



Annual Audit Letter 2015-16

**NHS Tower Hamlets Clinical Commissioning
Group**

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in connection with this
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This report is addressed to NHS Tower Hamlets CCG (the CCG) and has been prepared for the sole use of the CCG. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Thomas, the engagement lead to the CCG, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 6948981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



Introduction

Introduction

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2015-16 audit at NHS Tower Hamlets Clinical Commissioning Group (the CCG). Although this letter is addressed to the Members of the Governing Body of the CCG, it is also intended to communicate these issues to external stakeholders, such as members of the public. It is the responsibility of the CCG to publish this letter on the CCG's website.

We have reported all the issues in this letter to the CCG during the year and we have provided a list of our reports in Appendix A.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. Our main responsibility is to carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code) which requires us to report on:

Financial Statements including the regularity opinion and Annual Governance Statement	<p>We provide an opinion on the CCG's financial statements. That is whether we believe the financial statements give a true and fair view of the financial affairs of the CCG and of the income and expenditure recorded during the year.</p> <p>We are also required to form a view on the regularity of the CCG's income and expenditure i.e. that the expenditure and income included in the CCG's financial statements has been applied to the purposes intended by Parliament and the financial transactions in the financial statements conform to the authorities which govern them.</p> <p>We also confirm whether the CCG has complied with the requirements of the NHS Commissioning Board in the preparation of its Annual Governance Statement (AGS). We also confirm whether the balances you have prepared for consolidation into the Whole of Government Accounts (WGA) are not inconsistent with our other work.</p>
Value for Money conclusion	<p>We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the CCG's use of resources.</p>

Introduction

Adding value from the External Audit service

We have added value to the CCG from our service throughout the year through our:

- Attendance at meetings with members of the Governing Body and Audit Committee to present our audit findings, broaden our knowledge of the CCG and to provide insight from sector developments and examples of best practice;
- Performing a benchmarking exercise assist the Audit Committee in assessing it's own effectiveness, and benchmarking the results to similar organisations;
- A proactive and pragmatic approach to issues arising in the production of the financial statements to ensure that our opinion is delivered on time; and
- Building a strong and effective working relationship with Internal Audit to maximise assurance to the Audit Committee, avoid duplication and provide value for money.

Fees

Our fee for 2015-16 was £59,625 excluding VAT (2014-15: £79,500). Our fees are set nationally by Public Sector Audit Appointments Ltd and reflect significant 25% reductions made nationally to scale fees. This was in line with the fee agreed at the start of the year with the CCG's Audit Committee.

We have submitted a fee variation to the PSAA of £3,500.71, excluding VAT. This was caused by the extra work relating to primary care commissioning, as the required service auditor reports were provided late in the audit process. We informed the Audit Committee of this possibility in our Audit Plan. This amount has been agreed with the CFO and is pending approval with the PSAA.

We have also completed the following pieces of work at the CCG during the year:

Community Health Services

Support in relation to review of a proposed contract for Community Health Services in Tower Hamlets was provided by a KPMG Advisory team. This involved reviewing the contract specifications to ensure lessons are being learnt from other high profile contract failures and test assumptions.

The fee for this work was £18,000.

Acknowledgement

We would like to take this opportunity to thank the officers of the CCG for their continued support throughout the year.



Headlines

This section summarises the key messages from our work during 2015-16.

<p>Overall financial results and other key messages</p>	<p>The CCG met its key financial targets for 2015/16, reporting a surplus of £11.9m (£0.2m ahead of plan), and an over-achievement on a net QIPP target of £7.2m of £3.2m. This is despite an overspend on acute contracts of £4.2m. The CCG also took on delegated responsibility for primary care commissioning, for which overall spend for the year was £41.3m, which was in line with budget.</p> <p>Looking ahead, the CCG has submitted a financial plan for 2016/17 that meets its statutory financial duties and delivers a surplus of £11.7m. This is based on a reduction of £3.2m in the overall resource allocation. To achieve the planned surplus, the CCG forecasts it will need to make savings of £7.9m on the overall commissioning of health services. However, the plan does recognise a number of risks to the achievement of this position including a continuation of increased demand and cost for services (including PbR and Continuing Healthcare). Further, the CCG recognises delivery of planned QIPP savings for 2016/17 of £8.7m and beyond as a key risk and an essential part of ensuring financial balance going forward. Delivery of the financial plan and the associated cost reduction and productivity targets represents a significant challenge to the CCG.</p>
<p>Value for Money (VFM) conclusion</p>	<p>We concluded that the CCG has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>
<p>VFM conclusion risk areas</p>	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>Our work identified the following significant risks:</p> <ul style="list-style-type: none"> — Barts Health NHS FT - 33.9% of the CCG's total expenditure goes to Barts NHS Trust (£137.4m, 2015/16), which was placed in special measures in March 2015 following a report by the CQC. We reviewed the level of formal communication between the CCG and the Provider and the level of control in place at the CCG over distribution of financial resources to Barts. We found appropriate arrangements to be in place in both cases. — Better Care Fund - This is a new arrangement with Tower Hamlets Borough Council, which is covered by an s75 agreement. We reviewed the governance arrangements in place and minutes from relevant committees, and found appropriate arrangements to be in place. — Primary care Co-Commissioning - This is another new arrangement for the CCG, and a Primary Care Co-commissioning Committee has been set up to oversee the project. We reviewed the minutes and finance reports from this committee, and discussed the arrangements in place for working with NHS England with management. We found appropriate arrangements to be in place.
<p>Financial Statements audit opinion</p>	<p>We issued an unqualified opinion on the CCG's accounts on 27 May 2016. This means that we believe the accounts give a true and fair view of the financial affairs of the CCG and of the income and expenditure recorded during the year.</p> <p>There were no significant matters which we were required to report to 'those charged with governance.'</p> <p>As in prior years, we were provided with a good quality first draft of the accounts, remuneration and annual report.</p>

Headlines

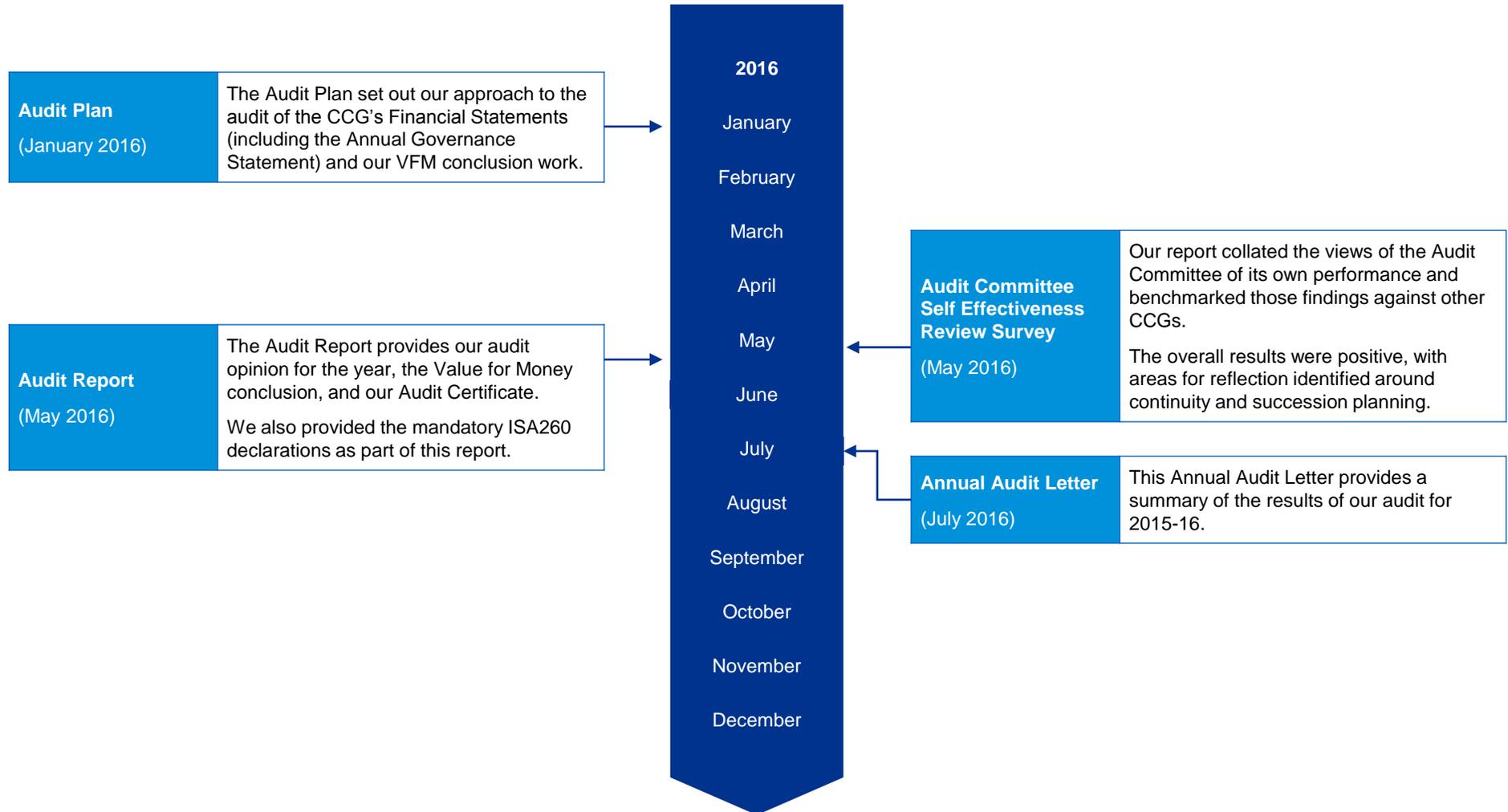
Financial statements audit work undertaken	<p>We are required to apply the concept of materiality in planning and performing our audit. We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. Our materiality for the audit was £7.9m (2014/15: £6m). Our benchmark for setting materiality increased substantially in the 2015/16 financial year due to the CCG taking on delegated responsibility for primary care commissioning. This meant our overall materiality threshold increased by £1.9m.</p> <p>We identified the following risks of material misstatement in the financial statements as part of our External Audit Plan 2015/16:</p> <ul style="list-style-type: none"> — Accounting for the Better Care Fund – We reviewed the arrangements in place to account for the Better Care Fund, which involved sample testing and review of the s75 agreement. No issues were noted. — Accounting for co-commissioning – We reviewed the payments made to GPs on a sample basis, and obtained reports from several service organisations (NHS SBS, HSCIC). No issues were noted.
Regularity Opinion	<p>We are required to form a view on the regularity of the CCG's income and expenditure i.e. that the expenditure and income included in the CCG's financial statements has been applied to the purposes intended by Parliament and the financial transactions in the financial statements conform to the authorities which govern them.</p> <p>We reviewed the CCG's expenditure and income and in our opinion, in all material respects, it has been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.</p>
Annual Governance Statement	<p>We confirmed that the CCG complied with the NHS Commissioning Board requirements in the preparation of the CCG's Annual Governance Statement. No significant adjustments were required to the Annual Governance Statement.</p>
Recommendations	<p>We are pleased to report that there are no high priority recommendations arising from our 2015-16 audit work.</p> <p>The CCG has been good at implementing agreed audit recommendations from prior years. We have not identified any prior year recommendations that still require further action by management.</p>
Public Interest Reporting	<p>We have a responsibility to consider whether there is a need to issue a public interest report or whether there are any issues which require referral to the Secretary of State. We did not issue a report in the public interest or refer any matters to the Secretary of State in 2015-16.</p>



Appendices

Appendix A

Summary of our reports issued





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