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Year end report 2019/20

NHS Rotherham Clinical Commissioning Group

23 June 2020

Introduction

To the Audit and Quality Assurance Committee of NSH Rotherham Clinical Commissioning Group

We are pleased to have the opportunity to meet with you on 17 June 2020 to discuss the results of our audit of the financial statements of NHS Rotherham Clinical Commissioning Group (the 'CCG'), as at and for the year ended 31 March 2020.

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 7th January 2020. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is substantially complete. There have been changes to our audit plan and strategy based on revised requirements from NHSI and NHSE as communicated in March 2020. These changes relate to the following:

- IFRS 16 is deferred with no disclosure requirement for 2019/20.

There have been no other 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 during week commencing 22 June 2020, provided that the outstanding matters noted in this report are satisfactorily resolved.

We expect to issue an unmodified Auditor's Report on the financial statements, an unqualified Value for Money Conclusion, and an unqualified regularity opinion.

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; and
- Restrictions on distribution of this report.

Yours faithfully,

Rashpal Khangura

09 June 2020

How we have delivered audit quality

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

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

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

The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the CCG. External auditors do not act as a substitute for the CCG'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.

Contents

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 CCG's Audit and Quality Assurance Committee, in order to communicate matters of interest as required by ISAs (UK and Ireland), 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 Rotherham Clinical Commissioning Group (the 'CCG'), prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted by the Group Accounting Manual issued by the Department of Health and Social Care, as at and for the year ended 31 March 2020. This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you.

Limitations on work performed

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

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

Status of our audit

Our audit is substantially complete.

Restrictions on distribution

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

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Summary

Summary

Financial Statements Audit

We intend to issue an unqualified audit opinion on the accounts following the Audit and Quality Assurance Committee adopting them and receipt of the management representations letter.

We have completed our audit of the financial statements. We have also read the content of the Annual Report (including the Remuneration Report) and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There are no adjusted or unadjusted audit differences.
- We have agreed presentational changes to the accounts with Finance, mainly related to compliance with the Group Accounting Manual (GAM).
- We are asking for management representations over routine requests.
- We have reviewed the annual report and have no matters to raise with you.
- We have reviewed the AGS and have no matters to raise with you.
- We have no matters to raise with you in relation to the regularity of transactions.

Other Matters

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 NHS England.

We have identified 1 prior year recommendation originally from 2017/18 that has reoccurred during this year's audit and requires further action by management.

We have made no recommendations as a result of our work this year.

In auditing the accounts of a CCG, auditors have a responsibility to consider whether there is a need to issue a public interest report or whether there are any issues which require referral to the Secretary of State. There were no matters to report.

Value for Money

Based on the findings of our work, we have concluded that the CCG has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Audit Certificate

We are required to certify that we have completed the audit of the CCG financial statements in accordance with the requirements of the Code. If there are any circumstances under which we cannot issue a certificate, then we must report this to those charged with governance. There are no issues that would cause us to delay the issue of our certificate of completion of the audit.

Summary: Impact of COVID-19

Scepticism Challenge

Below we have summarised the impact of COVID-19 on our audit approach for 2019/20:

Area of the audit	Status	Impact on Audit Approach
Financial Statements: Going Concern	OK	While impacting across the corporate sector the directions under which you prepared your accounts included in the FREM and GAM and the funding mechanisms put in place across the NHS mean your CCG will be considered a going concern. We have however considered your financial position through our work on use of resources.
Financial Statements: Post date events	OK	We have considered whether it is necessary to disclose any post date events from the effects of the COVID pandemic on the CCGs operations. No matters to report. We have not identified any subsequent events that require adjustment or disclosure. We deem the current disclosure adequate.
Financial Statements: Revision to threshold for the AoB exercise	OK	As a result of the guidance to the NHS increasing the threshold at which balances requires confirmation between bodies we amended our audit procedures to confirm your income, expenditure, receivable and payables with counterparties within the NHS resource accounting boundary. This also impacted the procedures we perform for issuing our consolidation opinion to the NAO. We have not identified any issues that require adjustment or disclosure.
Financial Statements: Procedures	OK	We have considered more broadly how our audit procedures should be revised given the extended deadline for submission. This means we have updated our procedures, for example considering a longer period for post date events, extending the sample period we considered for our cut off procedures and specifically considering whether COVID related income and expenditure from the final weeks of the year were correctly included in the financial statements. No matters to report - we have not identified any issues that require adjustment or disclosure.
Financial Statements: IFRS 16	OK	The implementation of the new lease accounting standards has been deferred to 1 April 2021 with no disclosure requirement for 2019/20.
Value for money: additional risk assessment work	OK	We have conducted additional procedures to assess the impact of Covid-19 on the CCG's ability to deliver economy, efficiency and effectiveness and **do not consider an additional risk necessary**. By way of reminder our value for money responsibilities are focused on understanding the arrangements you have put in place up to the 31 March and to consider the disclosures you have made within your annual governance statement. As detailed on page 5 we anticipate issuing an unqualified opinion.

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Financial Statements Audit

Financial statements audit - our summary findings

Scepticism Challenge

Assessment of the control environment

Significant/other control deficiencies **0**

The CCG outsources an element of its control environment to the following service organisations. For each, we rely on the findings of the service auditor's assessment of the local control environment as part of our audit approach.

- NHS SBS – the CCG outsources various accounting functions to SBS. The service auditor issued a qualified opinion. The opinion was qualified largely due to the outbreak of COVID-19 restricting access to testing of controls in February and March 2020. Our audit of the financial statements is largely performed through substantive procedures with consideration of local processes, therefore we do not deem this qualification to impact our audit of the CCG's financial statements.
- NHS Business Services Authority – the processing of pharmacy payments to GP practices and other dispensing outlets is provided by NHS Business Services Authority. The service auditor issued an unqualified opinion with minor control observations. We do not deem the impact of these to have significant impact on our audit of the CCG's financial statements.
- Capita – Capita processes primary care payments on behalf of the CCG. **The service audit report is yet to be received**, however as per below we substantively test primary care transactions so any control observations are unlikely to impact our audit of the CCG's financial statements.
- NHS Digital – NHS Digital maintain the Exeter system, which is used to calculate GP payments for primary care services. The service auditor issued a qualified opinion due to failure of the IT related control relating to system change. We have tested primary care transactions substantively and re-performed elements of the calculations of payments recorded to GP practices as part of our audit work. We do not deem this qualification to impact our audit of the CCG's financial statements.

Risks	Risk change	Our findings
Significant Risks		**Page 10-12**
1.Expenditure Recognition	Stable	No issues identified from our audit work; no misstatements identified.
2. Management Override controls	Stable	No issues identified from our audit work; no misstatements identified.
Value for Money		**Page 18-19**
3. Financial Resilience	Stable	We anticipate issuing an unqualified opinion.

Accounts Production

We received complete draft accounts by 24 April 2020 in accordance with NHSI's deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the GAM. We thank the finance team for their co-operation throughout the visit.

Representations

You are required to provide us with representations on specific matters such as your going concern assertion. We provided a draft of this representation letter to the Chief Financial Officer on 5 June 2020. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us.

Financial statements audit - our summary findings

Scepticism Challenge

Compliance with ISA 260: We are required under ISA 260 to communicate to you any matters specifically required by other auditing standards to be communicated to those charged with governance; and any other audit matters of governance interest.

Compliance with the Audit Code: Your audit is undertaken to comply with the Local Audit and Accountability Act 2014 which gives the NAO the responsibility to prepare an Audit Code (the Code), which places responsibilities in addition to those derived from audit standards on us. We have discharged these responsibilities as follows:

Type	Status	Response
Our declaration of independence	OK	No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence.
Make a referral to the Secretary of State	OK	If we identify that potential unlawful expenditure might be incurred then we are required to make a referral to the Secretary of State. 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.
Provide a statement to the NAO on your consolidation schedule	OK	This “Whole of Government Accounts” requirement is fulfilled when we check your summarisation schedules are consistent with your annual accounts. We have completed that work and found no matters to report.
Provide a summary of our key use of resources risks	OK	We are required to reach a conclusion on your use of resources. We identified one significant risk which is outlined under Value for Money on page 19.
Certify the audit as complete	OK	We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above.

Financial statements audit - significant risks

Scepticism Challenge

1 Expenditure Recognition

Significant audit risk

The risk

In the public sector, auditors also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). This may arise due to the audited body manipulating expenditure to meet externally set targets. As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition and so the auditor has regard to this when planning and performing audit procedures.

Planned response

Our review of the heightened risk of fraudulent expenditure recognition will focus on non-pay operating expenses, particularly on healthcare contracts. In particular we will complete the following procedures:

- We will test the design and operation of process level controls over expenditure cut-off;
- We will inspect invoices and payments for material expenditure, in the periods either side of 31 March 2020, to determine whether expenditure is recognised in the correct accounting period;
- We will test samples of expenditure transactions by agreeing a sample of expenditure transactions through to supporting documentation; and
- We will consider the completeness and judgements made within the expenditure balance, specifically accrued expenditure;
- We will assess the outcome of the agreement of balances exercise with NHS providers and compare the values reported to the value of expenditure captured in the financial statements. We will seek explanations for any variances over £300,000, and all balances in dispute.

Summary of work completed

- During the year, via discussions with management, we have been kept informed of the CCG's reported and planned financial outturn. As at 31 March 2020, the CCG reported expenditure within its resource limit. We also note budgetary controls have been in operation throughout the year.
- Based on our risk assessment work at the start of the audit, the fraudulent expenditure recognition risk was primarily attached to non-pay expenditure balances, in particular Healthcare contracts. We performed sample testing of these balances and non NHS balances.
- We also undertook cut off testing to ensure expenditure had been applied to the appropriate accounting period.
- We sample tested accruals to ensure accruals were complete and the judgements were appropriate.
- We reviewed the outcome of the agreement of balances exercise for differences over £300,000. Whilst we are comfortable with the evidence provided by the CCG, we are required to identify these differences. We note these in Appendix 1.

We have not identified any significant issues that impact on our audit opinion.

Financial statements audit - significant risks

Scepticism Challenge

2 Management override of controls (Significant risks that professional standards require us to access in all cases)

Significant audit risk

The risk

- Professional standards communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit

Planned response

Our audit methodology incorporates the risk of management override as a default significant risk.

- In line with our methodology, test the operating effectiveness of controls over journal entries and post closing adjustments
- Assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assess the appropriateness of the accounting for significant transactions that are outside the CCG's normal course of business, or are otherwise unusual.
- Understand the judgement management reach when booking year end entries with providers, including accounting judgements which impact the reported outturn position;
- Reconcile the year end outturn to in year financial reporting to ensure that divergence in performance can be justified; and
- Review the year end cut off process to ensure that revenue and expenditure items have been reflected in the correct period.

Summary of work completed

- We tested the operating effectiveness of controls over journal entries as part of our interim work and also during our final visit. This included testing post closing adjustments. We also identified journal entries that we considered high risk and tested journals that met these criteria, agreeing the transaction back to supporting evidence.
- We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates. These focused primarily on estimates for prescribing and accruals on healthcare contracts.
- We did not identify any significant transactions that are outside the CCG's normal course of business, or are otherwise unusual.
- As part of our work on the Agreement of Balances exercise and our testing of NHS balances, we understood the judgement management reached when booking the year end entries with providers, including accounting judgements which impacted the reported outturn position.
- We have reconciled the year end outturn to in year financial report.
- We performed cut off testing at the year end to ensure that revenue and expenditure items have been reflected in the appropriate period.

We did not identify any issues to report as part of the above procedures.

Financial statements audit - other areas of focus

Scepticism Challenge

Going Concern

Other area of focus

The risk

- The GAM directs that your financial statements will be prepared on a going concern basis unless services are being transferred outside of the public sector or being discontinued.
- Risks to your financial position are expressed through disclosure in the financial statements (which need to be complete and balanced) and consideration in our use of resources responsibilities.
- Key analysis of your future financial performance is contained in your submissions to NHSE which forecast both current and future years expected financial performance.

Planned response

- We will confirm whether your accounting policies comply with the suggested template content from NHSE, and so reflect the correct basis of the application of going concern.
- We will consider whether the accounts disclosures have appropriately identified any uncertainties in their future financial forecasts, and if material, that these are appropriately reflected within the financial statements.
- We will consider whether our opinion needs to be amended to draw attention to any aspects of uncertainty in your future financial forecasts.
- We will link the work we perform on this element of our financial statements audit with the work we complete on use of resources where we will challenge and review in more detail the assumptions and forecasts you make about your future financial performance.

Outcome from audit work

- We reviewed your accounting policies and compared these to the suggested template content from NHSE, and so reflect the correct basis of the application of going concern.
- Our audit work in this area did not identify any material uncertainties in your future financial forecast that would require additional disclosure in your accounts.
- We have not identified any issues that would impact our audit opinion.

The work in this area has a clear link to our work on use of resources where we reviewed in more detail the assumption and forecasts you made about your future financial performance.

We did not identify any issues to report as part of the above procedures.

Financial statements audit - other areas of focus

Scepticism Challenge

Disclosure of impact of forthcoming of standards.

Other area of focus

The risk

- IFRS 16 (Leases) is being applied by HM Treasury in the Government Financial Reporting Manual (FReM) from 1 April 2020. This will require disclosure in the CCG's accounting policies in 2019/20 and the CCG will be required to report transactions from 1 April 2020, meaning it is important that the - - CCG is able to start collating reliable data for comparable figures ahead of that date.
- There are complex accounting requirements underlying the determination of quantitative amounts in disclosures.
- Disclosure likely to be subject to scrutiny from users of the accounts.

Planned response

- Understand management's process and the controls implemented to ensure the completeness and accuracy of the IFRS 16 disclosures.
- Test the operating effectiveness of these controls.
- Evaluate the reasonableness of management's key judgements and estimates made in preparing the IFRS 16 disclosures.
- Review any external communication on the transition project status for consistency with our understanding.
- Reconcile to underlying records and test data to the extent necessary to assess the accuracy of the amounts disclosed and the reasonableness of the range disclosed.
- Evaluate whether the CCG's caveats, if any, used are appropriate and reflect the status of the implementation

Outcome from audit work

Following further guidance and communications from NHSE and NHSI during March 2020 the requirements in respect of IFRS16 have been deferred with no disclosures required in the 2019/20 financial statements.

Financial statements audit - mandated risks

Scepticism Challenge

Risk	Why	Finding from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.	We rebutted this risk as part of our audit planning procedures therefore we have no further matters to report.
Fraudulent expenditure recognition	Practice Note 10 suggests that auditors in the public sector should consider whether there is a fraud risk arising from the recognition of expenditure.	Our work in relation to this risk is summarised on page 10 of this report.
Fraud risk from management override of controls	Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its 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 procedures, included testing of journal entries, accounting estimates and significant transaction outside the normal course of business, no instances of fraud were identified. Our findings in relation to this risk are summarised on page 11 of this report.

Reconfirming materiality: We can confirm that we have completed all our audit work to the materiality that we proposed at the planning stage of the audit, which was a total of materiality of £6m performance materiality of £4.5m with an audit differences posting threshold of £0.3m.

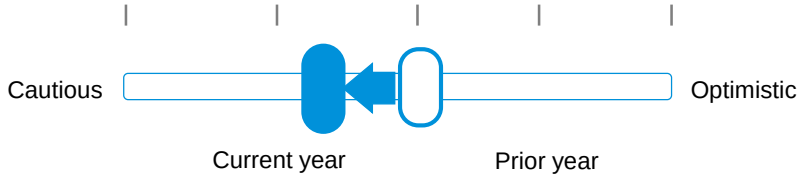
Financial statements audit - judgements

Scepticism Challenge

Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.

Cautious means a smaller asset or bigger liability; optimistic is the reverse. We have only considered material judgements for the purpose of our reporting here.



Asset/liability class	Our view of management judgement (Cautious – Neutral – Optimistic)	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates (Needs improvement – Neutral – Best practice)	Further comments
Accruals		(22.5)	(1.8)		Our testing of accruals did not identify any issues in relation to overly optimistic accruals. Management's approach has been similar to that in the prior year. See also commentary on page 10.
Prescribing accrual		(7.0)	0.2		Management have taken a similar approach to this as in previous years, using information provided by NHS Business Services Authority in relation to the predicted prescribing cost for the last quarter. The updated actual information from NHSBSA received in May 2020 showed an under accrual of £38k. This is significantly below our reporting threshold of £300k.

Financial statements audit - other matters

Scepticism Challenge

Regularity Opinion

We are required to form a view on the regularity of the CCG's income and expenditure i.e. that the expenditure and income included in the CCG's financial statements has been applied to the purposes intended by Parliament and the financial transactions in the financial statements conform to the authorities which govern them.

We have reviewed the CCG's expenditure and income and in our opinion, in all material respects, it has been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Annual report

We have read the contents of the Annual Report (including the Accountability Report, Performance Report and AGS) and audited the relevant parts of the Remuneration Report. Based on the work performed:

- We have not identified any inconsistencies between the contents of the Accountability and Performance Reports and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the Accountable Officer's statements. The Accountable Officer confirms that the annual report and accounts taken as a whole are fair, balanced and understandable
- The part of the Remuneration Report that is required to be audited were all found to be materially accurate; and
- The AGS is consistent with the financial statements and complies with relevant guidance subject to updates as outlined within section two.

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 £36,370 plus VAT (£36,370 in 2018/19)This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in January 2020.

The CCG accounts disclose an amount of £4k as "other non statutory audit expenditure". This relates to work mandated by NHSE on the Mental Health Investment Standard for 2018/19, the CCG had accrued for these costs in the 2018/19 financial statements however the actual costs were higher and finalised late in 2019.

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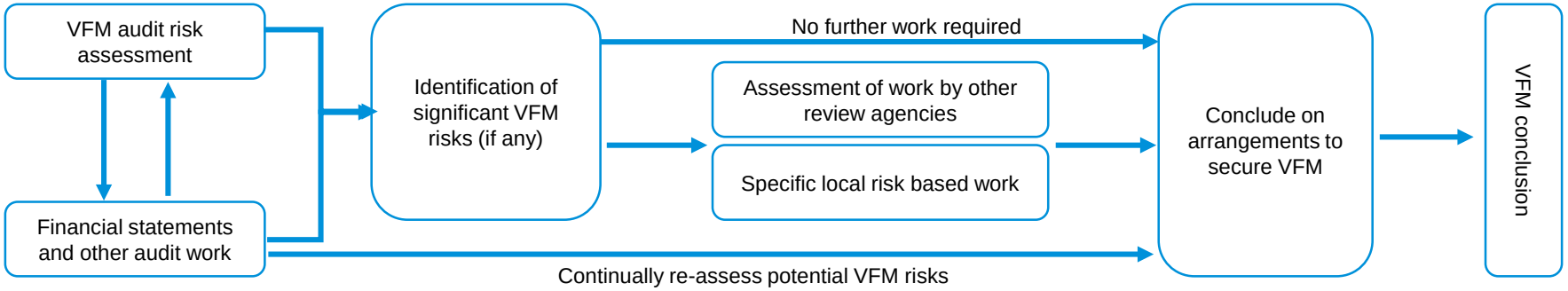
Value for Money

Value for Money

Scepticism Challenge

For 2019/20 our value for money (VFM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We identified one significant VFM risks which are reported overleaf



Risk	Why	Finding from the audit
We reviewed the 2019/20 AGS and took into consideration the work of internal audit. We confirm that the AGS reflects our understanding of the CCG's operations and risk management arrangements.	We considered the outcomes of relevant regulatory reviews (NHS Improvement, CQC, etc.) in reaching our conclusion. No material issues were noted.	As part of our risk assessment we reviewed various matters, including: • forecast run rate position • core assumptions in the 2019/20 Annual Plan • recurrent cost improvement schemes are identified and delivered • current operational performance and provider relationships / contractual risks • planned VS actual outturn • Management's assessment of the CCG's ability to continue as a going concern.

Value for money

Scepticism Challenge

Financial Resilience

Significant vfm risk

The risk

All CCGs are under considerable pressure to continue to deliver the budget with limited resources. This requires forward planning and ensuring plans are put in place to protect the CCG's financial resilience in future years.

Planned response

We note the QIPP target for 2019/20 to be £12.5m at the time of writing this audit plan, we also note that the QIPP target for 2018/19 was £15.1m. Given QIPP is used as one of the key arrangements to manage the CCG's financial position, we will consider:

- the CCG's performance of delivering the QIPP target in 2019/20; and
- their arrangements in place to identify, monitor, deliver and report performance on QIPP targets.

Summary of work completed

- The CCG delivered its 2019/20 QIPP target and recorded a surplus of £1m for the year ended 31 March 2020. This includes a drawdown of £4m against its historic brought forward surplus of £17.5m.
- The CCG was in the process of agreeing and finalising the financial plan for 2020/21 when the NHSE announced that financial planning was on hold due to the impact of the COVID-19 pandemic. In its plan, the CCG had set a budget with a surplus of £49k for the year ending 31 March 2021, with use of £3.5m drawdown against its historic brought forward surplus and a QIPP target of £12m.
- The QIPP target is consistent with previous years and the CCG has a good track record of delivering to plan. The draft plan showed that all of the QIPP target had been allocated to schemes and the CCG was in the process of contract negotiations to agree input from its partners to deliver the planned savings.
- Following the COVID-19 outbreak, normal NHS Business Rules have been suspended and commissioners have been deterred from progressing contract negotiations with providers or from implementing significant operational savings. At the time of writing this report we are expecting DHSC/NHSE to issue revised business rules to support NHS organisations through the duration of the pandemic. CCG management are acutely aware that the continued block payments are potentially creating financial sustainability pressures that will materialise later in the year or beyond once normal business is resumed. These concerns have been raised with NHSE by management.
- As the CCG planned a small surplus for 2020/21, was actively identifying QIPP schemes to support this plan and has a good track record of delivering to budget, we are satisfied that adequate arrangements were in place as at 31 March 2020.

Appendix

Contents

Appendix 1

Revision to the Going Concern auditing standard

In September 2019 the FRC published a revised UK auditing standard for Going Concern ISA UK 570. This responds to recent enforcement cases and well-publicised corporate failures where the most recent auditor's report had not included a material uncertainty on going concern. The revised standard is applicable for periods commencing on or after **15 December 2019,** including short periods**.** We have not early adopted the standard for 31 December 2019 year-ends.

The key changes

The key changes in comparison to the current standard are:

- Enhanced coverage of going concern in the audit report, including:
    - A positive statement from the auditor that the use of the going concern basis is appropriate and the auditor has not identified a material uncertainty on going concern.
- More detailed audit requirements on risk assessment procedures, including on the entity and its environment; the applicable financial reporting framework; and the entity's system of internal control.
- Additional audit procedures when events or conditions are identified which have not been identified or disclosed to the auditors by management.
- Under the new standard detailed substantive procedures will be required in all cases, whereas in the current standard there are reduced requirements if no events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern.
- Requirement to consider reporting material uncertainties to external regulatory and enforcement authorities.

NHS bodies are directed to prepare accounts on a going concern basis unless otherwise instructed for example unless services are being transferred outside of the public sector or being discontinued. We set out below the key impacts:

Risk assessment procedures and related activities: In addition to work which the auditor previously undertook understanding the entity and its environment, the new standard requires auditors to perform more detailed risk assessment procedures including specific work on the entity's system of internal control and risk assessment processes as they specifically pertain to going concern. This will include greater scrutiny over areas such as cash flow management and borrowing arrangements.

Removal of the gateway to assess whether events or conditions exist: The auditor will perform an evaluation of management's going concern assessment in all cases, not only when events or conditions which may cast significant doubt as to the entity's ability to continue as a going concern have been identified.

Increased challenge due to change in emphasis in the report: The FRC intends that auditors increase their scrutiny of going concern. Whilst much of our detailed work will remain unchanged with continued emphasis to robustly challenge management's assessment of going concern which includes thoroughly testing the adequacy of the supporting evidence, evaluating the risk of management bias. The change in the nature of the report is likely to result in more challenges being raised. This will mean the CCG will need to specifically design, perform and document its own assessment of Going Concern.

Appendix 2

Recommendations followed up

We have followed up the 2017/18 recommendation that remained outstanding when followed up last year:

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (May 2020)
Financial Statements – 2017/18 audit				
1	3	**Declarations of interest** As part of our testing of the related parties note, we are required to reconciled the register of interests to what has been disclosed within the financial statements. In order to test the data integrity of the register of interests, we agree the register back to signed declarations of interest. We struggled to easily reconcile the register of interests back to the declarations and also noted that some declarations had not been updated since the 2016/17 audit year. By not having a regular process for collecting declarations from all staff and appropriately updating the register, there is a risk that some related parties could be missed from inclusion in the financial statements. There should be an at least annual process, ideally near year end, of all staff submitting new declarations of interest and confirming existing declarations. The register of interests should then be updated and include details of the date each new declaration was added. The register should also include the date at which it was updated to avoid version control issues.	Officers accept the recommendations. A review of the process will be undertaken Officer: Assistant Chief Officer Due Date: March 2019	**Further action needed.** We followed up this recommendation as part of our 2018-19 audit and identified similar issues. We therefore reported the status as "further action needed". Having completed the work for 2019-20, we have found similar issues: -We checked a sample of declaration of interest forms and noted that one had not been signed by the relevant individual and two were missing/not completed.

Appendix 3

Audit Differences

Unadjusted audit differences -nil

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit and Quality Assurance 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&I) 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 there are no unadjusted audit differences.

Adjusted audit differences -nil

Under UK auditing standards (ISA UK&I 260) we are required to provide the Audit and Quality Assurance Committee with a summary of adjusted audit differences (including disclosures) identified during the course of our audit.

We are pleased to report there are no adjusted audit differences.

Presentational matters

Minor presentational changes were agreed with the CCG, including one relating to disclosure in the renumeration report.

Appendix 3

Audit Differences

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 a CCG is a sampled or non-sampled component. We have provided details of the inconsistencies that we are reporting to the NAO as follows:

Counter party	Type of balance/ transaction	Balance as per CCG (£'000)	Balance as per counter party (£'000)	Difference (£'000)	Comments on Difference
Y63-DO NOT USE - North East and Yorkshire Regional Office	Income	-	£750	£750	The CCG have recorded these as recharges and not income.
03N-NHS SHEFFIELD CCG	Income	-	£406	£406	The CCG have recorded these as recharges and not income.
FRXE-Rotherham, Doncaster and South Humber NHS Foundation Trust	Expenditure	£32,395	£32,782	£387	The difference relates to transactions the CCG has treated as pass- through payments that were made to the Local Authority. Therefore the Trust should show these balances with the local authority and not the CCG.
NCA-Non-contracted activity (for Agreement of Balances purposes)	Expenditure / Creditor	£340	N/a	£340	This relates to accrual balances against non-contracted activity that the CCG expects at the year-end. Since the amounts are not yet invoiced to the CCG due to timing, they are not identifiable at the time of preparing the draft accounts. They always therefore appear as a difference.

Appendix 4

Audit 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 Governing Body/Audit Committee members

Assessment of our objectivity and independence as auditor of NHS Rotherham Clinical Commissioning Group ('the CCG')

Professional ethical standards require us to provide to you at the conclusion 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 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 fees

We have considered the fees charged by us to the CCG and its affiliates for professional services provided by us during the reporting period. We have detailed the fees charged by us to the company and its related entities for significant professional services provided by us during the reporting period below, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2020 can be analysed as follows:

Component of audit (all fees exclude VAT)		
	2019/20	**2018/19**
Audit services – statutory audit		
Financial Statements Audit	£36,370	£36,370
Non audit fees		
All other assurance services	-**	£17,000*
Total fee for CCG	£36,370	£52,370

The ratio of non-audit fees to audit fees for the 2018/19 year was 0.44:1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

*The fee disclosed for other non audit services relates to the Mental Health Investment standard independent assurance engagement that was completed during the 2019/20 financial year. The CCG has recorded this across the two financial years as the actual fee differed to the fee accrued for in the 2018/19 financial statements.

**We have noted in our Year-End Report to the Governing Body that the CCG has included £4k as "other non statutory audit expenditure" in its 2019/20 financial statements relating to the 2018/19 work. The final fee for the 2018/19 work was confirmed after the 2018/19 financial statements were approved.

Audit Independence (continued)

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

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

This report is intended solely for the information of the Audit Committee of the CCG 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

Appendix 5

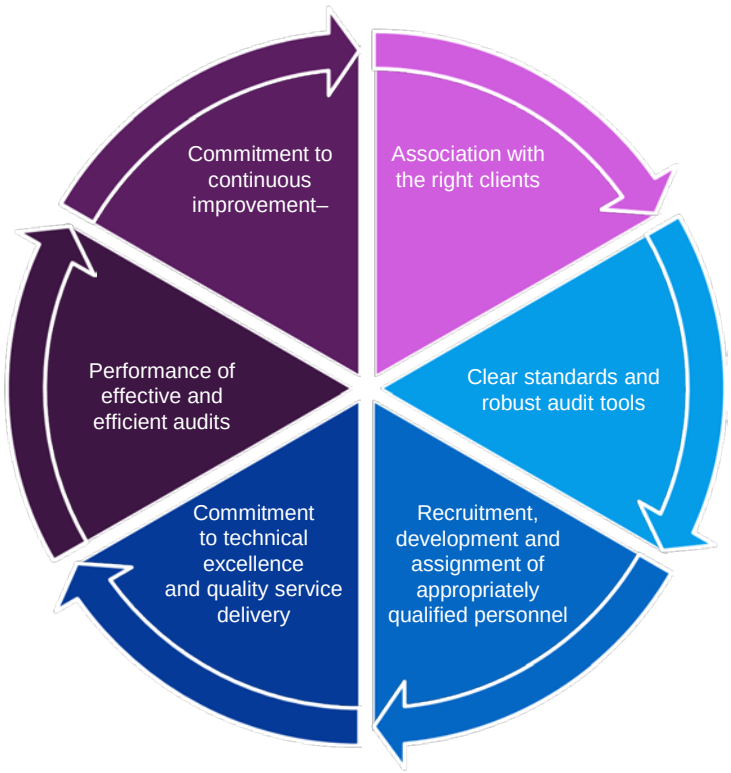
KPMG's Audit quality framework

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

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

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



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

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- 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 and specialists

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