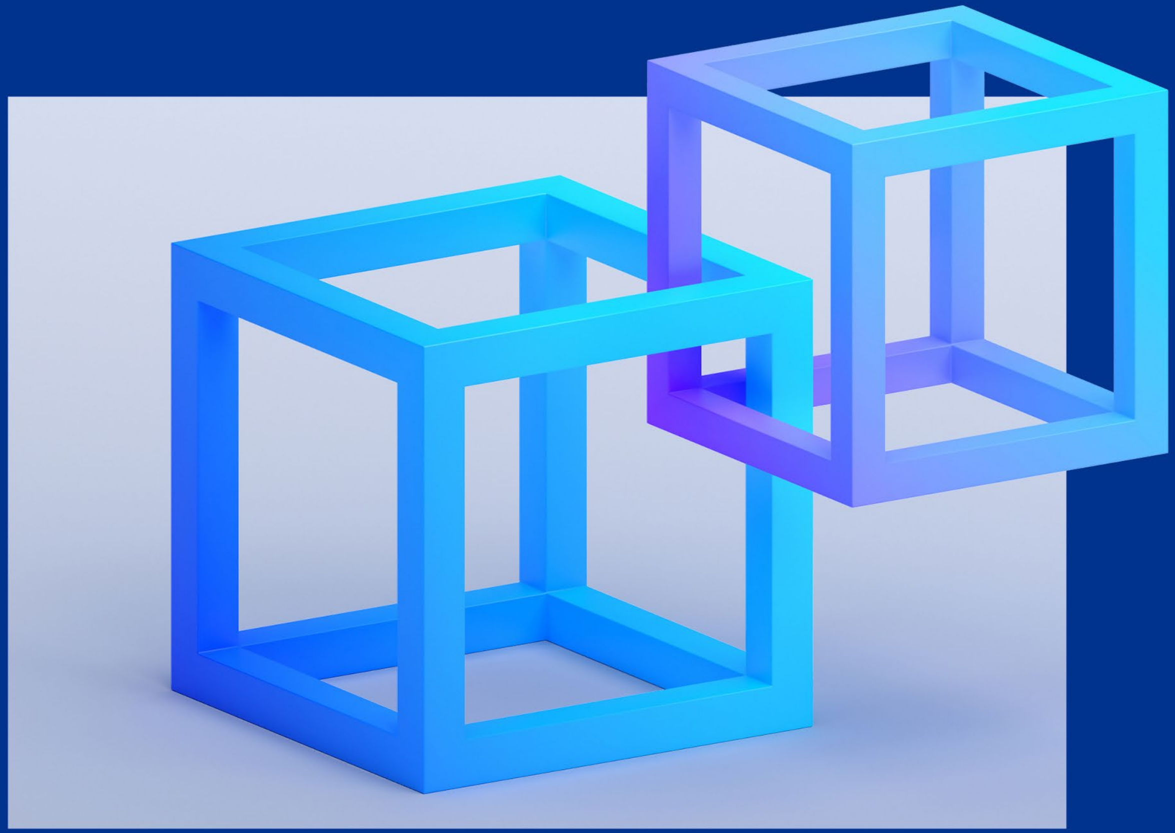
# NHS Derby and Derbyshire Integrated Care Board

Year end report to the Audit and Governance Committee



**Year end report for the year ended 31 March 2025**

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Report Date: 12 June 2025

Audit Committee Date: 19 June 2025

# Introduction

## To the Audit and Governance Committee of NHS Derby and Derbyshire Integrated Care Board

We are pleased to have the opportunity to meet with you on 19 June 2025 to discuss the results of our audit of the financial statements of NHS Derby and Derbyshire Integrated Care Board (the 'ICB') as at and for the year ended 31 March 2025.

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 7 February 2025 and 10 April 2025 . We will be pleased to elaborate on the matters covered in this report when we meet.

## Summary

We expect to be in a position to sign our audit opinion following the Board's approval of the financial statements and auditor's representation letter on 20 June 2025 provided that the outstanding matters noted on page 4 of this report are satisfactorily resolved.

In line with guidance issued by the National Audit Office, and following them considering their required assurances from us as component auditors, we are unable to certify our audit as complete until they have completed their work over the Department of Health and Social Care group. We anticipate we will issue our certificate in November. This applies to all NHS entities in 2024-25.

There have been no significant changes to our audit plan and strategy. We expect to issue an unmodified Auditor's Report.

We draw your attention to the important notice on page 3 of this report, which explains:

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

Yours sincerely,

**Richard Walton**

**12 June 2025**

## How we deliver 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 management and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

# Important notice

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

Circulation of this report is restricted.

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

## Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of NHS Derby and Derbyshire Integrated Care Board (the ‘ICB’), 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 year ended 31 March 2025.

This Report has been prepared for the ICB's Audit and Governance Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process 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.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you by written communication.

## Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the ICB’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 and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 4 ‘Our Audit Findings’ outlines the outstanding matters in relation to the audit. Our conclusions will be discussed with you before our audit report is signed.

## 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 ICB; 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. We note that the ICB will provide a copy of our final report to NHS England.

# Our audit findings

| Significant audit risks | | Page 6-9 |
|---|---|---|
| **Significant audit risks** | **Risk change** | **Our findings** |
| Fraud risk – expenditure recognition | No Change | The results of our testing are satisfactory. We have no matters to report as a result of our work in response to this risk. |
| Management override of controls | No Change | The results of our testing are satisfactory. No instances of management override of controls were identified from our work. |

## Value for money

We have not identified any significant weaknesses in the ICB's arrangements for achieving value for money. Further details are provided on page 14.

## 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 ICB has or is about to enter into unlawful expenditure. We have not made a referral. We have not made any reports in the public interest.

| Misstatements in respect of Disclosures | Page 20 |
|---|---|
| **Misstatement in respect of Disclosures** | **Our findings** |
| Remuneration Report | Mathematical and Presentational updates. |

| Number of Control deficiencies | Page 21 |
|---|---|
| Significant control deficiencies | 0 |
| Other control deficiencies | 1 |
| Prior year control deficiencies remediated | 0 |

| Uncorrected Audit Misstatements | Page 19 |
|---|---|
| **Overstatement/Understatement** | **£'000** |
| There are no such uncorrected errors as a result of our work | - |

## Outstanding matters

Our audit is substantially complete - except for the following outstanding matters

- May – cut off testing – supports for bank statement samples are awaited, ledger report sample selection in progress.
- Journals testing – largely complete – follow up query on four samples
- Accruals – queries on prior year accruals as part of our retrospective review and comparison
- Receipt of signed management representation letter
- Ongoing Manager and Director review and clearance of review points
- Final version check for the Statement of accounts

# Significant risks and Other audit risks

**We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.**

Our risk assessment draws upon our historic knowledge of the business, the industry and the wider economic environment in which NHS Derby and Derbyshire ICB operates.

We also use our regular meetings with senior management to update our understanding and take input from internal audit reports.

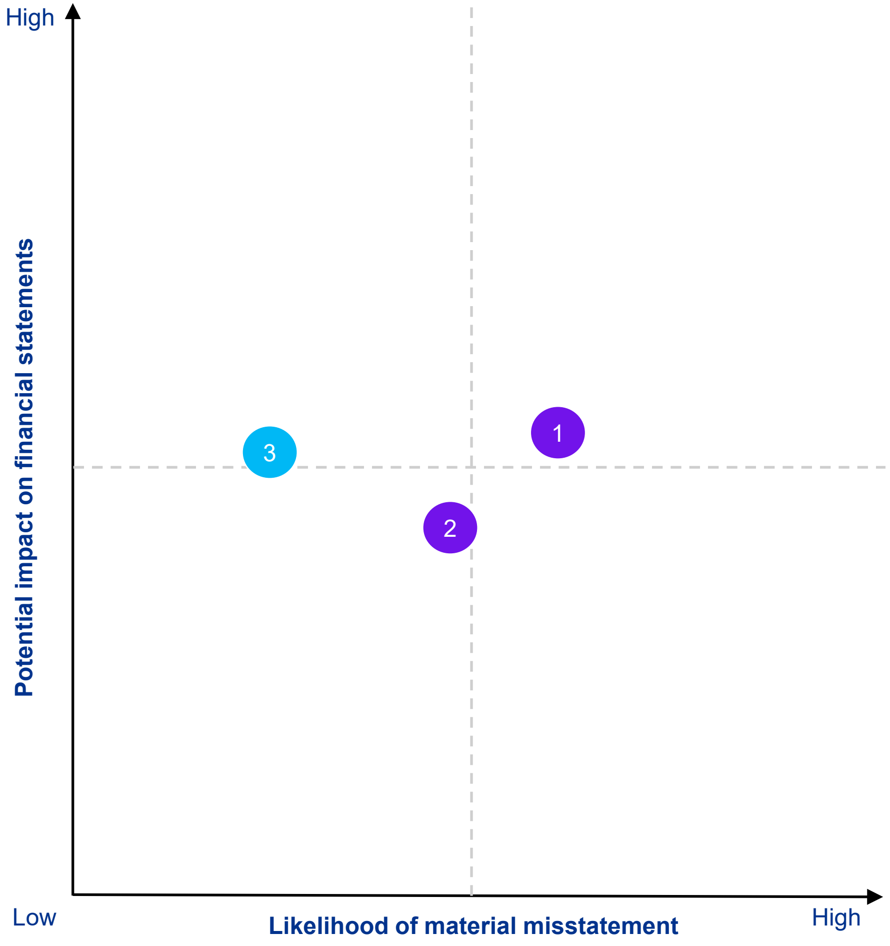
During our audit we did not identify any changes in risks of material misstatement to be highlighted.

See the following slides for the cross-referenced risks identified on this slide.

| Significant audit risks | |
|---|---|
| **1.** | Fraud risk – expenditure recognition |
| **2.** | Management override of controls |

| Other audit risks | |
|---|---|
| **3.** | Regularity |

**Key:** # Significant financial statement audit risks # Other audit risk



# Audit risks and our approach (cont.)

## 1 Fraud risk from expenditure recognition - understatement (Completeness and accuracy)

### Significant audit risk

**Risk:** *Liabilities and related expenses for purchases of goods or services are not completely identified and recorded.*

As the ICB and system is required to break even or achieve their revenue resource limit, there is a risk that non-pay expenditure, excluding depreciation, may be manipulated in order to report that these have been met.

Following the receipt of non-recurrent allocation for the £50 million deficit plan submitted, the total forecast position across the Joined Up Care Derbyshire System for 2024/25 is to break even. At time of planning the ICB was forecasting a surplus of position £23.8m in support of this.

These financial targets can create an incentive for management to understate the level of non-pay expenditure.

We consider this would be most likely to occur through understating accruals, for example to push back expenditure to 2025/26 to mitigate financial pressures.

Due to the varied nature of expenditure, we consider this risk to be applicable to both NHS and Non - NHS Accruals. This does not include prescribing accruals and POD accruals, which are based directly on data provided to ICB and are therefore less open to manipulation.

### Our response

We have performed the following procedures in order to respond to the significant risk identified:

- We have evaluated the design and implementation of controls for developing manual expenditure accruals at the end of the year to verify that they have been completely and accurately recorded;
- We have inspected a sample of invoices and payments of expenditure, in the period after 31 March 2025, to determine whether expenditure has been recognised in the correct accounting period;
- We have selected a sample of year end accruals and inspected evidence of the actual amount paid after year end in order to assess whether the accruals have been accurately recorded.
- We have inspected journals considered high risk after screening undertaken via our data analysis procedures;
- We have performed a retrospective review of prior year accruals in order to assess the existence and accuracy with which accruals had been recorded at 31 March 2024 and consider the impact on our assessment of the accruals at 31 March 2025.
- We have performed a year on year comparison of the accruals in the prior year and current year and challenged management where the movement is not in line with our understanding of the entity.

We have also performed the following procedures not in response to the significant risk as part of our audit of expenditure:

- We inspected a sample of transactions, in the period prior to 31 March 2025, to determine whether expenditure has been accurately represented in the financial statements and recognised in the correct accounting period;
- We reviewed a sample of payments to NHS providers and agreed them to payment schedules and Agreement of Balances submissions.

# Audit risks and our approach (cont.)

## 1 Fraud risk from expenditure recognition - understatement (Completeness and accuracy)

### Significant audit risk

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Due to the varied nature of expenditure, we consider this risk to be applicable to both NHS and Non - NHS Accruals. This does not include prescribing accruals and POD accruals, which are based directly on data provided to ICB and are therefore less open to manipulation.

### Our findings

- Our analysis of expenditure incurred in the financial year did not identify any unusual patterns that were not corroborated by management.
- All invoice samples inspected were found to have been recognised in the correct accounting period.
- Our test of journals posted as part of period end procedures that decrease the level of expenditure recorded in year not identify any issues.
- We noted the ICB has existing high level controls in place designed to detect the risk of misstatement of accruals (such as review of management accounts). However, these controls are not formally documented, and lack the precision specified in order to meet the requirements per auditing standards. As such we have not been able to evaluate the effectiveness of these controls. The ICB consider the existing controls to be proportionate to address the associated operational risk and we have not raised a formal recommendation in this regard. Since the control relates to a significant risk we are required to bring this to your attention.
- Our consideration of agreement of balances variances identified some amendments in presentation of certain transactions. These are detailed on page 20 and have been updated in the accounts.

We have not identified audit misstatements as a result of our work performed.

# Audit risks and our approach (cont.)

## 2 Management override of controls[a]

Fraud risk related to unpredictable way management override of controls may occur

### Significant audit 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.

Note: (a) Significant risk that professional standards require us to assess in all cases.

### Our response

Our audit methodology incorporates the risk of management override as a default significant risk. In response we have:

- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicated a possible bias.
- In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments.
- Assessed the appropriateness of changes, compared to the prior year, to the methods and underlying assumptions used to prepare accounting estimates.
- Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the component's normal course of business, or are otherwise unusual.
- We analysed all journals through the year using data and analytics and focused our testing on those with a higher risk.
- We gained an understanding of 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.

# Audit risks and our approach (cont.)

## 2 Management override of controls[a]

Fraud risk related to unpredictable way management override of controls may occur

### Significant audit 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.

Note: (a) Significant risk that professional standards require us to assess in all cases.

### Our findings

- The ICB's general ledger allows journals posted by certain finance staff and SBS/NHSE to be self authorised, thereby not enforcing segregation of duties. ISFE system also allows an approver to override a journal created by someone else, therefore making the approver both the creator and approver. This is a common issue for all NHS bodies who use the ISFE system. In response, there is a compensating control whereby the ICB 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 control gap in the general ledger system to your attention.
- We identified journal entries and other adjustments meeting our high risk criteria, our examination did not identify unauthorised, unsupported or inappropriate entries.
- We did not identify any significant unusual transactions.
- We noted that the declaration process was followed appropriately by the individuals concerned.

Based on our 2024/25 audit work performed and the evidence obtained we have no matters to report in response to this area of our work.

# Audit risks and our approach (cont.)

## 3 Regularity

Risk that taxpayer funds are spent in a way that does not comply with laws or regulations

### 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 have performed the following procedures in order to respond to the other audit risk identified:

- Understood the regulatory framework under which the ICB operates and any requirements that have been issued with regards to expenditure that is incurred;
- Reviewed the design of controls established to confirm that expenditure being incurred is appropriate;
- Assessed the ICB's performance against its statutory targets in order to assess whether expenditure has been in line with the targets delegated to it;
- 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 ICB is authorised to incur expenditure; and
- 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. For any identified we will consider whether they were consistent with the areas for which the ICB is approved to incur expenditure.

# Audit risks and our approach (cont.)

## 3 Regularity

Risk that taxpayer funds are spent in a way that does not comply with laws or regulations

### 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 findings

- There are no transactions that are considered to be a significant unusual transaction and our review of exit packages has not found any matters to report.
- Our work on regularity has not identified any reportable issues.

# 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 the 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 ICB’s performance, business model and strategy.
- The parts of the Remuneration Report that are required to be audited had errors around change in bandings between years for some individuals because of incorrect pension information provided in the Greenbury report from NHS Pensions. Updated figures have been obtained and the table updated to reflect the updated information;
- 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 and 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.  We have completed that work and found no matters to report. The ICB has not been selected for additional procedures to be performed relating to 2024-25.

**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 £170,000 plus VAT (150k in 2023/24). We have also completed non audit work at the ICB during the year on MHIS and have included in page 17 - confirmation of safeguards that have been put in place to preserve our independence.

# Value for money

# Value for money

We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the ICB's arrangements for securing economy, efficiency and effectiveness in its use of resources.

In discharging these responsibilities, we include a statement within the opinion on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor's Annual Report, which is required to be published on your website alongside your annual report and accounts.

**Commentary on arrangements**

We have prepared our Auditor's Annual Report and a copy of the report is included within the papers for the Committee alongside this report. The report is required to be published on the ICB's website alongside the publication of the ICB's annual report and financial statements.

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

As reported in our risk assessment we noted no risk of a significant weakness in the ICB's arrangements to secure value for money. We have updated our risk assessment to include the full financial period and also been informed by information reviewed as part of our audit – no additional risks have been noted as a result of this work.

## 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 risk identified | No significant weaknesses identified |
| **Governance** | No significant risk identified | No significant weaknesses identified |
| **Improving economy, efficiency and effectiveness** | No significant risk identified | No significant weaknesses identified |

We identified no significant risk and significant weaknesses to be included within our 2024/25 value for money report.

# Appendices

Contents

# Required communications

| Type | | Response |
|---|---|---|
| **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 year ended 31 March 2025. |
| **Adjusted audit differences** | OK | There were few adjusted audit differences. See page 20. |
| **Unadjusted audit differences** | OK | There were none unadjusted audit differences. See page 19. |
| **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 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. |
| **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 ICB management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit. |
| **Make a referral to the regulator** | OK | We have not identified any such matters. |
| **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. |

| Type | | Response |
|---|---|---|
| **Significant difficulties** | OK | No significant difficulties were encountered during the audit. |
| **Modifications to auditor's report** | OK | None |
| **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 related to other information in the annual report, Strategic and Directors' reports.<br>The Strategic report is fair, balanced and comprehensive, and complies with the law. |
| **Breaches of independence** | OK | No matters to report. The engagement team have complied with relevant ethical requirements regarding independence. |
| **Accounting practices** | OK | Over the course of our audit, we have evaluated the appropriateness of the ICB'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** | x | 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. We will issue our certificate once we have received confirmation from the National Audit Office that all assurances required for their opinion on the DHSC group accounts have been received. |
| **Provide a statement to the NAO on your consolidation schedule** | OK | We will issue our report to the National Audit Office following the signing of the annual report and accounts. We have not noted any differences to be reported. |

# 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 and Governance Committee members

Assessment of our objectivity and independence as auditor of the NHS Derby and Derbyshire Integrated Care Board

Professional ethical standards require us to provide to you 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.

The conclusion of the audit engagement partner as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate.

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 for predecessor ICBs | Self-review<br><br>Self-interest | Standard methodology applied.<br><br>Fieldwork was undertaken after the audit of the financial statements. | Fees are charged on a fixed and time basis. No contingent fees are charged. Fees not considered significant in comparison to the audit fees. |

# Confirmation of independence (cont.)

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

| | 2024/25 (to date) | 2023/24 |
|---|---|---|
| | £'000 | £'000 |
| Audit of ICB | 170 | 150 |
| **Total audit** | **170** | **150** |
| MHIS | 18 | 15 |
| **Total non-audit services** | 18 | 15 |
| **Total Fees** | **188** | **165** |

*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 0.08:1, or 8% 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 Governance 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.

KPMG LLP

Yours faithfully

KPMG LLP

# Uncorrected audit misstatements

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. As communicated previously with the Audit and Governance Committee, we have not noted any adjustments greater than £300K,

# Corrected audit misstatements

Under UK 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. The adjustments below have been included in the financial statements.

| Corrected audit differences (£'m) | | | | |
|---|---|---|---|---|
| **No.** | **Detail** | **SOCI (cr)** | **SOFP Dr** | **Comments** |
| 1 | Dr NHS Accruals<br>Cr NHS accrued income | - | 3.965<br>(3.965) | Compensating movement between payables and receivables to correct the timing issue. A credit note received from Derbyshire Healthcare FT created a negative payable balance. ICB moved the balance to receivables. However, an expenditure accrual was then entered for another transaction which would have prevented the negative payable balance. Now rectified. |
| 2 | Dr Non-NHS and Other WGA accruals<br>Cr NHS accrual | - | 0.459<br>(0.459) | An accrual was miscoded on the SOFP. The accrual should have been an NHS accrual against University Hospital Derby and Burton FT but was coded as non-NHS. It's a compensating adjustment on the payables note. Now rectified. |
| Total | | - | - | |

We identified presentational updates to the following disclosures:

- Remuneration report – Changes in Bandings, pension benefit table, expense payments, employee number etc.; and
- Other minor presentational updates including casting and other accounts checking.

# Control Deficiencies

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. |

| # | Risk | Issue, Impact and Recommendation | Management Response / Officer / Due Date |
|---|---|---|---|
| 1 | ❸ | Quality of Preparation of Remuneration report<br>Initial audit review of the report noted that there is a significant change in bandings between years for some individuals. After investigation management have concluded that the pension calculations were incorrect as provided in the Greenbury report from NHS Pensions and updated figures have been obtained and the table updated.<br>Recommendation<br>Management should revisit the review process followed for the remuneration report to include challenge of the information provided by NHS pensions where large movements occur between periods which are not expected. | Following the McCloud remedy, some fluctuations in pension valuations were to be expected, and hence figures from NHS Pensions were taken as accurate.<br><br>However, given the errors identified this year, the recommendation is accepted. Any significant or unexpected movements will be discussed with NHS Pensions and addressed in the future review process.<br><br>Officer: Donna Johnson - Associate Director of Finance<br><br>Due date: 30th September 2025 |

No recommendations were raised because of our work in the previous year.

# FRC's areas of focus

**The FRC released their Annual Review of Corporate Reporting 2023/24 ('the Review') in September 2024 having already issued three thematic reviews during the year.**

**The Review and thematics identify where the FRC believes companies can improve their reporting.  These slides give a high level summary of the key topics covered. We encourage management and those charged with governance to read further on those areas which are significant to their entity.**

## Key expectations for 2024/25 annual reports

### Overview

The Review identifies that the quality of reporting across FTSE 350 companies has been maintained this year, but there is a widening gap in standards between FTSE 350 and non-FTSE 350 companies. This is noticeable in the FRC's top two focus areas, 'Impairment of assets' and 'Cash Flow Statements'.

'Provisions and contingencies' has fallen out of the top ten issues for the first time in over five years. This issue is replaced by 'Taskforce for Climate-related Financial Disclosures (TCFD) and climate-related narrative reporting'.

The FRC re-iterates that companies should apply careful judgement to tell a consistent and coherent story whilst ensuring the annual report is clear, concise and company-specific.

### Pre-issuance checks and restatements

The FRC expects companies to have in place a sufficiently robust self-review process to identify common technical compliance issues. The FRC continues to be frustrated by the increasing level of restatements affecting the presentation of primary statements. This indicates that thorough, 'step-back' reviews are not happening in all cases.

### Risks and uncertainties

Geopolitical tensions continue and low growth remains a concern in many economies, particularly with respect to going concern, impairment and recognition/recoverability of tax assets and liabilities. The FRC continue to push for enhanced disclosures of risks and uncertainties. Disclosures should be sufficient to allow users to understand the position taken in the financial statements, and how this position has been impacted by the wider risks and uncertainties discussed elsewhere in the annual report.

### Financial reporting framework

The FRC reminds preparers to consider the overarching requirements of the UK financial reporting framework in determining the information to be presented. In particular the requirements for a true and fair view, along with a fair, balanced, and comprehensive review of the company's development, position, performance, and future prospects.

The FRC does not expect companies to provide information that is not relevant and material to users, and companies should exercise judgement in determining what information to include.

Companies should also consider including disclosures beyond the specific requirements of the accounting standards where this is necessary to enable users to understand the impact of particular transactions or other events and conditions on the entities financial position, performance and cash flows.

# FRC's areas of focus (cont.)

## Impairment of assets

Impairment remains a key topic of concern, exacerbated in the current year by an increase in restatements of parent company investments in subsidiaries.

Disclosures should provide adequate information about key inputs and assumptions, which should be consistent with events, operations and risks noted elsewhere in the annual report and be supported by a reasonably possible sensitivity analysis as required.

Forecasts should reflect the asset in it's current condition when using a value in use approach and should not extend beyond five years without explanation.

Preparers should consider whether there is an indicator of impairment in the parent when its net assets exceed the group's market capitalisation. They should also consider how intercompany loans are factored into these impairment assessments.

## Cash flow statements

Cash flow statements remain the most common cause of prior year restatements.

Companies must carefully consider the classification of cash flows and whether cash and cash equivalents meet the definitions and criteria in the standard. The FRC encourage a clear disclosure of the rationale for the treatment of cash flows for key transactions.

Cash flow netting is a frequent cause of restatements and this was highlighted in the 'Offsetting in the financial statements' thematic.

Preparers should ensure the descriptions and amounts of cash flows are consistent with those reported elsewhere and that non-cash transactions are excluded but reported elsewhere if material.

## Climate

This is a top-ten issue for the first time this year, following the implementation of TCFD.

Companies should clearly state the extent of compliance with TCFD, the reasons for any non-compliance and the steps and timeframe for remedying that non-compliance. Where a company is also applying the Companies Act 2006 Climate-related Financial Disclosures, these are mandatory and cannot be 'explained', further the required location in the annual report differs.

Companies are reminded of the importance of focusing only on material climate-related information. Disclosures should be concise and company specific and provide sufficient detail without obscuring material information.

It is also important that there is consistency within the annual report, and that material climate related matters are addressed within the financial statements.

## Financial instruments

The number of queries on this topic remains high, with Expected Credit Loss (ECL) provisions being a common topic outside of the FTSE 350 and for non-financial and parent companies.

Disclosures on ECL provisions should explain the significant assumptions applied, including concentrations of risk where material. These disclosures should be consistent with circumstances described elsewhere in the annual report.

Companies should ensure sufficient explanation is provided of material financial instruments, including company-specific accounting policies.

Lastly, the FRC reminds companies that cash and overdraft balances should be offset only when the qualifying criteria have been met.

## Judgements and estimates

Disclosures over judgements and estimates are improving, however these remain vital to allow users to understand the position taken by the company. This is particularly important during periods of economic and geopolitical uncertainty.

These disclosures should describe the significant judgements and uncertainties with sufficient, appropriate detail and in simple language.

Estimation uncertainty with a significant risk of a material adjustment within one year should be distinguished from other estimates.

Further, sensitivities and the range of possible outcomes should be provided to allow users to understand the significant judgements and estimates.

# FRC's areas of focus (cont.)

## Revenue

Disclosures should be specific and, for each material revenue stream, give details of the timing and basis of revenue recognition, and the methodology applied. Where this results in a significant judgement, this should be clear.

## Presentation

Disclosures should be consistent with information elsewhere in the annual report and cover company-specific material accounting policy information.

A thorough review should be performed for common non-compliance areas of IAS 1.

## Income taxes

Evidence supporting the recognition of deferred tax assets should be disclosed in sufficient detail and be consistent with information reported elsewhere in the annual report.

The effect of Pillar Two income taxes should be disclosed where applicable.

## Strategic report and Companies Act

The strategic report must be 'fair, balanced and comprehensive'. Including covering all aspects of performance, economic uncertainty and significant movements in the primary statements.

Companies should ensure they comply with all the statutory requirements for making distributions and repurchasing shares.

## Fair value measurement

Explanations of the valuation techniques and assumptions used should be clear and specific to the company.

Significant unobservable inputs should be quantified and the sensitivity of the fair value to reasonably possible changes in these inputs should provide meaningful information to readers.

## Thematic reviews

The FRC has issued three thematic reviews this year: 'Reporting by the UK's largest private companies' (see below), 'Offsetting in the financial statements', and 'IFRS 17 Insurance contracts –Disclosures in the first year of application'. The FRC have also performed Retail sector research (see below).

**UK's largest private companies**

The quality of reporting by these entities was found to be mixed, particularly in explaining complex or judgemental matters. The FRC would expect a critical review of the draft annual report to consider:

- internal consistency
- whether the report as a whole is clear, concise, and understandable; notably with respect to the strategic report
- whether it omits immaterial information, or
- whether additional information is necessary for the users understanding particularly with respect to revenue, judgments and estimates and provisions

**Retail sector focus**

Retail is a priority sector for the FRC and the research considered issues of particular relevance to the sector including:

- Impairment testing and the impact of online sales and related infrastructure
- Alternative performance measures including like for like (LFL) and adjusted e.g. pre-IFRS 16 measures
- Leased property and the disclosure of lease term judgements, particularly for expired leases.
- Supplier income arrangements and the clarity of accounting policies and significant judgements around measurement and presentation of these.

## 2024/25 review priorities

The FRC has indicated that its 2024/25 reviews will focus on the following sectors which are considered by the FRC to be higher risk by virtue of economic or other pressures:

- Industrial metals and mining
- Construction and materials
- Food producers
- Retail
- Gas, water and multi-utilities
- Financial Services

# ISA (UK) 315 Revised: changes embedded in our practices

## Summary

**In 2021, ISA (UK) 315 Revised "Identifying and assessing the risks of material misstatement" was introduced and incorporated significant changes from the previous version of the ISA.**

These were 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 was effective for periods commencing on or after **15 December 2021**.

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

**What impact did the revision have on audited entities?**

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 result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (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.

**Impact on the audit**

Ineffective or informal IT processes and controls impact audits detrimentally as it can override other elements of a control environment due to the introduction of the risk of override due to both fraud and error.

A key area of focus for the auditor will be understanding how the entity responded to the observations communicated to those charged with governance in the prior period.

Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

To meet the on-going requirements of the standard, auditors will continue to focus on risk assessment including detailed consideration of the IT environment.

Auditors consider whether entity actions to address any control observations are proportionate and have been successfully implemented. This assessment represents an ongoing audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the ~~entity~~ control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

# ISA (UK) 240 Revised: changes embedded in our practices

## Ongoing impact of the revisions to ISA (UK) 240

- ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021*) The auditor's responsibilities relating to fraud in an audit of financial statements* included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.
- We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

**Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance**

Our assessment of the risks of material misstatement due to fraud may be found on page 6. We also considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements* , to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.

Based on our assessment, we have no matters to report to Those Charged with Governance.

# Newly effective accounting standards

| | Expected impact | | | | Effective for years beginning on or after | | | |
|---|---|---|---|---|---|---|---|---|
| **Standards** | High | Moderate | Low | None | 01 Jan 2025 | 01 Jan 2026 | 1 Jan 2027 | Early adoption permitted |
| Lack of exchangeability (Amendments to IAS 21) *The Effects of Changes in Foreign Exchange Rates* | | | | ○ | ✓ | | | ✓ |
| Amendments to the Classification and Measurement of Financial Instruments – Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*** | | | ● | | | ✓ | | ✓ |
| Annual Improvements to IFRS Accounting Standards – Amendments to:<br>• IFRS 1 *First-time Adoption of International Financial Reporting Standards;*<br>• IFRS 7 *Financial Instruments: Disclosures and it's accompanying Guidance on implementing IFRS 7*;<br>• IFRS 9 *Financial Instruments*;<br>• IFRS 10 *Consolidated Financial Statements*; and<br>• IAS 7 *Statement of Cash flows* | | | ● | | | ✓ | | ✓ |
| IFRS 18 *Presentation and Disclosure in Financial Statements*** | | | ● | | | | ✓ | ✓ |
| IFRS 19 *Subsidiaries without Public Accountability: Disclosures*** | | | | ○ | | | ✓ | ✓ |
| Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*) * | | | | ○ | | TBD* | | ✓ |

*The effective date for these amendments was deferred indefinitely. Early adoption continues to be permitted.
**Not yet endorsed by the UK Endorsement Board

# 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

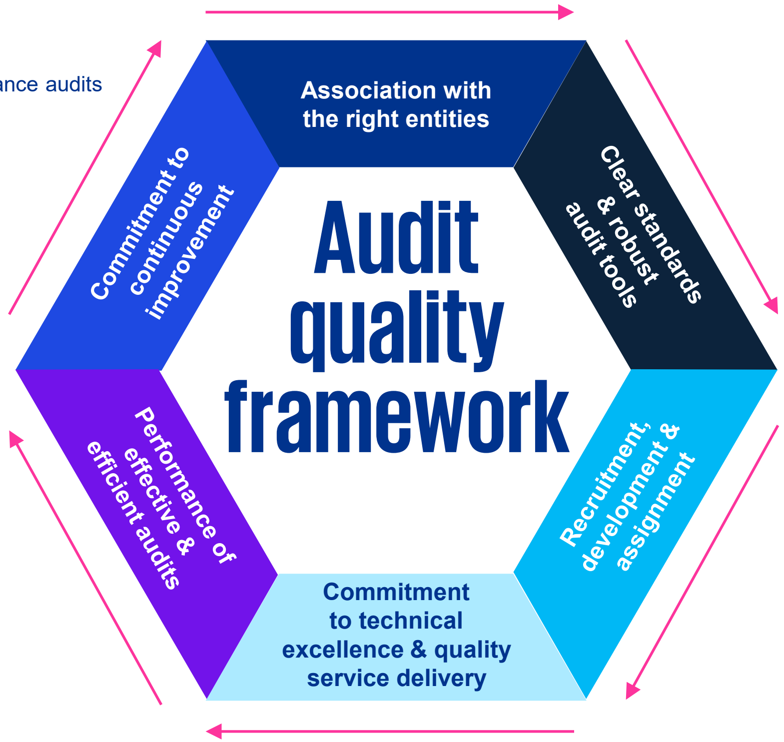
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

### 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

# Audit quality, evidence & the timeline of completion activities

**Audit quality is at the core of everything we do – the quality and timeliness of information received from management and those charged with governance also affects audit quality.**

The timeline on this page is for illustration only and shows the timing of our completion activities around the signing of the audit opinion. We depend on well planned timing of our audit work to avoid compromising the quality of the audit. We aim to complete all audit work no later than 2 days before audit signing.

| Weeks before signing Audit Opinion | -3 weeks | | -2 weeks | | -1 week | Completion week | | | Teams involved in the process |
|---|---|---|---|---|---|---|---|---|---|
| **Individual day's activities** | Day 1 | Day 3 | Day 5 | Day 1 | Day 5 | Day 1 | Day 3 | Day 5 | |
| Audit report Reviews, Consultation | | | | | | ♦ | | | Audit Team |
| **Final audit fieldwork** | | | | | | | | | Audit Team |
| **Review significant risk audit areas and challenge work performed** | | | | | | | | | RI |
| Review of the Audit Report | ♦ | | | | | | | | DPP Accounting & Reporting |
| Ensure points raised by Audit Report review are dealt with | | | | | | | | | RI |
| **Review Audit Committee report and draft accounts** | | | | | | | | | RI |
| Completion panel to discuss the draft Audit Committee report and draft accounts | | ♦ | | | | ♦ | | | Audit Risk Review Panels |
| **KPMG Audit Committee report issued** | | | ♦ | | | | | | Audit Team |
| **Final Audit Committee** | | | | | ♦ | | | | Audit Team |
| Ensure Audit Report review and consultation points have been satisfactorily dealt with | | | | | | ♦ | | | Audit Team & DPP Accounting & Reporting |
| Final audit field work completed and signed off | | | | | | | ♦ | | Audit Team |
| Stand-Back review | | | | | | | ♦ | | Audit Team |
| Ensure all points raised are cleared | | | | | | | ♦ | | RI |

**Key:**
- ♦ One day activity
- Activity over a period of time
- Year end
- Signing date of the Audit Report

KPMG

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