



Year End Report 2022/23

I confirm that this is the final version of our ISA 260 Audit Memorandum relating to our audit of the 2022/23 financial statements for NHS Derby and Derbyshire Integrated Care Board. This document was discussed and approved by the Integrated Care Board's Audit and Governance Committee on 8 June 2023.

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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

NHS Derby and Derbyshire Integrated Care Board

—
June 2023

Key contacts

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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 8 June 2023 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 period ended 31 March 2023.

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 4 May 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 and have not identified any significant weaknesses in your arrangements to secure value for money. In addition to this opinion we will prepare our Auditor's Annual Report which contains a narrative summary of our findings to be published on the ICB's website.

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 ICB.

External auditors do not act as a substitute for the 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 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 2023. 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 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 of 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 now 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 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.

Our audit findings

Significant audit risks	Risk Change	Findings Page 6-8
Expenditure Recognition	No Change	The results of our testing are satisfactory. No issues have been noted. See page 6 for more details
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 Page 10-12

Under the Code of Audit Practice we are required to report to you if we have identified a significant weakness in the ICB's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have nothing to report in this respect. Our Auditor's Annual Report contains our public commentary in regard to this work and is included within our papers.

Whole of Government Accounts Page 9

We intend to issue an unqualified Group 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. We have identified some variances above 300k that will be included as part of our Assurance Certificate.

Regularity Page 8

We are required to issue an opinion as to whether the expenditure incurred by the ICB was within its delegated authorities. We have identified breach of ICB's Revenue Resource Allocation performance target and referral will be issued per the 'other matter' paragraph to the right.

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	

Number of Control deficiencies	Page 16
Significant control deficiencies	0
Other control deficiencies	0
Prior year control deficiencies remediated	0

Other Matters

We are required under Section 30 (s30) 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. A s30 referral was made relating to the ICB's breach of Revenue Resource Allocation.

We have not made any reports in the public interest.

Audit risks and our audit approach

Fraud risk from expenditure recognition – existence

Significant audit risk

Risk: *Liabilities for purchases of goods or services are recorded inappropriately when they are not accurately recorded, the entity does not have a present obligation, or they do not exist*

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

At Month 11 the ICB was forecasting to achieve break even, with cost pressures being mitigated by a number of non-recurrent sources of funding. The nature of the NHS funding regime can create an incentive for management to overstate the level of expenditure compared to that which has been incurred.

We consider this would be most likely to occur through overstating expenditure (specifically, the purchase of goods and services - services from foundation trusts around period end, for example to bring forward expenditure from 2023-24 to mitigate financial pressures within the system. We do not believe the risk is present in other expenditure streams, such as Prescribing and Primary Care expenditure as there is less opportunity to manipulate the expenditure due to the nature of the items.

Our response

- We evaluated the design and implementation of controls relating to the authorisation of expenditure.
- We performed an analysis of expenditure in the period, to identify unusual patterns / payments and for these items, agreed the expenditure to source documentation to understand the nature of the transaction and justification for recognition;
- We inspected a sample of invoices received and payments made, in the period around 31 March 2023, to determine whether expenditure has been recognised in the correct accounting period;
- We inspected journals posted as part of the period end close procedures that increase the level of expenditure recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence; and
- We considered where variances exceeding £300k have arisen from the Agreement of Balances exercise for payables and accruals undertaken with other NHS providers and commissioners and inspect supporting evidence to assess the appropriateness of the balance recognised.

Our findings

- We found the ICB to have an effective design and implementation of controls relating to authorisation of expenditure.
- Our analysis of expenditure incurred in the financial year did not identify any unusual patterns that were not corroborated by management.
- All invoices 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 increase the level of expenditure recorded in year did not identify any issues.
- Our consideration of agreement of balances variances exceeding £300k did not indicate and any material issues regarding the appropriateness of the balance recognised in the accounts. Please see Appendix 3 for more details.
- We have not identified audit misstatements or control deficiencies as a result of our work performed.

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 evaluated the design and implementation of controls over journal entries and post-closing adjustments.
- 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 appropriateness of the accounting for significant transactions that are outside the ICB's normal course of business, or are otherwise unusual.
- We assessed the full population of relevant journal entries to identify journals displaying high risk characteristics. We followed up each of these journals in order to assess the appropriateness and accuracy of the transaction posted.
- 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 ICB'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 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 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

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 ICB operates and any requirements that have been issued with regards to expenditure that is incurred;
- We 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;
- 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 ICB 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.
- We reviewed the losses or special payments made in relation to litigation settlement and GP write off.

Our findings

- The ICB 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. The ICB's Revenue Resource Limit for the nine months ended 31 March 2023 was £1,697.366 million . The ICB's draft accounts report total expenditure of £1,712.188 million . This represents a breach of the Revenue Resource Limit of £14.822 million.
- As the ICB spent £14.822 million in excess of the amount directed by NHS England for the nine months to 31 March 2023 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.

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 director's 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 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 and was consistent with our knowledge of the work of the Committee during the year.

Whole of Government Accounts

As required by the Local Audit Code of Practice we are required to provide a statement on your consolidation schedule. We comply with this by checking that your summarisation schedule is consistent with your annual accounts. We have identified some variances above 300k that will be included as part of our Assurance Certificate.

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 ICB during the year on CCG's MHIS FY 21/22 (£ 15,000) and have included in appendix 4 confirmation of safeguards that have been put in place to preserve our independence

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 not yet finalised our commentary on the ICB's arrangements and a copy of the report will be included within the papers for this Committee alongside the final version of this report. As a result we are unable to certify our audit as complete.

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 one risk of a significant weakness in the ICB's arrangements to secure value for money.

Our response to these risks is set out on the following pages.

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	One 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 2022/23 value for money report for the ICB.

Value for money - risk of significant weakness in arrangements

Domain - Financial sustainability	
Description of risk	Our response
<p>The large deficits and efficiency targets at both ICB and Integrated Care System (ICS) level, together with continued pressures within the wider healthcare system, means that there is a significant risk to the ICB being able to maintain financial sustainability in the medium term.</p>	<p>We have performed the following procedures:</p> <ul style="list-style-type: none"> • Reviewed the financial performance of both the ICB and the ICS in the period to year end and assess both the process followed to formulate the 2023/24 financial plan and its underpinning assumptions; • Considered the development of the ICB and system arrangements in place to establish the required efficiency programme and longer term savings central to achieve medium term financial sustainability; • Reviewed the arrangements within the ICB’s governance structure to report progress against the System position and progress; and • Enquired with key members of the ICB Executive Team as to their involvement with the system and its readiness to deliver strategic outcomes.
	<p>Our findings</p> <p>In response to the identified risk, we considered the process to finalise the 2023/24 financial plan. The ICS financial plan was submitted to NHS England following appropriate review and approval, in accordance with the relevant guidance from NHS England. The system had a 2023/24 planned deficit of £149.5m at the initial planning submission date of the 23rd February 2023. System partners have worked on reducing this figure reviewing assumptions on productivity, workforce, investments and efficiencies. As at the 30th March 2023 submission, the system financial gap moved from £149.5m to £61.3m. A final breakeven position ICS plan was submitted to NHSE in May 2023. However, there is an acknowledgement that more work is required to improve this position further and there are a number of key risks within the plan which will need to be managed throughout the year.</p> <p>Whilst the ICB has met its targets set in 2022/23, there remains a significant deficit across the wider Joined Up Care Derbyshire ICS. Maintaining the ICB’s position, whilst reducing the system level deficit continues to be a key priority for the ICB and other system partners, which will require close working with the wider ICS. We have reviewed the arrangements in place to ensure close system working throughout 2022/23, which included development of ICS strategic plans, system plans and closer collaboration between management of the ICB and the system. The ICB submitted a revised 2023/24 breakeven plan in May 2023. The ICB has reported the underlying risks and mitigations contained within the 2023/24 financial plan to the Governing Body, setting out the key elements of the financial planning guidance and drivers of change to the reported financial gap at the system level.</p> <p>The ICB continues to work with Joined Up Care Derbyshire (JUCD) partners and regulators on the quantification of, and plans to close, the underlying financial gap for the system.</p> <p><i>Continued...</i></p>

Value for money - risk of significant weakness in arrangements

Domain - Financial sustainability	
Description of risk	Our findings (Continued...)
<p>The large deficits and efficiency targets at both ICB and Integrated Care System (ICS) level, together with continued pressures within the wider healthcare system, means that there is a significant risk to the ICB being able to maintain financial sustainability in the medium term.</p>	<p>We noted that the ICS have provided a clear summary of the key challenges underpinning region and the need for various work programmes of work to establish the position of each system partner, including efficiency and productivity, short term service development opportunities and a revised long term plan. This demonstrates that the system has begun to respond to the identified challenges.</p> <p>We noted evidence of collaborative working between the ICB and other providers through the development of the plan. The ICS has allocated a clear share of the deficit and CIP requirements to each system partner, with expected close oversight. Through considering these arrangements, we have not identified a significant weakness in arrangements linked to the identified risk, despite significant challenges in the position.</p> <p>The ICB and the System were on track to deliver their planned position for 2023 (albeit through non-recurrent means), until the ICB was offered an option to overspend by NHSE, which management decided on balance to accept as it was an appropriate way to financially protect frontline services from avoidable financial pressures. The final FY22/23 out turn position of the ICB and the System were deficit £14.8m and £31m respectively.</p> <p>Conclusion</p> <p>There are significant challenges for the ICB and ICS, with ambitious efficiency targets. CIP plans with a number of efficiencies and mitigations have been developed and supporting governance processes established to provide ongoing monitoring and review of progress. While there is continued pressure on reducing the underlying system wide deficit, we note that per the May 2023 revised planned position, both the ICB and the system have plans to deliver a breakeven position for 2023/24.</p> <p>The ICB, however, fully recognise the scale of the challenge this represents and have provided clear reporting to the Finance Committee and Board to establish the risk and challenge within the planned position and need for action.</p> <p>Due to these arrangements in place, we have not identified a significant weakness in the arrangements to deliver value for money at the ICB during the 2022/23 year.</p>

Appendices

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Mandatory communications

Type	Statement
Our draft management representation letter	 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 2023.
Adjusted audit differences	 There were nil adjusted audit differences.
Unadjusted audit differences	 There were nil unadjusted audit differences.
Related parties	 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	 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	 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	 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	 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 ICB's breach of its financial performance i.e. exceeding its resource allocation.
Issue a report in the public interest	 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	 No significant difficulties were encountered during the audit.
Modifications to auditor's report	 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 ICB'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	 The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	 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	 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	 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	 No significant matters arising from the audit were discussed, or subject to correspondence, with management.
Certify the audit as complete	 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	 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 19.

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		
1	<p>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.</p>	<p style="text-align: center;">2</p> <p>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.</p>
		<p style="text-align: center;">3</p> <p>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.</p>

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 year's audit**, in summary:

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

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
1	2	<p>Journals Control</p> <p>The CCG's general ledger system allows journals posted by certain Finance staff and SBS/NHSE to be self-authorized, thereby not enforcing segregation of duties. In response, there is a compensating control whereby the ICB 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.</p>	<p>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 DDICB SFIs.</p> <p>Any self-authorized 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-authorization would be performed. Management are confident that this control fully mitigates the GL system weakness.</p> <p>DDCCG accept KPMG's requirement to highlight this weakness as part of the External Audit process.</p>

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 which have been shared with management during the course of our audit.

Differences arising from the Agreement of Balances exercise

We are required to report any **inconsistencies greater than £300,000** between the signed audited accounts and the consolidation data and details of any **unadjusted errors or uncertainties** in the data provided for intra-group and intra-government balances and transactions regardless of whether the ICB is a sampled or non-sampled component. We have provided details of the inconsistencies that we are reporting to the NAO as follows:

Please note there are 3 Agreement of balances queries that are still on going as part of our work. We will update our results for these in the final ISA 260.

Counterparty	Transaction Type	Entity Balance '000'	Counterparty balance '000'	Variance '000'	Comments on Variance
CBA033-NHS England	Payable	500	-	500	The ICB received a revenue allocation from NHSE capital funds in March, and was unable to utilise as the required procurement was unsuccessfully. The ICB recorded this as a payable in line with the clawback requirement.
FRTG-Derby Hospitals NHS Foundation Trust	Payable	9,832	9,139	693	An off ledger prudent adjustment was entered to account for the difference between RTG's anticipated income vs the ICB's expected expenditure by ICB after version 1 of mismatch. This resulted in this variance.
	Total Payable	10,332	9,139	1,193	

Counterparty	Transaction Type	Entity Balance '000'	Counterparty balance '000'	Variance '000'	Comments on Variance
13Q-Central Specialised Commissioning	Receivables	-	582	(582)	The ICB was not notified for this receivables balance. It has enquired with central specialised commissioning. However, it has not received any response.
FRXM-Derbyshire Healthcare NHS Foundation Trust	Receivables	365	2,121	(1,756)	The ICB has requested the FT for more information around this variance of £1,756k and no response has been received from the FT.
FRY8-Derbyshire Community Health Services NHS Foundation Trust	Receivables	118	909	(791)	This relates to a deferred income incorrectly recognised by the counterparty.
	Total Receivables	483	3,612	(3,129)	

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

We are required to report any **inconsistencies greater than £300,000** between the signed audited accounts and the consolidation data and details of any **unadjusted errors or uncertainties** in the data provided for intra-group and intra-government balances and transactions regardless of whether the ICB is a sampled or non-sampled component. We have provided details of the inconsistencies that we are reporting to the NAO as follows:

Counterparty	Transaction Type	Entity Balance '000'	Counterparty balance '000'	Variance '000'	Comments on Variance
13Q-Central Specialised Commissioning	Income	0	582	(582)	The ICB was not notified for this receivables balance. It has enquired with central specialised commissioning. However, it has not received any response.
	Total Income	0	582	(582)	

Counterparty	Transaction Type	Entity Balance '000'	Counterparty balance '000'	Variance '000'	Comments on Variance
FRCU-Sheffield Children's NHS Foundation Trust	Expenditure	1,934	-	1,934	Sheffield Children's NHS Foundation Trust has not participated in Agreement of Balance exercise and no further response has been received from them.
FRFS-Chesterfield Royal Hospital NHS Foundation Trust	Expenditure	209,386	212,659	(3,273)	The correct figure as per ICB statement is 208,844K and as per FT's statement is 212,969k so revised difference is 4,125K. ICB has queried this with the FT, but no response has been received.
FRHQ-Sheffield Teaching Hospitals NHS Foundation Trust	Expenditure	23,417	24,090	(673)	This is due to the Trust including CCG invoices in their statement.
FRT2-Pennine Care NHS Foundation Trust	Expenditure	3,672	1,256	2,416	The ICB was not informed of the change in the notified numbers, no response has been received from the Trust.
	Total Expenditure	238,409	238,005	404	

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 Integrated Care Board.

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

	2022/23	June 22- CCG
	£'000	£'000
Audit of ICB	145,200	145,200
Total audit	145,200	145,200
Mental Health Investment Standard	15,000	-
Total non-audit services	-	-
Total Fees	160,200	145,200

Please note that MHIS fees in 22/23 column relates to 2021/22 CCG work done and billed in 2022/23.

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 0.09% which is compliant 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'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

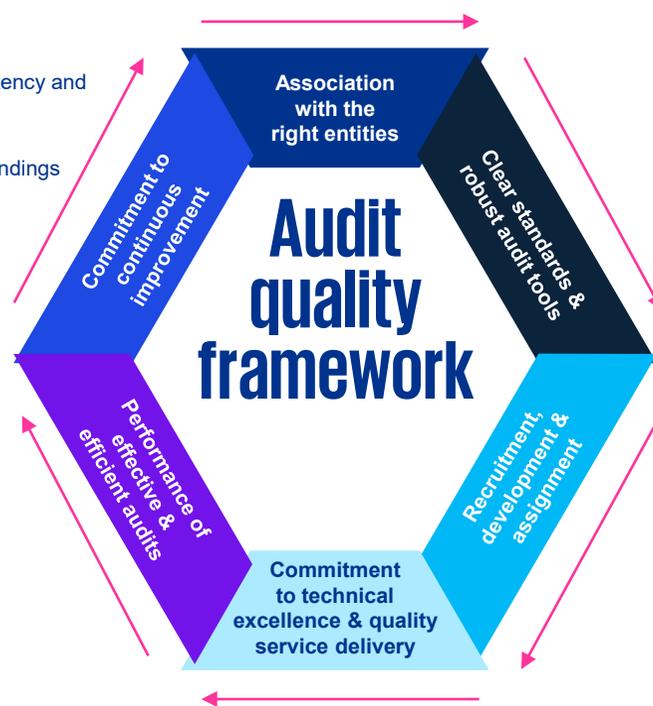
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

■ 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.

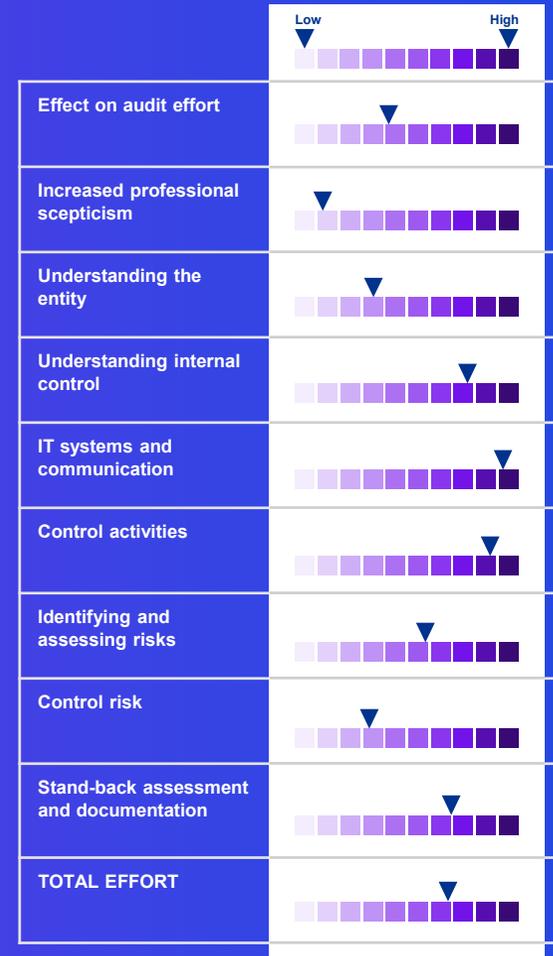
Why have these revisions been made?

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



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		<ol style="list-style-type: none"> Increased focus on applying professional scepticism – the key areas affected are: <ul style="list-style-type: none"> 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. Our inquiries with individuals at the entity were expanded to include, amongst others, those who deal with allegations of fraud 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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