficit for 2018/19 which is an improvement on the previous financial year. The cumulative deficit brought forward into 2019/20 is £62.4 million and the financial plan anticipates an £18.8 million in-year deficit rather than the £14 million control total which means the CCG will not be eligible for Commissioner Sustainability Funding and will have to build the additional deficit into future financial recovery plans.

In addition, the 2019/20 plan includes £14.7 million of Quality, Innovation, Productivity and Prevention (QIPP) plans, £3.7 million of which are risk rated red/amber as plans for delivery are still in development so there is significant risk to the financial outturn.

Ongoing challenges

The CCG is aware of the challenges and risks involved in delivering its plans to improve population health and reduce health inequalities. It is continuing to work more closely with the local authority across all areas of work. However, significant difficulties remain around the need for the CCG to deliver the Governing Body's commitment to achieve financial balance in a sustainable manner while improving operational performance in the local health system. Delivering this commitment requires the support of all parties.

The 2019/20 contract with the main provider is in the form of a fixed value agreement, including system savings of £11.16 million split equally across Vale of York and Scarborough and Ryedale CCGs and the FT at £3.72 million.

Performance reports consistently record shortfalls in meeting the key NHS constitutional targets although performance fluctuates throughout the year. 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. This has not been attained in the local health economy for a considerable number of years and, despite the successive financial deficits reported by the CCG, the initiatives it has taken to improve pathways and reduce costs, and the support and interventions by NHSE, the local health economy has not yet transformed successfully into a financially sustainable and more integrated system. Delivering this transformation requires the support of all parties.

Further work is needed across the system to ensure that the CCG is a financially stable healthcare commissioner, able to meet all policy targets.

How we will work with the CCG

We continue to be grateful to the CCG and its 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.