

Audit Completion Report

NHS Vale of York CCG – year ended 31 March 2016

May 2016



Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham, DH1 5TS

Audit Committee
NHS Vale of York CCG
West Offices
Station Rise
York
YO1 6GA

May 2016

Dear Members of the Audit Committee

Audit Completion Report – Year ended 31 March 2016

We are delighted to present our Audit Completion Report for the year ended 31 March 2016. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and areas of management judgement was outlined in our Audit Strategy Memorandum which we presented on 8 March 2016. We reviewed our Audit Strategy Memorandum and confirmed that that the original significant audit risks remain appropriate and we then planned our audit procedures accordingly.

We would like to express our thanks for the assistance of your team during our audit.

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
Partner
Mazars LLP

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01 Executive summary

Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2016 to the Audit Committee of NHS Vale of York CCG and forms the basis for discussion at the Audit Committee meeting on 24 May 2016.

Our communication with you is important to:

- share information to assist both of us to fulfil our respective responsibilities;
- provide you with constructive observations arising from the audit process;
- ensure as part of the two-way communication process we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing NHS Vale of York CCG; and
- receive feedback from yourselves as to the performance of the engagement team.

Section 4 sets out internal control recommendations and section 5 sets out audit misstatements. There are no material unadjusted misstatements.

Principal conclusions and significant findings

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 3 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks in our Audit Strategy Memorandum of which the principal ones were:

- management override of controls;
- revenue recognition; and
- related party transactions.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2016.

At the time of preparing this report, the following significant matters are outstanding:

- detailed testing of PCU recharges;
- service auditor assurance over the prime evidence used to calculate primary care co-commissioning expenditure; and
- assurance over the robustness and realism of the financial plan.

At the time of issuing this report and subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing a modified regularity opinion and a qualified value for money conclusion, as set out in Appendix B. If we do not obtain satisfactory assurance for primary care co-commissioning expenditure we may need to qualify the audit opinion. We have carried out sufficient work to ensure the matters we report in our value for money conclusion reflect accurately the weaknesses in your arrangements. Our work in respect of your financial recovery plan, and the assurance we obtain, will determine whether we need to exercise our wider statutory reporting powers.

We also expect to certify to the National Audit Office that your consolidation data is consistent with the audited financial statements.

02 Financial highlights

Financial targets

The CCG has not met all its financial targets for 2015/16 as it has not delivered a surplus and expenditure has exceeded its programme allocation. It has maintained running costs (administration expenditure) within the allocation and delivered against cash targets.

CCG financial performance 2015/16

Performance against financial targets	2015/16 Allocation £000s	2015/16 Actual £000s	Under/(over) spend £000s	Targets met?
Expenditure - programme	438,146	444,441	(6,295)	No
Of which: administration expenditure (running costs)	7,602	6,754	848	Yes

The CCG reported a deficit of £6.295 million for the year ending 31 March 2016, with 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.

The financial recovery plan was updated and submitted to NHSE as part of the medium term financial plan in April 2016 but we have yet not seen NHSE's feedback. 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:

- 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. Actions include:

- improved financial planning;
- stronger project management arrangements;
- additional turnaround support and capacity from external consultants;
- better GP engagement;
- review of organisational development arrangements; and
- new, separate primary care co-commissioning committee and clearer focus on finance in the quality and finance committee.

03 Significant findings

Overall findings

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding the significant risks outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 6 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- modifications required to our audit report.

Interim work

We are constantly looking at ways to use the latest technology to improve the efficiency of the audit process and add value to our clients. Our computer audit specialists developed Computer Assisted Audit Techniques (CAATs) in 2015 and trained audit teams to apply them as part of the 2015/16 audit. This year we used CAATS to confirm our understanding of a key financial system: Accounts Payable. We tested the whole population to identify payments where:

- providers were paid twice for the same service and period (duplicate invoices);
- invoices were approved prior to payment; and
- delegated approval limits for invoice approval were not complied with.

We obtained sufficient audit evidence for each of the CAATs and there is no further action required.

CAAT	Results
Report to identify duplicate payments	The data matching indicated a large number of possible exceptions but all have been explained as they relate to recurring payments to suppliers that are paid the same amount on a regular basis.
Report to identify invoices approved after payment	Our work found a number of invoices that were approved retrospectively due to an error in dates in the system showing some payments made in 1900. The reason for all invoices paid without an approval was valid, the majority being purchase order payments where the system approves automatically providing the invoice is within a tolerance level of the order.
Data matching to identify invoices approved above delegated limits	The data matching indicated a large number of possible exceptions but all transpired to have been appropriately approved following further investigations.

Significant risks: financial statements

Management override of controls

Description of the risk

International auditing standards (ISA (UK&I)) presume that management override of controls is a fraud risk and therefore should always be recorded as a significant risk. This does not imply that we suspect actual or intended manipulation but that we approach the audit with due professional scepticism.

How we addressed this risk

Auditing standards mandate an element of substantive testing for every audit regardless of the operating effectiveness of the system of internal control. The standards required us to:

- test the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- for journals we used data analytics to test the whole population for a series of risk factors that could undermine the integrity of the ledger and the accuracy of your 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 appear to be highly unusual.

Audit conclusion

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 Manual for Accounts.

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.

Revenue recognition

Description of the risk

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.

How we addressed this risk

We:

- undertook cut-off testing of receipts around the year-end;

- sample tested income transactions throughout the year;
- sample tested material year-end receivables; and
- reviewed inter-NHS reconciliations and data matches provided by the NHSE (income and receivables).

This work will also inform our conclusion on the regulatory element of our audit opinion.

Audit conclusion

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

Description of the risk

GPs are members of the governing body and also potential service providers.

How we addressed this area of management judgement

We:

- reviewed the CCG's arrangements for identifying and recording potential related party transactions;
- reviewed a range of documents including minutes of meetings and registers of interest for evidence of potential related party transactions; and
- tested disclosures in the financial statements.

Audit conclusion

Our work has provided us with the assurance we sought and has not highlighted any material issues to bring to your attention.

Accounting policies and disclosures

We have reviewed NHS Vale of York CCG's accounting policies and disclosures and concluded they comply with Department of Health's Manual for Accounts and the Accounts Direction.

There are a number of accounting policies which are not relevant to the CCG and nil disclosure notes which could be removed from the financial statements. The CCG prefer to include all of the information but have stated where policies and notes are not applicable and will reconsider their position in future.

Significant matters discussed with management

The CCG has taken on primary care co-commissioning responsibilities in 2015/16 which has resulted in additional expenditure in the financial statements of £40.5 million. The calculations and supporting documentation for these entries is provided by NHSE in a series of spreadsheets and the CCG do not have access to the source documents that may be able to provide assurance that the expenditure is accurate. We are informed that the CCG is relying on the systems and processes in place within NHSE and its service organisations. In our view this is a significant weakness in internal control and has been included in section 4 below.

To allow us to gain assurance over the primary care co-commissioning expenditure a process was agreed nationally with the NAO and NHSE for external auditors to select samples to send to NHSE to provide source documentation. We have followed this process and have obtained some evidence to support the expenditure in the financial statements. We are also expecting a service auditor report to confirm that prime documentation is in place and has been tested

to complete our testing. If we do not receive assurance over the prime documentation we will need to modify our opinion on the accounts.

Significant difficulties during the audit

Other than the matter reported above, which is a national issue, we did not encounter any significant difficulties during the course of the audit and we have had the full co-operation of management.

Modifications required to our audit report

We have identified the following issue which has resulted in us proposing to issue a modified audit report. Our draft report, in full, is set out in Appendix B.

Issue	Impact on our audit report
<p>As disclosed in Note 41 of its financial statements, the CCG failed to meet its statutory duties under:</p> <ul style="list-style-type: none"> • 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 Directions. 	<p>This issue, and the related issues summarised in Section 06 below, mean we need to:</p> <ul style="list-style-type: none"> • modify our opinion on regularity; • refer to our referral to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014 as a matter on which we report by exception; and • qualify our value for money conclusion.

We will also need to modify our audit opinion if we do not obtain sufficient, satisfactory audit evidence to support the primary care co-commissioning entries in your accounts.

Issue	Impact on our audit opinion
<p>Primary care commissioning, lack of supporting evidence.</p>	<p>Potential modification of the opinion due to limitation of scope (not reflected in the draft audit opinion in Appendix B).</p>

04 Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation. The matters reported here are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendation are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. Our rating scale is as follows.

Priority ranking	Description	Number of
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	

Significant deficiencies in internal control – Level 1

Description of deficiency
<p>Potential effects</p> <p>Our work on primary care co-commissioning expenditure has highlighted that the CCG does not have access to the source documents to be able to provide assurance that the expenditure is accurate, relying on the systems and processes in place within NHSE and its service organisations.</p>
<p>Recommendation</p> <p>The CCG should establish control arrangements to ensure that the primary care co-commissioning expenditure in its ledger and financial statements is accurate.</p>
<p>Management response</p> <p>From April 2016 primary care co-commissioning information will be received directly by the CCG and input to the ledger by CCG staff. Management expects that national guidance and procedures will be put in place for CCGs to follow to gain assurance over the source data used in the calculations and will adhere to this in future.</p>

Follow up of previous internal control points

We did not raise any internal control points last year.

05 Summary of misstatements

We set out below the misstatements identified during the course of the audit, above the level of trivial, for adjustment. There were no misstatements identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

There were no material or non-trivial misstatements identified that have been adjusted by management during the course of the audit.

Disclosure amendments

The following minor amendments were have been made to disclosure notes:

- The formula for the line 'Net Recognised NHS Clinical Commissioning Group Expenditure for the Financial Year' incorrectly includes 'Adjusted NHS Clinical Commissioning Group balance at 1 April 2015' i.e. the opening balance of £15.246 million. The CCG has amended the formula and there is no impact on the balance carried forward. A similar amendment has been made to the formula in respect of the comparator SOCITE (£0.761 million).
- Note 4.5.1 full actuarial valuation included £319,151 of payments to NHS Pensions for employer contributions which did not agree to payments of £457k in note 4.1.1 employee benefits, the difference is due to recharged PCU costs and additional information to explain has been added to note 4.5.1.
- Note 13.8 Cost or valuation of fully depreciated assets included the value of non-current assets of £529k, these assets are still being depreciated, so should not have been included in this note which has now been amended to nil.
- Note 4.3 staff sickness absence has been updated to reflect new information received after the preparation of the draft financial statements.

06 Value for money

Overall conclusion

We expect to conclude that the CCG did not have effective arrangements in place to secure Value for Money (VFM) in your use of resources, 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'.

Matters to report on an exception basis

For 2015/16 we are required to report on an exception basis only in the auditor's report. There are matters arising from our VFM work that we need to report in relation to the CCG's failure to meet its statutory financial targets and deficit position. The matters are:

- 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.
- 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

Significant audit risk: value for money conclusion

In our Audit Strategy Memorandum we identified a significant risk relevant to our VFM conclusion. We detail below how we have addressed this risk and the conclusion we have reached.

Failing to achieve the statutory financial performance target that expenditure is not to exceed income

Description of the risk

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 regular reports to the Governing Body, Vale of York CCG has identified that it faces financial pressures in several areas. Recognising the importance of managing this effectively it has put in place a Financial Recovery Plan to ensure it meets the requirement to 'break even' in 2015/16. Ongoing reporting to the Governing Body recognises that there is a risk that the CCG will fail to meet this statutory duty in 2015/16.

If 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.

Our initial view is that the following proper arrangements are relevant to our audit risk:

- reliable and timely financial reporting that supports the delivery of strategic priorities;
- 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.

How we addressed this risk

We addressed this risk by monitoring the progress the CCG made in delivering its Financial Recovery Plan as the financial year progressed.

Conclusion

It became clear as the year progressed that the CCG would breach its duty to 'break even' and we issued 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 have identified exceptions in respect of your arrangements and need to modify our audit report.

Proper arrangements

We presented the results of our initial audit risk assessment for our value for money conclusion to the Audit Committee on 8 March 2016. The tables below set out our updated assessment for each criteria.

Informed decision making

Proper arrangements	Arrangements at Vale of York CCG	Audit Assurance obtained?
Acting in the public interest, through demonstrating and applying the principles and values of sound governance	<p>Governance arrangements are in place. Constitution is on the website and subject to regular review and update.</p> <p>The capability and capacity review concluded that the CCG has governance arrangements in place that would have been appropriate in normal circumstances but needed strengthening for an organisation in turnaround. No major issues that impact on the vfm conclusion.</p>	Yes
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.	<p>Financial position is monitored regularly. Review of reports shows the financial position growing steadily worse, with a forecast deficit declared in December 2015. The sudden deterioration in financial position was not expected by the Governing Body.</p> <p>Review of performance reports shows mixed performance against targets. Ambulance response and emergency department waiting time targets are being consistently missed with other issues also arising around ambulance handover, diagnostic waiting times, refer to treatment, out-of-hours and cancer targets. This raises issues that impact on the vfm conclusion.</p>	No
Reliable and timely financial reporting that supports the delivery of strategic priorities.	<p>Financial reports are reliable and timely and clearly show the deterioration of the financial position through the year. The capability and capacity review commended the CCG on the content of its financial reports.</p>	Yes

Managing risks effectively and maintaining a sound system of internal control.	Risk management and board assurance arrangements are in place, but have not stopped risks turning into events, which raises issues that impact on the vfm conclusion.	No
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Sustainable resource deployment

Proper arrangements	Arrangements at Vale of York CCG	Audit Assurance obtained?
Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	<p>Failure to achieve year 2 of the strategic plan.</p> <p>Four year recovery plan shows continued deficit position until the end of 2018/19.</p> <p>QIPP is monitored by the Governing Body via finance reports. The CCG has not met its QIPP targets and this has contributed to the deficit position, which raises issues that impact on the vfm conclusion.</p>	No
Managing and utilising assets effectively to support the delivery of strategic priorities.	<p>Relatively few assets, so no significant risk.</p> <p>Publicly reported issues around the mental health provision being closed at Bootham highlight the issue of partner property, recently published reports on this include criticism of strategic leadership and lack of partnership working (see pressures referred to below).</p>	Yes
Planning, organising and developing the workforce effectively to deliver strategic priorities.	<p>This directly links to the 'well-led organisation' domain of the new CCG assurance framework.</p> <p>Review of capacity and capability instigated by NHSE after no assurance assessment identified a number of weaknesses.</p>	No

Working with partners and other third parties

Proper arrangements	Arrangements at Vale of York CCG	Audit Assurance obtained?
Working with third parties effectively to deliver strategic priorities.	<p>Initial financial recovery plan included proposals to reduce or withhold payments to partners where is appropriate or not contractually committed.</p> <p>BCF schemes have not produced the expected reduction in acute contract expenditure which has contributed to the deficit position, which raises issues that impact on the vfm conclusion.</p> <p>There are pressures between partnerships given the health economy and in particular the well-publicised growing 15/16 deficit of the NHS to date, specific issues in this locality with the</p>	No

<p>Commissioning services effectively to support the delivery of strategic priorities.</p>	<p>Foundation Trust and local authorities and concerns about their ability to support the CCG's financial recovery plan.</p> <p>Commissioning plan in place and on the website.</p> <p>The CCG has procurement processes in place which it has followed. No issues identified that would impact the vfm conclusion.</p>	<p>Yes</p>
<p>Procuring supplies and services effectively to support the delivery of strategic priorities.</p>	<p>As above.</p>	<p>Yes</p>

Other audit work

We also carried out work in the following areas to update and confirm our knowledge of the CCG:

- reports by statutory inspectorates or other regulators; and
- review of the annual governance statement.

Area of other work	Findings	Assurance obtained?
<p>Reports by statutory inspectorates or other regulators - review the work of NHS England's assurance</p>	<p>The latest assurance meeting was held in April 2016. At the time of drafting the report NHSE had not reported back to the CCG. The latest letter from NHSE relates to meeting held in January 2016. The CCG was "assured as good" for:</p> <ul style="list-style-type: none"> • delegated functions. <p>The CCG was "not assured" for:</p> <ul style="list-style-type: none"> • well led organisation; • financial management; • performance; and • planning. 	<p>No</p>
<p>Review of the AGS</p>	<p>We have reviewed the AGS and concluded it to be consistent with our understanding of the CCG. No weaknesses in arrangements identified from review indicating a risk to our vfm conclusion.</p>	<p>Yes</p>

Our work has identified issues in relation to the CCG's arrangements for forecasting QIPP and the effectiveness of communication to Governing Body members. Although reports highlighted the risks to the financial position, the Governing Body was not expecting the significant deterioration that happened in the year:

- month 6 September position reduced forecast surplus of £345,000;
- months 7 and 8 October and November position forecast deficit of £1.1 million, financial targets still being achieved; and
- month 9 December position forecast deficit £7.3 million, financial targets no longer being achieved.

The CCG prepared a financial recovery plan in September, updated in December which prompted NHSE to commission an independent review of its capability and capacity. This has led to the production of the financial recovery action plan which is available on the CCG website.

The CCG now faces a potential cumulative deficit and is predicting a year end deficit position for 2016/17 and 2017/18. The CCG is planning for financial surplus by the end of 2019/20. Given that the CCG is not planning to achieve financial balance, and will therefore breach its statutory financial duties, in 2016/17, we will be required to issue a further referral to Secretary of State and NHS England under section 30 of the Local Audit and Accountability Act 2014.

Appendix A – Draft management representation letter

[Client address]

[Date]

Dear [Name]

Name of client - audit for year ended 31 March 2016

This representation letter is provided in connection with your audit of the financial statements of NHS Vale of York CCG for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Manual for Accounts.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Manual for Accounts and relevant legislation and International Financial Reporting Standards (IFRS) as adopted by HM Treasury.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the CCG you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Accountable Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Governing Body and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Manual for Accounts and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the CCG's financial position, financial performance and cash flows

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the CCG in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the CCG have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Manual for Accounts and relevant legislation and IFRSs as adopted by HM Treasury.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

We have complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility Accountable Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the CCG involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the CCG's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Manual for Accounts and relevant legislation and IFRSs.

I have disclosed to you the identity of the CCG's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Manual for Accounts, relevant legislation and IFRSs require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the CCG will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours faithfully

Accountable Officer.....

Appendix B – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE GOVERNING BODY OF NHS VALE OF YORK CCG

We have audited the financial statements of NHS Vale of York CCG for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2015-16 Government Financial Reporting Manual (the 2015-16 FReM) as contained in the Department of Health Group Manual for Accounts 2015-16 (the 2015-16 MfA) and the Accounts Direction issued by the NHS Commissioning Board with the approval of the Secretary of State as relevant to the National Health Service in England (the Accounts Direction).

We have also audited the information in the Remuneration and Staff Report that is described as being subject to audit.

This report is made solely to the members of the Governing Body of NHS Vale of York CCG, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Governing Body of the CCG those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Governing Body of the CCG, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Accountable Officer and auditor

As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income 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 (the "Code of Audit Practice").

As explained in the Annual Governance Statement the Accountable officer is responsible for the arrangements to secure economy, efficiency and effectiveness in the use of the CCG's resources. We are required under Section 21(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Section 21(5)(b) of the Local Audit and Accountability Act 2014 requires that our report must not contain our opinion if we are satisfied that proper arrangements are in place.

We are not required to consider, nor have we considered, whether all aspects of the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes assessing:

- whether the accounting policies are appropriate to the CCG's circumstances and have been consistently applied and adequately disclosed;

- the reasonableness of significant accounting estimates made by the Accountable Officer; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

In addition, we are required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2015, as to whether 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the CCG put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the CCG had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of NHS Vale of York CCG as at 31 March 2016 and of its net expenditure and income for the year then ended; and
- have been properly prepared in accordance with the Health and Social Care Act 2012 and the Accounts Directions issued thereunder.

Opinion on regularity

As disclosed in note 41 of its financial statements, 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.

Opinion on other matters

In our opinion:

- the parts of the Remuneration and Staff Report to be audited have been properly prepared in accordance with the Annual Report Directions made under the National Health Service Act 2006 (as amended by the Health and Social Care Act 2012); and
- the other information published together with the audited financial statements in the annual report and accounts is consistent with the financial statements.

Matters on which we report by exception

We are required to report to you if:

- in our opinion the governance statement does not comply with the guidance issued by the NHS England; or
- we issue a report in the public interest under section 24, schedule 7 of the Local Audit and Accountability Act 2014; or
- we make a written recommendation to the CCG under section 24, schedule 7 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Exception reports

Referral the Secretary of State under section 30 of the Local Audit and Accountability Act 2014

We are required to report to you if we refer a matter to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014 because we have reason to believe that the CCG, or an officer of the CCG, is about to make, or has made, a decision which involves or would involve the body incurring unlawful expenditure, or is about to take, or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency.

On 22 January 2016, 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 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.

Conclusion on the CCG's arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required to report to you if we are not satisfied that the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Basis for qualified (adverse) conclusion

The CCG reported a deficit of £6.3 million in its financial statements for the year ending 31 March 2016, as a result of this the CCG breached 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.

The CGG has not yet succeeded in addressing the underlying deficit in its budget and is forecasting a cumulative deficit of £13.3 million for 2016/17. Current plans identify that the CCG will not return to financial balance until the end of 2018/19.

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.

Qualified conclusion (adverse)

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2015, we are not satisfied that, in all significant respects, NHS Vale of York CCG put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

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

Mark Kirkham
For and on behalf of Mazars LLP

Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

May 2016

Appendix C – Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

Please get in touch...

Should you require any further information, please do not hesitate to contact:

Mark Kirkham

Partner

D: +44 (0)191 383 6300

E: mark.kirkham@mazars.co.uk

Address

The Rivergreen Centre, Aykley Heads , County Durham, DH1 5TS

T: +44 (0)191 383 6300

F: +44 (0)191 383 6350

Our reports are prepared in the context of Public Sector Audit Appointment's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to Members, Non-Executive Directors, Directors or managers are prepared for the sole use of the audited body and we take no responsibility to any Non-Executive Director, Director or Manager in their individual capacity or to any third party.

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