Period Ended 30 June 2022 Report

I confirm that this is the final version of our ISA 260 Audit Memorandum relating to our audit of the financial statements for the period ended 30 June 2022 for NHS Derby and Derbyshire Clinical Commissioning Group. This document was discussed and approved by the Integrated Care Board Audit and Governance Committee on behalf Clinical Commissioning Group on 8 June 2023.

…………………………………………..
Andrew Cardoza for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Birmingham

Our audit opinions and conclusions:	
Financial Statements: unqualified	Use of resources: no significant weaknesses identified

June 2023

Key contacts

Your key contacts in connection with this report are:

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Introduction

To the Audit and Governance Committee of NHS Derby and Derbyshire Integrated Care Board on behalf of the CCG.

We are pleased to have the opportunity to meet with you on 8 June 2023 to discuss the results of our audit of the financial statements of NHS Derby and Derbyshire Clinical Commissioning Group (the 'CCG'), as at and for the period ended 30 June 2022.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 23 March 2023. We will be pleased to elaborate on the matters covered in this report when we meet.

There have been no significant changes to our audit plan and strategy. Subject to your approval of the financial statements, we expect to be in a position to sign our audit opinion, provided that the outstanding matters noted on page 4 of this report are satisfactorily resolved.

We expect to issue an unqualified Auditor's Report on the financial statements.

We draw your attention to the important notice on page 4 of this report, which explains:

- The purpose of this report;
- Limitations on work performed; and
- Restrictions on distribution of this report.

Yours sincerely,

Andrew Cardoza, Director, KPMG LLP

8 June 2023

How we have delivered audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- **Executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls** and
- All of our related activities are undertaken in an environment of the utmost level of **objectivity**, **independence**, **ethics** and **integrity**.

The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the CCG.

External auditors do not act as a substitute for the CCG and successor ICB'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.

Important notice

This report is presented under the terms of our audit engagement letter.

Circulation of this report is restricted.

The content of this report is based solely on the procedures necessary for our audit.

This report has been prepared for the Audit Committee, in order to communicate matters of interest as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this report, or for the opinions we have formed in respect of this report.

Purpose of this report

This report has been prepared in connection with our audit of the financial statements of NHS Derby and Derbyshire Clinical Commissioning Group (the 'CCG'), prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted by the Group Accounting Manual issued by the Department of Health and Social Care, as at and for the period ended 30 June 2022. This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you.

Limitations on work performed

This report is separate from our audit report and does not provide an additional opinion on the CCG's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is not yet complete

Restrictions on distribution

The report is provided on the basis that it is only for the information of the Audit and Governance Committee of the CCG; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Our audit findings

Significant audit risks	Risk Change	Findings Page 6
Management override of controls	No Change	The results of our testing were satisfactory. No instances of management override of controls were identified from our work.

Uncorrected Audit Misstatements	Page 18
We are pleased to report that our work to date has not identified unadjusted audit differences in the financial statements	

Value for Money Page 11
Our value for money responsibilities are revised for the period ending 30 June 2022 compared to 2021-22 due to the demise of the CCG. We are required to report if we identify any significant weaknesses as a result of our audit procedures, but are not required to prepare a commentary on the CCG's arrangements for securing value for money. We have not identified any significant weaknesses.

Whole of Government Accounts Page 10
We intend to issue an unqualified Audit Assurance Certificate to the NAO regarding the Whole of Government Accounts submission, made through the submission of the summarisation schedules to the Department of Health and Social Care.

Regularity Page 8
We are required to issue an opinion as to whether the expenditure incurred by the CCG was within its delegated authorities. We have identified a regularity exception explained in the other matter paragraph below.

Number of Control deficiencies	Page 15-17
Significant control deficiencies	0
Other control deficiencies	0
Prior year control deficiencies remediated	0

Other Matters

We are required under Section 30 of the Local Audit and Accountability Act to make a referral to the Secretary of State for Health and Social Care if we identify that the CCG has or is about to enter into unlawful expenditure. A referral was made relating to the CCG's breach of its 2022/23 Revenue Resource Allocation.

We have not made any reports in the public interest.

Audit risks and our audit approach

Management override of controls

Significant audit risk

The risk

Professional standards require us to communicate the fraud risk from management override of controls as significant.

Management is 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.

We have not identified any specific additional risks of management override relating to this audit.

Our response

— We assessed the design and implementation of the controls in place for the approval of journals posted to the general ledger to ensure that they are appropriate.

— We gained an understanding of key IT processes relating to the CCG's management of users access controls.

— We analysed all journals through the year using data and analytics and focus our testing on those with a higher risk, such as journals impacting expenditure recognition and unusual cash postings.

— We assessed the appropriateness of the accounting for significant transactions that are outside the CCG's normal course of business, or are otherwise unusual.

— We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.

— We assessed the controls in place for the identification of related party relationships and tested the completeness of the related parties identified. We verified that these have been appropriately disclosed within the financial statements.

Our findings

— The CCG's general ledger (IFSE) allows journals posted by certain Finance staff and SBS/NHSE to be self authorised, thereby not enforcing segregation of duties. IFSE system also allows and an approver to override a journal created by someone else, therefore making the approver both the creator and approver. These are inherent weaknesses in the IFSE system. In response, there is a compensating control whereby the CCG does a monthly review of all self approved journals. However, as management override of controls is a significant risk, we are still required to bring this inherent control gap in the general ledger system to your attention.

— We identified a sample of journals entries and other adjustments meeting our high risk criteria – our examination did not identify any inappropriate entries.

— We did not identify any significant unusual transactions.

Audit risks and our audit approach

Going Concern

Other audit risk

The risk

Following the approval of the Health and Care Act on 28 April 2022, the CCG was abolished on 30 June 2022, with the functions and staff of the CCG transferring to NHS Derby and Derbyshire ICB.

In the public sector an entity is considered to be a going concern as long as it is expected that services will continue to be delivered of the same type from the same location. Therefore, although the CCG has been wound down, the accounts will continue to be prepared on a going concern basis.

Therefore disclosure in the financial statements and Annual Report may not be adequate as additional disclosure will be required to be made within the financial statements setting out the demise of the CCG as a subsequent event and confirming why the accounts are prepared on a going concern basis.

Our response

— We revised the disclosure of the ‘Basis of Preparation’ within the CCG’s accounting policies and annual report and assessed whether it provided an appropriate explanation as to why the CCG had adopted the going concern basis of accounting.

— We assessed the Subsequent Events disclosure to determine whether sufficient appropriate information had been incorporated to confirm the changes arising as a result of the demise of the CCG and the formation of the Integrated Care Board.

Our findings

— We confirmed that sufficient disclosure had been provided to explain that the CCG had been wound down and why the accounts had continued to be prepared on a going concern basis.

— We reviewed the basis of the CCG’s going concern assessment to confirm that it was appropriate for the accounts to be prepared as a going concern as the functions of the CCG were transferred to the ICB, another public sector entity based in the same geography.

— We confirmed that sufficient disclosure had been included within the subsequent events note to set out the details of the passage of the Health and Care Bill and the impact it had on confirming that the CCG wound up on 30 June 2022.

— We included an additional paragraph within the going concern section of our audit opinion to confirm the CCG has been dissolved and its services transferred to the NHS Deby and Derbyshire ICB. This does not represent a qualification to our opinion.

Audit risks and our audit approach

Regularity

Other audit risk

In addition to our opinion on your financial statements we are also required to reach a conclusion on the regularity of the expenditure that you have incurred.

Regularity relates to the requirement to ensure that funds raised through taxation are used for the purposes intended by parliament.

We undertake our work over regularity alongside our financial statements audit work.

The requirements for auditing regularity are set out in Practice Note 10 for financial statements of public sector bodies in the UK.

Our response

- We understood the regulatory framework under which the CCG operates and any requirements that have been issued with regards to expenditure that is incurred.
- We reviewed the design of controls established to confirm that expenditure being incurred is appropriate;
- We assessed the CCG's performance against its statutory targets in order to assess whether expenditure has been in line with the targets delegated to it.
- We reviewed a sample of expenditure transactions incurred during the year in order to assess whether the expenditure incurred was consistent with activities for which the CCG is authorised to incur expenditure.
- We reviewed minutes of meetings held during the year and financial information produced to assess whether there have been any significant unusual transactions during the year.

Our findings

- The CCG has a statutory duty under Section 223GC of the National Health Service Act 2006 to ensure that its expenditure incurred in a financial year does not exceed the amount specified by direction of NHS England. We noted that the CCG's total expenditure for the three months ended 30 June 2022 exceeded its revenue resource allocation by £12k, therefore the CCG breached its statutory target.
- As the CCG spent £12k in excess of the amount directed by NHS England for the three months to 30 June 2022 we have a duty to make a referral under section 30(1)(b) of the 2014 Act to the Secretary of Health.
- Our work on regularity has not identified any other reportable issues.

Audit risks and our audit approach

Remuneration Report – Director's Pension Disclosures

Other audit risk

Specific third party evidence (i.e. the Greenbury Report for NHS Pension Schemes) is required to provide assurance over specific Directors' pension disclosures, which are reportable within the CCG's Remuneration Report.

A request has been made to NHS BSA to provide a calculation for the 3 month period, however, it was not possible for pensions information to be split between the CCG and ICB.

Therefore there is a risk that insufficient evidence will be available to provide assurance over this aspect of the CCG's Annual Report.

Our response

- We consulted with our technical team in order to confirm that where the CCG followed the guidance issued by NHS BSA in apportioning the movement its directors' pensions we considered that in all material respects this provides an appropriate representation of the changes during the three month period.
- We requested that the CCG include additional disclosure as part of the remuneration report to confirm the methodology used to estimate the movement in the three month period and confirmed that this had been included.
- We have confirmed that the CCG adopted the approach recommended by NHS BSA and verified the accuracy of the calculations performed to apportion the full year movements in directors' pensions.

Our findings

The parts of the Remuneration Report that are required to be audited were all found to be materially accurate.

Other matters

Annual report

We have read the contents of the Annual Report (including the Accountability Report, Directors Report, Performance Report and Annual Governance Statement (AGS)) and audited the relevant parts of the Remuneration Report. We have checked compliance with the NHS Group Accounting Manual (GAM) issued by Department of Health and Social Care. Based on the work performed :

- We have not identified any inconsistencies between the contents of the Accountability, Performance and Director's Reports and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the directors' statements. As Directors you confirm that you consider that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for patients, regulators and other stakeholders to assess the CCG's performance, business model and strategy.
- The parts of the Remuneration Report that are required to be audited were all found to be materially accurate;
- The AGS is consistent with the financial statements and complies with relevant guidance; and
- The report of the Audit and Governance Committee included in the Annual Report includes the content expected to be disclosed as set out in the GAM was consistent with our knowledge of the work of the Committee during the year.

Whole of Government Accounts

As required by the National Audit Office (NAO) we are required to provide a statement to the NAO on your consolidation schedule. We comply with this by checking that your summarisation schedule is consistent with your annual accounts. No issues have been identified from our work.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

Our fee for the audit was **£145,200** plus VAT (£159,800 in 2021/22).

We have also completed non-audit work at the CCG during the year on MHIS FY 21/22 and have included in appendix 4 confirmation of safeguards that have been put in place to preserve our independence

Value for money

Due to the demise of the CCG our responsibilities for value for money are revised compared to 2021-22. We are required to report if we identify any significant weaknesses as a result of our audit procedures, but are not required to prepare a commentary on the CCG's arrangements for securing value for money.

Our risk assessment considered whether there were any significant risks that the CCG did not have appropriate arrangements in place. However, due to the part-year nature of the period under review, we were not required to undertake a full risk assessment as in previous years, rather we are required to report any significant weaknesses that we become aware of as part of our work. Our risk assessment for this period considered if there were any risks of significant weakness arising from:

- Our wider work on the audit of the financial statements.
- Our understanding of the CCG obtained through performing inquiries of Those Charged With Governance and management as well as reviewing reports, such as internal audit assessments.
- Where relevant, the status of significant weaknesses and improvement recommendations previously reported.
- Any other information brought to our attention, for example the work of other regulators, through correspondence with the public or reports in the media.

Response to risks of significant weaknesses in arrangements to secure value for money

We are not required to follow the same approach as in prior year with regards to value for money reporting due to the part-year nature of the period under review. As the CCG is demised, we are not required to consider reporting Improvement points unless deemed relevant to the ICB.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	No significant risks identified	No significant weaknesses identified
Governance	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

We confirm that we have not identified any significant weaknesses to be included within our value for money report.

Appendices

Contents	Page

Mandatory communications

Type		Statement
Our draft management representation letter	OK	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the period ended 30 June 2022.
Adjusted audit differences	OK	There were no adjusted audit differences.
Unadjusted audit differences	OK	There were no unadjusted audit differences.
Related parties	OK	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit and Governance Committee	OK	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process/summarise any matters to raise to the Committee.
Control deficiencies	OK	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK	No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements was identified during the audit.
Make a referral to the regulator	X	In line with the requirements of the National Health Service Act we have made a s30 referral to the Secretary of State relating to the CCG's breach of its financial performance i.e. exceeding its resource allocation
Issue a report in the public interest	OK	We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters.

Mandatory communications

Type		Statement
Significant difficulties	OK	No significant difficulties were encountered during the audit.
Modifications to auditor's report	x	In line with the requirements of the National Health Service Act we have made a s30 referral to the Secretary of State relating to the CCG's breach of its financial performance i.e. exceeding its resource allocation. Therefore we have modified our audit opinion in relation to this matter.
Disagreements with management or scope limitations	OK	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	OK	No material inconsistencies were identified relating to other information in the annual report, Strategic and Directors' reports. The Annual report is fair, balanced and comprehensive, and complies with the Group Accounting Manual.
Breaches of independence	OK	No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.
Accounting practices	OK	Over the course of our audit, we have evaluated the appropriateness of the CCG's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	OK	No significant matters arising from the audit were discussed, or subject to correspondence, with management.
Certify the audit as complete	OK	We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above.
Provide a statement to the NAO on your consolidation schedule	x	We will issue our report to the National Audit Office following the signing of the annual report and accounts. We have summarised the differences to be reported on page 20.

Recommendations raised and followed up

The recommendations raised as a result of our work in the **current year** are as follows:

Priority rating for recommendations					
❶	**Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	**Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	**Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

We are happy to report that no recommendations were raised as a result our work in the current year.

Recommendations raised and followed up (cont.)

We have also follow up the recommendations from the previous years audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
1	0	1

#	Risk	Issue and Recommendation	Management Response / Officer / Due Date
1	2	**Journals Control** The CCG's general ledger system allows journals posted by certain Finance staff and SBS/NHSE to be self-authorised, thereby not enforcing segregation of duties. In response, there is a compensating control whereby the CCG does a monthly review of all self approved journals posted by the Finance staff. However, as management override of controls is a significant risk, we are still required to bring this control gap in the general ledger system to your attention. We would like to note that this control gap in the system is not specific to NHS Derby and Derbyshire only but affects all CCG's as they all use the same general ledger system.	As noted, this control weakness is intrinsic to the Oracle General ledger system, rather than specific to DDCCG's processes or policies. To compensate for this weakness, the Financial Control team perform a detailed monthly review of all journals which have been posted to ensure appropriate segregation of duties and authorisation in line with DDCCG SFIs. Any self-authorised journals which might be identified as part of this process would then be escalated to the appropriate approver to gain retrospective approval and an investigation into the self-authorisation would be performed. Management are confident that this control fully mitigates the GL system weakness. DDCCG accept KPMG's requirement to highlight this weakness as part of the External Audit process.

Audit Differences

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Governance Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate.

We are pleased to report that our work to date **has not identified unadjusted audit differences** in the financial statements.

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Governance Committee with a summary of adjusted audit differences (including disclosures) identified during the course of our audit. We are pleased to report that our work to date has **not identified adjusted audit differences** in the financial statements.

We have raised **minor presentational adjustments** to the Annual Report and Financial Statements, for example, minor differences noted within the financial performance target note, audit fee disclosure, and omission of Losses and Special payment note which have been shared with management during the course of our audit.

Differences arising from the Agreement of Balances exercise

Further to the misstatements identified on page 19 we are required to report any identified errors in the reporting of intra-group balances with other Department of Health and Social Care entities exceeding £300,000 as part of our reporting on the Whole of Government Accounts to the National Audit Office.

We have set out below intra-group errors identified as part of our procedures:

Counterparty	Transaction Type	Entity Balance '000'	Counterparty balance '000'	Variance '000'	Comments on Variance
FRFS-Chesterfield Royal Hospital NHS Foundation Trust	Payable	5,025	4,547	478	Due to additional nationally agreed funding, the CCG has accrued the additional expenditure and payable. DDCCG requested the FT to amend but no response has been received from the Trust.
RX1-Nottingham University Hospitals NHS Trust	Payable	610	49	561	Due to additional nationally agreed funding, the CCG has accrued the additional expenditure and payable. DDCCG requested the FT to amend but no response has been received from the Trust.
	Total Payable	**5,635**	**4,596**	**1,039**	

Counterparty	Transaction Type	Entity Balance '000'	Counterparty balance '000'	Variance '000'	Comments on Variance
FRFS-Chesterfield Royal Hospital NHS Foundation Trust	Receivables	62	509	(447)	Due additional nationally agreed funding, the CCG has accrued the additional expenditure and payable. DDCCG requested the FT to amend but no response has been received from the Trust.
FRY8-Derbyshire Community Health Services NHS Foundation Trust	Receivables	9	341	(332)	This relates to a deferred income incorrectly recognised by the counterparty.
	Total Receivables	**71**	**850**	**(779)**	

Differences arising from the Agreement of Balances exercise (Cont.)

Further to the misstatements identified on page 17 we are required to report any identified errors in the reporting of intra-group balances with other Department of Health and Social Care entities exceeding £300,000 as part of our reporting on the Whole of Government Accounts to the National Audit Office. We have set out below intra-group errors identified as part of our procedures:

Counterparty	Transaction Type	Entity Balance '000'	Counterparty balance '000'	Variance '000'	Comments on Variance
FRY8-Derbyshire Community Health Services NHS Foundation Trust	Income	6	349	(343)	This relates to a deferred income incorrectly recognised as income by the counterparty.
	Total Income	**6**	**349**	**(343)**	

Counterparty	Transaction Type	Entity Balance '000'	Counterparty balance '000'	Variance '000'	Comments on Variance
FRFS-Chesterfield Royal Hospital NHS Foundation Trust	Expenditure	63,580	63,102	478	This relates to 478k additional expenditure compared with CRH as the CCG accrued the agreed contract plus additional funding arrangements agreed.
RX1-Nottingham University Hospitals NHS Trust	Expenditure	11,618	11,059	559	Due additional nationally agreed funding, the CCG has accrued the additional expenditure and payable. DDCCG requested the Trust to amend but no response has been received.
	Total Expenditure	**75,198**	**74,161**	**1,037**	

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit Committee members

Assessment of our objectivity and independence as auditor of the NHS Derby and Derbyshire Clinical Commissioning Group.

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard.

As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following table

Description of scope	Threats to independence	Safeguards applied	Value of service and basis of fee
Assurance over Mental Health Investment Standard	Self-review Self-interest	Standard methodology applied. Fieldwork is undertaken by separate team members after the audit.	Fees are charged on a fixed and time basis. No contingent fees are charged.

Confirmation of Independence (continued)

We have considered the fees charged by us to the CCG for professional services provided by us during the reporting period. Total fees charged by us can be analysed as follows:

	Period Ending June 2022	*2021/22*
	£'000	*£'000*
Audit of CCG	145,200	*159,800*
Total audit	**145,200**	***159,800***
Mental Health Investment Standard	-	*15.000*
Total non-audit services	-	*15,000*
Total Fees	**145,200**	***174,800***

Application of the Auditor Guidance Note 1 (AGN01)

The anticipated ratio of non-audit fees to audit fees for the year at the time of planning is 0: 1., or 0% which is complaint with Auditor Guidance Note 1 (AGN01).

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year

Application of the FRC Ethical Standard 2019

We communicated to you previously the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Compliance Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

KPMG LLP

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

- To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.
- Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

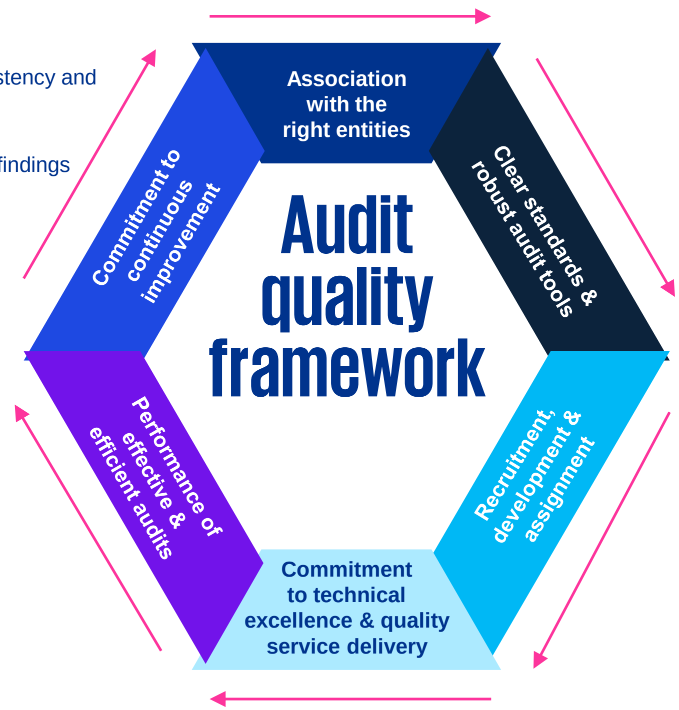
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



Association with the right entities

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members

ISA (UK) 315 Revised: Overview

Summary

ISA (UK) 315 Identifying and assessing the risks of material misstatement incorporates significant changes from the previous version of the ISA.

These have been introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA is effective for periods commencing on or after **15 December 2021**.

The revised standard expands on concepts in the existing standards but also introduces new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

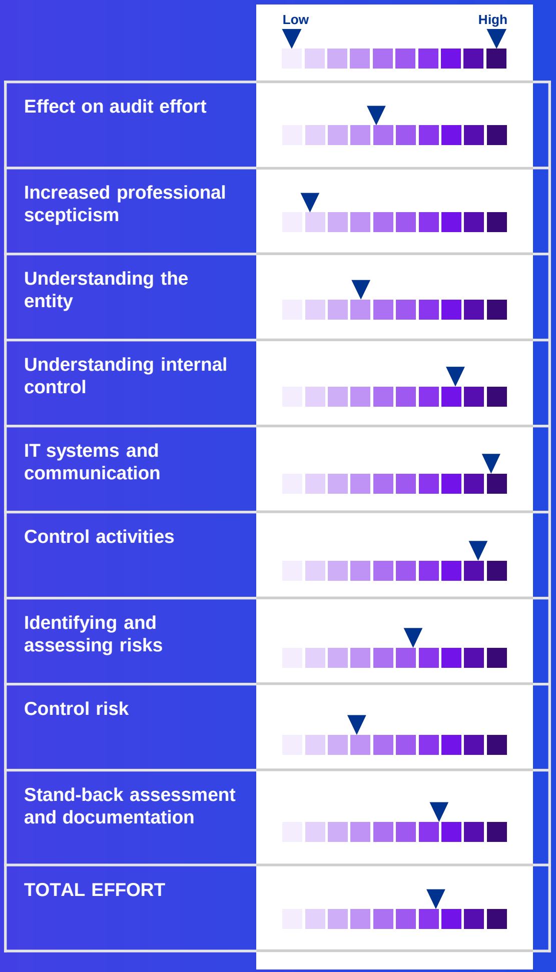
Why have these revisions been made?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes are aimed at (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard's scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

What did this mean for our audit?

To meet the requirements of the new standard, auditors have been required to spend an increased amount of time across the risk assessment process, including more detailed consideration of the IT environment. These changes have resulted in significantly increased audit effort levels which in turn, has affected auditor remuneration. This additional effort is a combination of time necessary to perform the enhanced risk assessment procedures.



ISA (UK) 240 Revised: Summary of key changes

Low High

Summary and background

- ISA (UK) 240 The auditor's responsibilities relating to fraud in an audit of financial statements includes revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. The revised ISA (UK) is effective for periods commencing on or after **15 December 2021**. Unlike ISA (UK) 315 which mirrors updates in the international ISA, the updated UK fraud standard is not based on international changes by the IAASB.
- The impact of the revisions to ISA (UK) 240 is less extensive compared to ISA (UK) 315, but nevertheless resulted in changes to our audit approach. The table to the right summarises the main changes and our final assessment of their impact.

What did this mean for our audit?

- The changes introduced new requirements which increased audit effort and therefore the audit fee. The additional work is largely the result of investing more time identifying and assessing the risk of fraud during risk assessment and involving specialists to aid with both risk identification and the auditor's response to risk.

Area	Effect on audit effort	Summary of changes and impact
Risk assessment procedures and related activities		1. Increased focus on applying professional scepticism – the key areas affected are: – the need for auditors not to bias their approach towards obtaining evidence that is corroborative in nature or excluding contradictory evidence, – remaining alert for indications of inauthenticity in documents and records, and – investigating inconsistent or implausible responses to inquiries performed. 2. Our inquiries with individuals at the entity were expanded to include, amongst others, those who deal with allegations of fraud 3. We determined whether to involve technical specialists (including forensics) to aid in identifying and responding to risks of material misstatement due to fraud.
Internal discussions and challenge		We complied with enhanced requirements for internal discussions among the audit team to identify and assess the risk of fraud in the audit, including a requirement to determine the need for additional meetings to consider the findings from earlier stages of the audit and their impact on our assessment of the risk of fraud.
Communications with management / TCWG		We have complied with new requirements for communicating matters related to fraud with management and those charged with governance, in addition to the reporting in our audit reports.

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