



# Annual Audit Letter 2019/20

NHS Derby And Derbyshire Clinical Commissioning Group

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This report is addressed to NHS Derby and Derbyshire Clinical Commissioning Group (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.

# Introduction

## Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2019/20 audit at NHS Derby and Derbyshire 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. In the letter we highlight areas of good performance and also provide recommendations to help the CCG improve performance where appropriate. We have included a summary of our key recommendations in Appendix A. 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 B.

## 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:

<b>Financial Statements including the regularity opinion and Governance Statement</b>	<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. We report by exception if the CCG has not complied with the requirements of NHS England in the preparation of its Governance Statement. We also examine and report on the consistency of the schedules or returns prepared by the CCG for consolidation into the Whole of Government Accounts (WGA) with our other work.</p>
<b>Value for Money arrangements</b>	<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>

## Fees

Our fee for 2019/20 was £145,000 (2018/19: £153,000) excluding VAT. This fee was in line with the fee agreed at the start of the year with the CCG's Audit Committee.

## 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 2019/20.

<b>Financial Statements audit opinion</b>	<p>We issued an unqualified audit opinion on the accounts. This is based on the work completed during the year following auditing standards in regard to the financial statements. We have also read the content of the Annual Report (including the Remuneration Report) and reviewed the Annual Governance Statement (AGS).</p> <p>Our key findings were:</p> <ul style="list-style-type: none"><li>• There were no unadjusted audit differences</li><li>• We agreed presentational changes to the accounts with Finance, mainly related to compliance with the Group Accounting Manual (GAM).</li><li>• We did not ask for any representations in addition to our routine requests</li><li>• We reviewed the annual report and had no matters to raise with you.</li><li>• We reviewed the AGS and had no matters to raise with you.</li><li>• We had no matters to raise with you in relation to the regularity of transactions.</li></ul>
<b>Financial statements audit work undertaken</b>	<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 £24m.</p> <p>We identified the following risks of material misstatement in the financial statements as part of our External Audit Plan 2019/20:</p> <ul style="list-style-type: none"><li>— Fraudulent expenditure recognition. In the public sector, auditors also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). This may arise due to the audited body manipulating expenditure to meet externally set targets. As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition and so the auditor has regard to this when planning and performing audit procedures.</li><li>— Management override of control. Professional standards 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.</li></ul> <p><b>Impact of covid-19</b></p> <p>We considered more broadly how our audit procedures should be revised given the extended deadline for submission. This means we updated our procedures, for example considering a longer period for post date events, extending the sample period we considered for our cut off procedures, specifically considering whether COVID related income and expenditure from the final weeks of the year were correctly included in the financial statements, whether the CCG has made pre-payments to providers as a result of anticipated increased expenditure relating to COVID and how the prescribing accrual may have been impacted by increased COVID related prescribing. We have not identified any issues that require adjustment or disclosure.</p>

# Headlines (cont.)

<b>Regularity Opinion</b>	<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>
<b>Governance Statement</b>	<p>We confirmed that the CCG complied with NHS England requirements in the preparation of the CCG's Governance Statement.</p> <ul style="list-style-type: none"> <li>— No significant adjustments were required to the Governance Statement.</li> </ul>
<b>Whole of Government Accounts</b>	<p>We issued an unqualified Auditor Statement on the Consolidation Schedules prepared by the CCG for consolidation into the Whole of Government Accounts.</p>
<b>Value for Money (VFM) conclusion</b>	<p>We are required to report to you if we are not satisfied that the CCG has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Based on the findings of our work, we have concluded that the CCG has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. As part of our work in this area we noted that the break even duty was met following receipt of £29m of Commissioner Sustainability Funding (CSF).</p>
<b>VFM conclusion risk areas</b>	<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"> <li>— Achievement of Savings Targets. NHS Derby and Derbyshire CCG has a £61m underlying deficit at the start of 2019/20, an in year deficit control total of £29m and £69.5m of approved savings plan. As at month 9, planned savings under delivery within the forecast outturn is recognised at £22.4m. In the prior year savings were more in the CCG's control as more schemes were transactional. In 19/20 the focus is on improving care and how care is provided and to make the savings the CCG needs to work with its system partners. It is not anticipated that the CCG will breach it's Revenue Resource Limit (RRL), due to contingencies and underspend.</li> </ul> <p><b>Additional work in response to COVID19</b></p> <p>We have conducted additional procedures to assess the impact of Covid-19 on the CCG's ability to deliver economy, efficiency and effectiveness and do not consider an additional risk necessary. By way of reminder our value for money responsibilities are focused on understanding the arrangements you have put in place up to the 31 March and to consider the disclosures you have made within your annual governance statement. We have no matters to report in this regard.</p>

# Headlines (cont.)

<b>Recommendations</b>	<p>We have raised one high risk recommendation as a result of our 2019/20 audit work. This is summarised in Appendix A.</p> <p>The CCG has a good track record of implementing agreed audit recommendations from prior years. Consistent with this, we have identified no prior year recommendations that still require further action by management.</p>
<b>Public Interest Reporting</b>	<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. There were no matters in the public interest that we needed to report or any matters to refer to the Secretary of State in 2019/20.</p>

## Key recommendations

## Recommendations raised in 2019/20

No.	Risk	Issue, impact and recommendation	Management response/responsible officer/due date
1	<p style="text-align: center;">●</p> <p>High</p>	<p><b>System working arrangements</b></p> <p>The CCG had a QIPP target for the year of £69.5m of which £49.9m (71.8%) was achieved. Whilst this represents a significant programme of savings achieved, there is a significant gap between the targeted savings and those ultimately achieved.</p> <p>The CCG achieved RRL largely due to planned receipt of £29m of Commissioner Sustainability Funding (CSF) and underspends reported in community, continuing healthcare, primary care and running costs. Without these measures there is a risk that the CCG would fail to meet its statutory duties.</p> <p>Our work over arrangements for VFM has highlighted significant progress in delivery of CCG organisational schemes (see overleaf for follow up to prior year recommendations) over achieving planned savings by £12m, however this offset significant under delivery of Derbyshire wide savings of £30m contributing to the £20m deficit in QIPP delivery versus planned target.</p> <p>Prior to the outbreak of COVID-19, the CCG has a provisional QIPP target of £74.5m for 2020/21. Of this target, £20m relates to CCG organisational schemes. With a significant portion of savings targets relating to system wide schemes, there is a risk that the CCG fails to achieve the required savings level ultimately resulting in increased risk of breaching statutory duties.</p> <p>Upon the resumption of Business as Usual following the COVID-19 pandemic, the CCG should engage with system partners to develop arrangements to enable achievement of system wide savings.</p>	<p>The CCG has made significant progress in developing how we deliver our efficiency programme, however there was still a significant under-delivery in 2019/20. The plans for delivering efficiencies in 2020/21 were developing well within a 'system wide' approach with Providers in Derbyshire and much of this work continues.</p> <p>The outbreak of Covid-19 has meant that we now have a uncertain financial landscape in the NHS and while the CCG will ensure health care is provided efficiently in 2020/21, this will not initially be supported by a formal efficiency programme, but this will recommence as the CCG returns to business as usual. It is anticipated that the economic impact of Covid will result in a greatly constrained financial environment for some years to come. This will reinforce the need for cooperative efficiency work within the system, and the CCG will work towards the acceleration of that work. The service impact of Covid has also been profound, and the CCG will work with system partners to ensure beneficial changes are retained and embedded within normal practice which it is expected will be a material source of future efficiencies.</p>

This appendix summarises all high risk recommendations raised in 2019-20 and outstanding high risk recommendations from previous years.

## Appendix A

# Key recommendations

### Recommendations from Previous Year

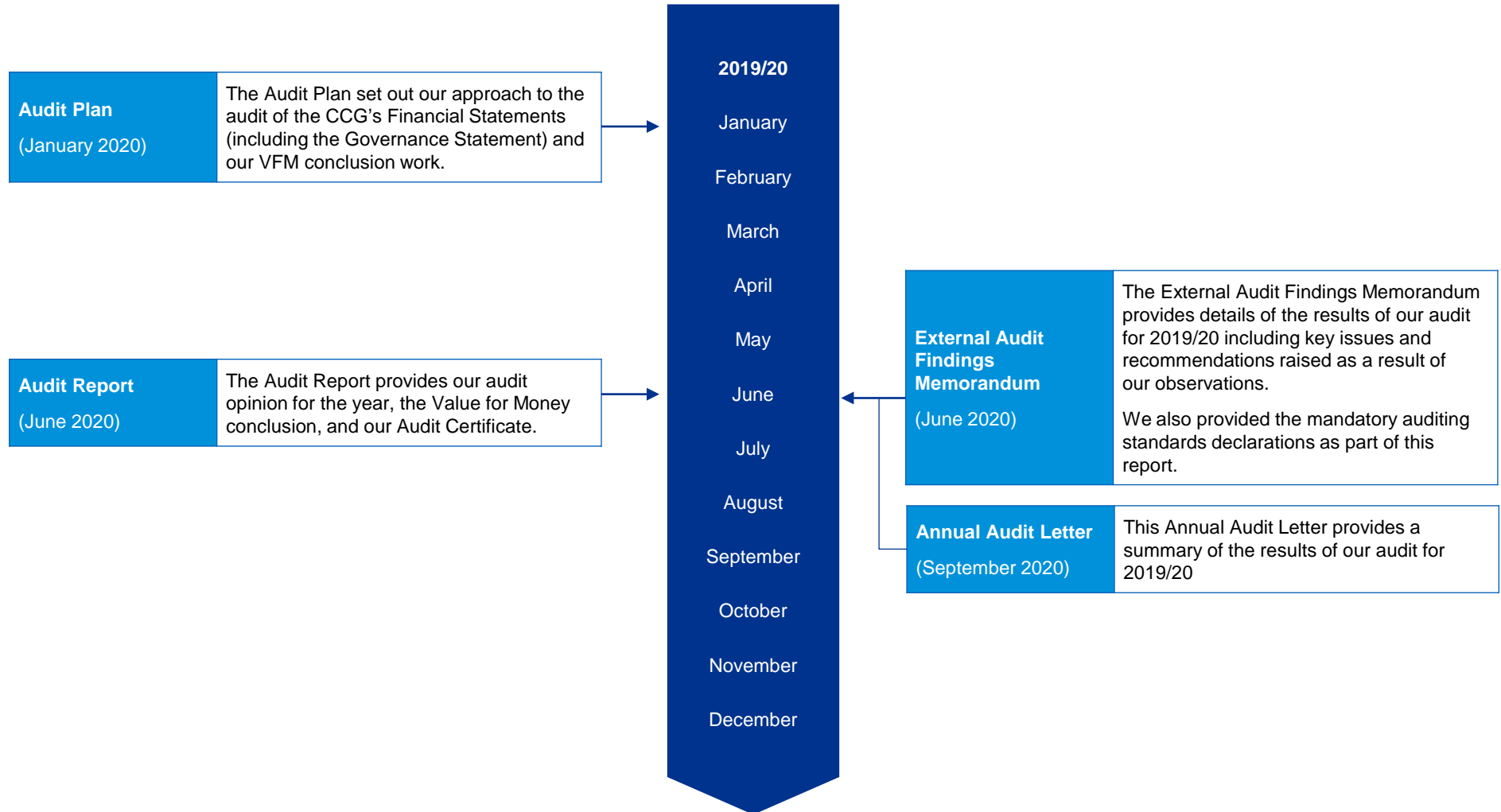
No.	Risk	Issue, impact and recommendation	Management response/responsible officer/due date
1	● High	No high risk recommendations outstanding for Previous Year	N/A

This appendix summarises all high risk recommendations raised in 2019-20 and outstanding high risk recommendations from previous years.



## Appendix B

# Summary of our reports issued





The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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