



# NHS Dumfries and Galloway

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**External Audit Annual Report to the Board and the Auditor General for  
Scotland for the financial year ended 31 March 2018**

Audit and Risk Committee and then Board Meeting 18 June 2018

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# Our audit at a glance



We have fulfilled our responsibilities per International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work and this final report to the Board and the Auditor General for Scotland concludes our work.



We have performed sufficient audit testing around our identified area of significant risk including: management override of controls; risk of fraud in revenue recognition; and the risk of fraud in expenditure recognition.



We have raised three audit recommendations, in particular related Financial Sustainability. We have followed up on prior year audit recommendations and are satisfied that these have been addressed.

## An audit underpinned by quality



This report reflects our broader reporting obligations under the Code of Audit Practice. We have provided commentary against our specific wider scope risks as well as certain aspects of NHS Dumfries and Galloway's arrangements as they relate to: financial management; financial sustainability; governance and transparency and value for money. Overall, like all NHS Boards in Scotland NHS Dumfries and Galloway needs to continue to achieve savings on a recurring basis and over time the savings are increasingly non-recurrent in nature, increasing financial pressure in future years.



We received good quality unaudited annual report and accounts which had been through good internal review by the Finance team. The audit process was effective and efficient and we continue to build a good working relationship with the finance team and Audit and Risk Committee.



We have issued an unmodified audit opinion on the annual report and accounts.

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## Adding value through our external audit work

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards of Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, underpinned by our quality arrangements, gives you assurance over our opinion.

Through this Annual Report we seek to provide insight and commentary over certain aspects of NHS Dumfries and Galloway's arrangements, sharing relevant practices with the Audit and Risk Committee and Management.

We have continued to build on our working relationship with management and our understanding of NHS Dumfries and Galloway as an organisation. During the year we have shared relevant publications with management, in particular from Audit Scotland. In particular we have: considered the accounting treatment of the new hospital early in the audit process, consulted on the treatment of the potential sale of Crichton Hall, supported the connection between the NHS Board and Audit Scotland to facilitate a discussion on Health and Social Care Integration and had routine conversations during the year with the Director of Finance on arising NHS Scotland matters.

Lastly we are committed to audit quality. We have shared our Audit Scotland Transparency report with the Audit and Risk Committee and will share lessons learned on an annual basis, as our reporting in this area evolves.

# Introduction

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2018.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

Our report is addressed to the Board of NHS Dumfries and Galloway. In addition, in accordance with our reporting responsibilities the report is jointly addressed to the Auditor General for Scotland.

Once finalised this report will be made publically available on the Audit Scotland website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

We would like to thank NHS Dumfries and Galloway's management and the finance team for an effective year-end audit process and all their support and assistance in the audit process.

## Structure of this report

In accordance with the Audit Scotland Code of Practice 2016, in addition to our core financial statements audit we provide conclusions on the four dimensions of wider-scope public audit.

Our report is structured as follows:

Financial statements – Section 1

Financial management – Section 2

Financial sustainability – Section 3

Governance and transparency – Section 4

Value for money – Section 5



## Our Opinion

For the financial year ended 31 March 2018 we have issued an **unmodified audit opinion**

- True and fair view of the financial statements
- Regularity – expenditure has been incurred in accordance with the purpose of NHS Dumfries and Galloway
- Other prescribed matters (which include the audited information in the remuneration report)



## The audit process

We received the draft financial statements on 30 April 2018 to enable audit testing to begin. We then received a full set of Accounts on the 10 May 2018 including the strategic report, corporate governance statement, and director's remuneration report.

This was in line with the timetable we agreed. The draft financial statements were supported by good working papers and the audit was efficient.

We identified no unadjusted differences to report to the Audit and Risk Committee.

We identified minor disclosure enhancements and these have been reflected in the financial statements.



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# Our financial statements audit



Materiality has been set at £5.854 million and performance materiality is set at £4.390 million. We report to management any audit difference identified over £0.25 million. Our approach to materiality as set out in our plan remained unchanged, calculated based on total gross expenditure (£682.923 million) adjusted for contributions to the Dumfries and Galloway Integration Joint Board (£292.669 million) to avoid double counting this amount. We updated our proposed materiality for 2017/18 based on the first draft of the unaudited annual accounts.



The draft financial statements were of a good standard supported through detailed working papers and where received in line with the agreed timetable.



We have issued an unmodified audit opinion on the financial statements, including the wider information contained in the financial statements, and regularity opinion. The audited parts of the Directors Remuneration Report are free from error.



Testing provided assurance on all identified areas of significant audit risks and there were no audit differences arising during the course of our audit

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## Audit approach and materiality

Our audit approach was set out in our annual audit plan presented to the Audit and Risk Committee on 18 December 2017. We have updated our materiality calculations, set at planning, to be based on the unaudited 2017/18 financial statements. Overall materiality has been set at £5.854 million, 1.5% of gross expenditure (2016/17: 3.674 million at 1% gross expenditure) and performance materiality is set at £4.390 million, 75% of materiality. We report to management any audit difference identified over £250,000 (capped at £250,000 per Audit Scotland guidance).

We received a complete set of accounts on 10 May 2018 including the Performance report and the Accountability report (including Corporate Governance Report and the Remuneration Report and Staff Report) in line with our audit timetable and these were of a high quality with only minor amendments required around the disclosure of defined benefit pension schemes. The accounts were supported by detailed working papers contributing to an effective audit process.

## Audit opinion

Based on our audit procedures performed we have issued an unmodified audit opinion on the financial statements including:

- they give a true and fair view
- they have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the financial statements, e.g. Accountability Report; Directors Report and Governance Statement
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with applicable guidance

## Internal control environment

During the year we sought to understand the design of NHS Dumfries and Galloway overall control environment, as related to the financial statements. In particular we have:

- Sought to understand procedures and controls around related parties, journal entries and other key entity level controls
- Performed procedures around entity level controls and there are no significant matters that we wish to draw to your attention.
- Performed walkthrough procedures on key controls around identified risk areas including revenue, expenditure, property plant and equipment and payroll as well as ledger controls.

No material weaknesses in the accounting and internal control systems were identified based on our work undertaken during the audit which could have an adverse impact on NHS Dumfries and Galloway ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. We adopted a substantive based approach to the audit of the financial statements and therefore our review is limited to the design of controls rather than the operating effectiveness of the controls.

## Internal Audit

As set out in our external audit plan we have not placed formal reliance on the work of Internal audit during 2017/18. We have reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach, with none being noted. Internal Audit is undertaken by an in-house Chief Internal Auditor and a small internal audit team, who are independent of management.

# Key audit issues – Our response to significant audit risks

	Identified audit risk at planning	Work completed	Our conclusion
Risk of fraud in revenue	<p>As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In 2017/18, the Board's income included £291 million (2016/17: £219 million) of income commissioned by the IJB. This is formally agreed at the start of the year and not considered judgemental. We therefore do not consider this revenue stream as a significant risk. We consider the risk to be most prevalent in transactions and balances at the year end. We focus our testing on other material revenue streams including non-IJB hospital and community income, family health income, and other operating income.</p>	<ul style="list-style-type: none"> <li>• Developed our understanding of NHS Dumfries and Galloway's material revenue streams including walkthrough of key transactions.</li> <li>• Performed targeted review and testing of key revenue streams during the year, including analytical procedures and transaction testing.</li> <li>• Performing revenue cut off procedures and substantive testing over pre and post year end balances</li> <li>• Testing the existence and recoverability of balances at the year end</li> </ul>	<ul style="list-style-type: none"> <li>• From our audit procedures performed we are satisfied that revenue is free from material misstatement.</li> <li>• We are satisfied that revenue has been recognised in the appropriate financial year.</li> </ul>
Risk of fraud in expenditure	<p>Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure).</p> <p>As set out in Practice note 10 (revised) which applies to public sector entities. We consider the risk to be most prevalent in transactions and balances at the year end.</p>	<ul style="list-style-type: none"> <li>• Developed our understanding of NHS Dumfries and Galloway's material expenditure streams including walkthrough of key transactions.</li> <li>• Performed targeted review and testing of key expenditure streams during the year, including analytical review of expenditure and targeted transaction testing, including consideration of the regularity of expenditure incurred.</li> <li>• Performed cut-off testing of expenditure transactions around the year end to ensure these had been allocated to the appropriate financial year. Reviewing post year end payments for any potential unrecorded liabilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Assurance gained that expenditure has been recorded within the appropriate financial year and that payables are free from material misstatement.</li> <li>• We are satisfied that expenditure has been incurred in accordance with the type/nature of NHS Dumfries and Galloway as an organisation</li> </ul>
Management override of controls	<p>As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Override of controls risk is present in all entities.</p>	<ul style="list-style-type: none"> <li>• Developed our understanding of the entity level controls in place at NHS Dumfries and Galloway that reduce the risk of management override.</li> <li>• Performed review of journal transactions for unusual transactions or balances.</li> <li>• Evaluated key areas of judgement within the Financial statements and the basis for these judgements / application of accounting policies.</li> <li>• Reviewed unusual and/or significant transactions.</li> </ul>	<ul style="list-style-type: none"> <li>• We did not identify any significant areas of bias in key judgements by management.</li> <li>• We have not identified any unusual or significant transactions during the course of the year that would indicate management manipulation.</li> </ul>



## Other key areas of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of increased risk due to their complexity or magnitude.

### Valuation of land and buildings

In accordance with the Government Financial Reporting Manual (FRoM), NHS Dumfries and Galloway holds property, plant and equipment (PPE) at fair value. Valuations of land and buildings are reassessed by professional valuers and this was done in 2017/18. As at 31 March 2018, NHS Dumfries and Galloway held land and buildings of £280.4 million (2016/17: £85.5 million, movement relating to the new hospital). While we have no underlying concerns around the basis of valuation, however, given the value of assets held, the new NHS Dumfries and Galloway Royal Infirmary site becoming operational in the year, and the level of estimation in the valuation applied, this is considered a inherently higher risk area.

To gain comfort of this inherent risk, we reviewed the valuations undertaken in year by the independent valuer (GVA James Barr Ltd,) including the basis of the valuation. We also reviewed managements assessment of impairment risk and reviewed the classification of PPE to ensure this is appropriate, depreciation was applied in line with NHS Dumfries and Galloway policies and complied with the FRoM.

### New Dumfries and Galloway Royal Infirmary

The new District General Hospital opened to patients in December 2017 and represented a significant investment for the Board. The new Hospital's land and buildings are included on the balance sheet at a valuation of £204.7 million as at 31 March 2018. The construction was funded through the Non Profit Distributing (NPD) model. With the hospital completion in year, and the material value of this transaction, it is important that the liability and in year transactions are appropriately reflected in the accounts.

We reviewed the final finance model, following completion of the construction on the new hospital to confirm the obligations under the agreement were appropriately reflected in the financial statements. We also reviewed the reasonableness of the basis of recognising annual service payments within the financial statements and how this is apportioned across capital, finance and operating costs. We have no matters arising from this work that we wish to highlight.

### Endowment Consolidation process

NHS Dumfries and Galloway Endowments funds financial statements were audited by Carson and Trotter, who provided an unqualified opinion. The Endowment Fund was consolidated, along with the IJB, into the NHS Dumfries and Galloway accounts.

We issued group instructions and requested assurances from the Endowment Auditor, including their professional qualifications, experience and independence of the audit team. No matters arose from this confirmation that we wish to bring to your attention, and we highlight that endowments are not a material balance.

## Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.

### Performance Report

- The accountability report is in line with our understanding of NHS Dumfries and Galloway and in particular their vision and strategic priorities.
- The Accountable Officer's statement is clear and easy to read.
- Risks are well articulated, aligned to NHS Dumfries and Galloway's internal risk reporting.
- Good use of links to relevant material on the NHS Dumfries and Galloway's website.

### Remuneration Report

- Has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions thereunder.
- The Executive and Non-Executive members reflected in the report have been correctly identified in accordance with FReM.

### Overall observations

NHS Dumfries and Galloway continue to look at how the "front end" of the Annual Report and Accounts tells the story of NHS Dumfries and Galloway as an organisation including strategic priorities, risks and challenges and opportunities. There is further opportunities to continue to focus on the outcomes of NHS Dumfries and Galloway as an organisation and continue to make use of graphics.

### Governance Statement

- As required by the FReM the Governance statement is included in the Accountability report.
- No material issues of governance in year that are required to be reported
- The governance statement is in accordance with the FReM.
- The statement is supported by individual assurances to the Accountable Officer over internal controls.



## Key aspects of your financial statements

As set out in our audit plan we consider particular aspects of your financial statements in relation to management judgements including estimates and where management may have particular options or choices in what accounting standards or disclosure requirements to apply. We have summarised where these apply, and our conclusions below.

### Commentary:

NHS Dumfries and Galloway's accounting policies are in accordance with the NHS Manual of Accounts and we consider these to be appropriate to the organisation and consistent with those adopted in prior years.

### Accounting estimates and judgements

NHS Dumfries and Galloway significant accounting estimates and judgement impacting on the annual accounts are the following:

- Property, plant and equipment valuations: Where we are satisfied these are supported by qualified expert valuations.
- Provision calculations: Estimated costs relating to Pensions and similar obligations as well as Clinical and Medical Negligence claims. Reliance was placed on significant details provided by other independent and objective parties in order to establish the value of such provisions.

We are satisfied that the estimates and judgements applied by management are reasonable and not subject to management bias.



### Fraud and irregularity

In relation to the audit risk of fraud in respect of expenditure we tested NHS Dumfries and Galloway's cut off arrangements in particular (timing) and identified no issues in accruals or prepayments which would indicate potential fraud.

There are no post balance sheet events or legal uncertainties at year-end.

### Going concern

NHS Dumfries and Galloway has an agreed budget for 2018/19 and continues to discuss future funding with Scottish Government.

Given the nature of NHS Dumfries and Galloway activities delivering services to a community within a fixed geographical location, as set out in various legislation, we do not have reason to consider that NHS Dumfries and Galloway will not continuing to operate over the next 12 months from the account signing date.

NHS Dumfries and Galloway has a budget gap of £17.3 million and funding this gap continues to be a challenge. See additional commentary around future financial sustainability risks beyond this period, within the financial sustainability section of this report.

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# Financial management



NHS Dumfries and Galloway has efficient and effective financial management arrangements in place. Based on our: minutes review; review of financial monitoring reports; and attendance at the Audit and Risk Committee meetings throughout the year, we observed clear and transparent reporting which is in sufficient detail to allow assessment of underlying financial performance across the organisation.



Despite achieving break-even position in 2017/18, NHS Dumfries and Galloway continues to operate under a challenging financial environment, having to rely on non-recurring savings to achieve this balanced budget.

To continue to meet demands of the 150,000 residents spread over a large rural area, it is critical that NHS Dumfries and Galloway's financial planning and management arrangement remain robust.



Financial performance was broadly in line with budget set at the start of the year and is closely monitored. Financial performance reports are provided bimonthly to the Board from June through to year end, and in alternate months to the Performance Committee. They track performance against budget, and sub-divide core financial performance into income; pay; non-pay and by business (IJB, Strategic, Support directorates and non-core). Explanations are provided for all significant movements. Comment is also included on trajectory and expected future position. Performance by sector is red / amber / green rated so easier to identify higher risks / are as of concern during the year.

The reporting provides the quality of information that we would expect on a routine basis compared to budget. Reporting is direct to the Board which is in line with our expectations given the importance of achieving the statutory limits set by the Scottish Government.



NHS Dumfries and Galloway have a small, but skilled, experienced and capable finance team. In prior year we noted that ability of the finance team to flex to accommodate gaps in staffing and during 2017/18 this flexibility has continued.

Overall the finance team do still have vacancies, but have traditionally struggled to recruit into the team given the geography of Dumfries and due to salary expectations.

During our audit planning process, no specific financial management risks were identified for 2017/18. However, as noted in our annual audit plan, we considered NHS Dumfries and Galloway financial performance and financial management arrangements including review of policies and procedures and systems of internal financial control.

Our work in this area reflects our judgement and conclusion on the organisation's financial management arrangements. This has been informed through review of Board and committee meetings; review of financial plans and monitoring reports, review of applicable policies and procedures; and discussion with management.

## Financial Performance

NHS Dumfries and Galloway achieved all 3 financial statutory targets and delivered efficiency savings in the year of £22.6 million. Consolidated net revenue expenditure by the Board in 2017/18 was £369 million and capital expenditure was £40 million.

NHS Dumfries and Galloway delivered an underspend against its Core Revenue Resource Limit (RRL) of £0.061 million for 2017/18. This included a brought forward balance from 2016/17 of £0.077 million which was added to the Board's Core RRL in the current year.

NHS Dumfries and Galloway had a challenging financial year in 2017/18, with a cash releasing savings target of £22.6 million set as part of the revenue financial plan approved by the Board in April 2017.

2017-18 Target Delivery	Limit as set by SGHSCD	Actual Outturn	Variance (Deficit)/ Surplus
	£000's	£000's	£000's
Core Revenue RL	327,557	327,496	61
Non-Core Revenue RL	27,008	27,008	0
<b>Total Revenue RL</b>	<b>354,565</b>	<b>354,504</b>	<b>61</b>
Core Capital RL	40,600	40,013	587
Non-Core Capital RL	0	0	0
<b>Total Capital RL</b>	<b>40,600</b>	<b>40,013</b>	<b>587</b>
<b>Cash Requirement</b>	<b>363,504</b>	<b>363,503</b>	<b>1</b>



## Financial management

Financial performance is monitored by management and reported bimonthly to the Board from June through to year end, and in alternate months to the Performance Committee.

As part of the budget monitoring reports, NHS Dumfries and Galloway reforecast the budget for the remainder of the financial year to ensure that there is an up to date and remains appropriate. From review of the financial reporting and minutes of the Board meetings we found:

- Financial performance reports were clear.
- There is challenge and scrutiny of performance in the year and key variances between actual and outturn performance, based on the minutes reviewed.
- Financial pressures and challenges are discussed.
- Management are continuing to enhance this reporting arrangements, including clearer reporting of budget movements in each month, which aids in the quality and detail for reports provided to the Board.

## Financial capacity and capability

NHS Dumfries and Galloway has strong leadership from an experienced and qualified finance team. However, retaining their existing employees as well as attracting the correct individuals from a limited resource pool is an on-going challenge for the Board re succession planning.

We observed that controls over key financial processes were designed effectively and appropriate for territorial Board finance function. The financial management arrangements are underpinned through documented financial policies and procedures and scheme of delegation.



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# Financial sustainability



The Financial Plan 2018/19 to 2020/21, presented to the Board on the 9 April 2018, outlines NHS Dumfries and Galloway's strategic priorities over the three year period of the plan.

The Plan recognises the financial and operational challenges faced by NHS Dumfries and Galloway in serving the 150,000 residents in the Dumfries and Galloway region.



Approval of the final budget for NHS Dumfries and Galloway for 2018/19 was given by the Board, noting that the current level of unidentified savings was at £6.2 million from an overall savings target of £17.3 million.



At the start of the financial year NHS Dumfries and Galloway were forecasting an unidentified savings gap of £6.2 million, and a number of higher risks to the savings plan. As at month 2 this position remains unchanged.

As at June 2018 the Board are still targeting a break-even position for 2018/19 but recognise some real risks in the achievement of this, and the ability to deliver in-year savings, particular those in the process of being identified and/or associated risks will become clearer over the next 3 months.

The Board's transformational plan includes a balanced mix of short and longer term savings that are required, and how these plans are balanced to support the aim of achieving in-year financial balance for 2018/19.



At the start of the 2017/18 financial year the Board intended to use £4 million of the £7million they "banked" with Scottish Government in previous years to fund the dual running costs of the new hospital.

However, due to in-year underspends the Board met the dual costs without the need to draw down this additional money.

In 2018/19 the draw down of the full £7 million is planned, and this is built into the financial forecasts.

Within our audit plan we identified risk around financial sustainability at NHS Dumfries and Galloway. In accordance with the Code of Audit Practice, we have undertaken appropriate procedures to allow us to form a conclusion around the identified areas of risk and the organisation's financial sustainability. This includes review of corporate and financial strategies and plans as well as discussion with senior management.

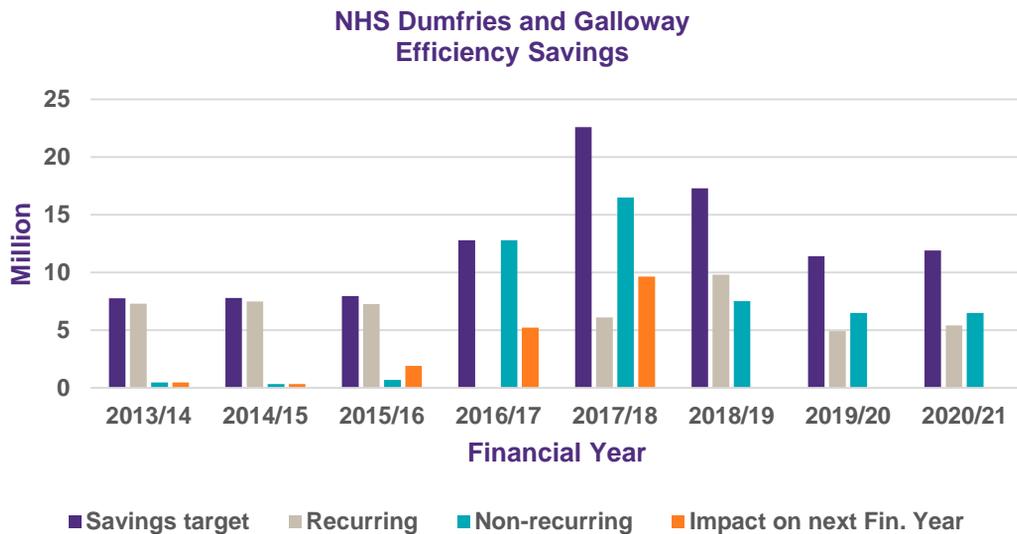
We identified a specific audit risk in our plan related to NHS Dumfries and Galloway longer term financial sustainability. We have outlined below our response to this risk and overall conclusion.

Identified audit risk at planning	Conclusion
<p>NHS Dumfries and Galloway continues to face significant financial and operational challenges. The LDP identified that savings of £22 million were required for 2017/18. Increased pressures on demand as well as rising costs pressures particularly through payroll, prescription and general inflationary pressures represent a significant challenge to the Board. Furthermore, the uncertainty around the potential impact of Brexit on future finances and workforce creates additional challenges.</p> <p>In recent years while management have delivered against financial targets, there has been a reliance of non-recurring in year savings. It is critical for the longer term sustainable savings are achieved.</p> <p><b>Our Response:</b></p> <p>We will continue to discuss financial sustainability with NHS Dumfries and Galloway Management. We will review the financial plans in place, including the scenarios set out, the governance of the plans and regular reporting on future financial scenarios.</p>	<p>The Financial Plan 2018/19 to 2020/21, presented to the Board on the 9 April 2018, outlines NHS Dumfries and Galloway' strategic priorities over the three year period of the plan.</p> <p>The current revenue plan identifies a financial gap of £17.3 million in year, reducing to £6.2 million once savings plans are factored in. The in year gap is not a position which can currently be managed within the assessed financial position so a breakeven position is not projected by the Board at this stage (<b>Action Plan</b>). Per The Financial Plan, there are a range of significant financial risks in the current position which have been summarised below:</p> <ul style="list-style-type: none"> <li>• Pressures in GP prescribing, specifically associated with increased cost of drugs on short supply.</li> <li>• Continuing increasing costs of medical locums which are being targeted through savings plan but remain a current risk.</li> <li>• The risk of further GP resignations from across General Practice with increased cost to the Board.</li> <li>• Pressures associated with move to new hospital including a review of staffing templates in nursing.</li> <li>• Increased cost of New Medicines Fund which is currently showing a cost of £2.5 million in excess of funding currently provided.</li> <li>• Double running costs of old hospital especially estates and facilities costs.</li> <li>• Delivery of elective waiting times improvement without additional resource identified.</li> <li>• Increased cost of external contract agreements with NHS Scotland Boards and North of England service agreements.</li> <li>• Winter Pressures and the need to have addition surge capacity and additional staffing to support the hospital over the December to March period.</li> </ul> <p><b>Overall Position</b></p> <p>The Board is required to achieve a balanced financial position for 2018/19 onwards and has a statutory requirement to breakeven. This Financial Plan reflects an significant level of financial risk for the Board with an unidentified CRES requirement of £6.2m.</p> <p><b>Brexit</b></p> <p>Uncertainty around the potential impact of Brexit on future finances and workforce creates additional challenges for NHS Dumfries and Galloway.</p> <p>Given the scale of the potential implications and possible timescales for implementing changes, it is critical that NHS Dumfries and Galloway are working to understand, assess and prepare for the impact on the Board. This is likely to include consideration of three areas:</p> <p><b>Workforce:</b> the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.</p> <p><b>Funding:</b> the extent to which potential changes to funding flows, including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.</p> <p><b>Regulation:</b> the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activities of the organisation.</p> <p>The Board are considering these areas and are monitoring the political progress of Brexit.</p>

## Efficiency Savings Analysis 2013/14 to 2020/21

In April 2018 the Board approved the Financial Plan - 2018/19 to 2020/21, including an overall savings target of £17.346 million for the year.

The Board has a statutory requirement to deliver a breakeven financial position year on year. For 2017/18, despite the challenging financial position, the Board achieved breakeven position. This has been achieved through a range of measures including directorate savings, prescribing savings and a high level of non-recurring savings as shown in the Table below;



NHS Dumfries and Galloway have had and continue to have number of pressures impacting their financial sustainability, this can be seen from the increased reliance on non-recurring savings in financial years 2016/17 and 2017/18 going forward, when compared with 2013/14 to 2015/16.

Although the financial and operational challenges faced by NHS Dumfries and Galloway are substantial, we are satisfied that the financial plans in place are based on reasonable assumptions and appropriate based on our understanding of NHS Dumfries and Galloway. NHS Dumfries and Galloway continue to monitor these forecasts to ensure that they continue to be appropriate.

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# Governance and transparency



We have reviewed the financial and performance reporting to the Board during the year as well as minutes of all Board meetings to assess the effectiveness of the governance arrangements.

We have attended Audit and Risk committees which has also inform our us of the Governance arrangements at NHS Dumfries and Galloway.



NHS Dumfries and Galloway continue to make it's Board papers public providing overall openness and transparency of it's governance arrangements. This is an area the Board continue to review.

NHS Dumfries and Galloway committee structure continues to operate as in prior year;



- Board (bimonthly),
- Audit and Risk Committee (quarterly),
- Staff Governance Committee (bimonthly, with the Remuneration Committee, which is a sub committee to the Staff Governance Committee meeting when required),
- Performance Committee (bimonthly, alternate to the Board)
- Healthcare Governance Committee (bimonthly)
- Person Centred Health and Care Committee (bimonthly)

The governance structure and lines of decision making are in line with our understanding.



In addition to the above structure the Information Assurance Committee is responsible for ensuring the appropriate governance arrangements are in place for information sharing and security within the Board. This committee reports directly to the Audit and Risk Committee on its activity throughout the year and is an area that the Board continue to focus on and look to strengthen.

NHS Dumfries and Galloway has well established Board governance arrangements with a clear committee and reporting structure. During 2017/18 the Board successfully recruited two new Board members which will further strengthen arrangements.

We did not identify specific audit risks in respect of the Board’s governance arrangements within our plan. We have outlined below our relevant commentary on the Board’s wider governance arrangements based on our review of relevant document, attendance at meetings and discussions with management.

Identified audit risk at planning	Conclusion
<p><b>Governance and transparency</b></p> <p>No specific governance and transparency risks were identified for 2017/18. We will continue to consider, through discussions with management and review of minutes, NHS Dumfries and Galloway’s overarching governance arrangements and how the arrangements in place promote openness and transparency, and support the cultural values of NHS Dumfries and Galloway.</p> <p>Lastly we recognise the regional partnership agenda and NHS Dumfries and Galloway’s involvement in the West Region, working closely with NHS Ayrshire and Arran and NHS Greater Glasgow and Clyde. We will consider how these arrangements are progressing during 2017/18 and the impact on the Board’s strategic priorities, including the link to governance over these arrangements and contribution to the Board’s longer term financial sustainability plans.</p> <p><b>Our Response:</b></p> <p>As part of our overall assessment of governance, we have considered certain aspects of NHS Dumfries and Galloway’s arrangements as they relate to governance and transparency and have provided commentary opposite.</p>	<p>NHS Dumfries and Galloway have continued to review their governance arrangements during 2017/18. In particular, we note:</p> <ul style="list-style-type: none"> <li>• Two new Non-Executive Directors have been appointed in year</li> <li>• The terms of reference for Committees including the core function and membership were reviewed during 2017/18.</li> <li>• Audit and Risk Committee carried out a self assessment and used the results to identify further areas of improvement for 2018/19</li> <li>• A number of workshops were facilitated during the year for Board members including; understanding of the annual accounts; endowments; Board diagnostic, infrastructure and technology; good conversations; asset management strategy and technology enabled care.</li> <li>• Risk is a standing agenda item on Audit and Risk Committee and continues to be a key focus of the committee receiving assurances on the corporate risk register and local project specific risk registers which we have reviewed. <i>See action point re risk appetite and the application of this in practice.</i></li> <li>• A Strategic Capital Programme Board has been set up to oversee the delivery of the strategic capital plan as well as acting as a Programme Board for significant projects being taken forward including the Mountainhall Building Project.</li> <li>• The Acute Services Development Programme Board continued to provide the governance and direction for the new build during the construction phase until it became operational on 12<sup>th</sup> September 2017 when the governance arrangements reverted back to the responsibility of the Chief Operating Officer and the Programme Board was disbanded. Any outstanding post construction business for the new DGRI will be taken through the new Strategic Capital Programme Board for discussion and approval prior to going through the Boards governance structure.</li> <li>• Leadership walk rounds continue to operate monthly and have an open invitation to non-executive members to attend.</li> <li>• The Board have contributed to the draft West of Scotland regional plan during the year, which sets out collaboration plans with the West of Scotland Territorial Boards going forward, including options for service redesign and continued joint working. This is an area we will further consider during 2018/19 once the plans have been finalised.</li> <li>• From a review of the Board’s website it was noted that it was not always easy to find Board papers and relevant reports and this could be enhanced to support ongoing transparency. <i>See action point within the appendix.</i></li> </ul>

We observed clear commitment from both non-executive and executive members to deliver the organisation’s strategic goals. Committee meetings are well attended and there is a good level of debate. The Board recognise the challenges facing the organisation.



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# Value for money



NHS Dumfries and Galloway have clear and transparent performance management arrangements in place which are aligned to the delivery of the organisations strategic priorities.



NHS Dumfries and Galloway's performance in 2017/18 against the Local Delivery Plan (LDP) target has been mixed; six green, two amber and ten red (Below standard more than 3%).

The main reasons for the mixed performance are increased levels of activity, the migration to the new acute hospital, difficulties in the recruitment of key hospital and primary care staff and efficiency saving targets.



NHS Dumfries and Galloway have cost pressures in relation to agency staff costs. These costs total £11.972 million in the current year which is an increase from £10.686 million in prior year. Of the total 2017/18 agency costs, £10.5 million relate to medical locums (£10 million in 2016/17). Initiatives are in place to reduce the cost of medical locums through reviewing engagement options available and introducing a reduced rate card across the region. The complexity of the medical agency market as a whole presents a substantial risk in achieving the level of reductions anticipated.

No specific risks were identified in relation to NHS Dumfries and Galloway's arrangements for effectively utilising its resources and arrangements in place to continually improve services. NHS Dumfries and Galloway has a clear strategic framework in place which aligns the organisation's vision and values to supporting strategy and quality framework.

We did not identified any specific audit risk in our plan related to NHS Dumfries and Galloway in relation to Value for money.

#### Identified audit risk at planning

#### Conclusion

##### Value for money

No specific risks were identified in relation to NHS Dumfries and Galloway's arrangements for effectively utilising its resources and arrangements in place to continually improve services. NHS Dumfries and Galloway has a clear strategic framework in place which aligns the organisation's vision and values to supporting strategy and quality framework.

NHS Dumfries and Galloway recognise that financial and demand pressures puts significant challenge on the delivery of performance targets with two areas in particular: waiting times and delayed discharges, requiring focus.

We will consider NHS Dumfries and Galloway's performance management framework and how they capture and measure performance and outcomes. We will also consider progress against the key strategic objectives.

##### Performance Management / Performance Targets

NHS Dumfries and Galloway operates a performance management system based on the Scottish Government's nine national health and wellbeing outcomes and the strategic improvement priority areas identified in the LDP using performance indicators.

NHS Dumfries and Galloway's performance in 2017/18 against the Local Delivery Plan (LDP) target has been mixed. six green (Achieved or exceeded standard), two amber (Below standard but within 3%) and ten red (Below standard more than 3%). This is a decline in performance when compared to prior year; ten green, eight amber and two red.

The main reasons for the mixed performance are increased levels of activity, the migration to the new acute hospital, difficulties in the recruitment of key hospital and primary care staff and efficiency saving targets.

We observed that performance against these KPIs was scrutinised by senior management and the Board and that the underlying performance of the organisation was transparent. The Board continues to look to develop its performance reporting arrangement.

Despite the recognition of significant challenge on the delivery of performance targets in relations to waiting times and delayed discharges, no additional resource has been identified to aid in the pressure faced in these areas. This has been recognised as a Financial Risk within the Financial Plan - 2018/19 to 2020/21.

##### Agency costs

Agency staff costs of £11.972 million were incurred in 2017/18, an increase from £10.686 million in prior year.

Medical Locum costs is an area the Board are targeting for savings (£5.3 million) through a combination of increasing the level of directly engaged doctors with the Board as well as adhering to the rate card cap agreed by the West of Scotland Steering Group, which will deliver a significant reduction in current costs.

##### Regional Plan

NHS Dumfries and Galloway are part of the group of West of Scotland Territorial Health Boards working together on a west regional delivery plan. A plan has been drafted and shared with Scottish Government, which sets out the pressures facing the West of Scotland Boards and the future challenges. Work is also ongoing in looking at a West of Scotland financial model, which can help support regional working and ultimately service redesign.

A final draft of the plan is in place and it is proposed that the plan is discussed at the Performance Committee, before being presented to the Board.

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# Appendices

**Audit adjustments**

**Action plan for 2017/18**

**Follow up of 2016/17 recommendations**

**Fees, independence and fraud arrangements**

**Communication of audit matters to those charged with governance**

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# Audit adjustments

## **Uncorrected and corrected misstatements**

We are pleased to report that there were no uncorrected misstatements to the financial statements arising during our audit.

There were no material corrected adjustments made between the draft and the final annual report and accounts.

## **Disclosure misstatements**

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow Audit and Risk Committees to evaluate the impact of these matters on the financial statements.

There were no material/significant disclosure misstatements identified we wish to bring to your attention. All changes were very minor and presentational in nature.

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# Action plan for 2017/18

We have set out below, based on our audit work undertaken in 2017/18, those risks and recommendations we consider are of a higher risk to NHS Dumfries and Galloway that Management may wish to consider in the future. We have also completed follow up of our 2016/17 recommendations and this is reflected below for information.

## Recommendation

## Agreed management response:

### Financial budget gap

Revenue plan identifies a financial gap of £17.3 million in year, reducing to £6.2 million once savings plans are factored in. The in year gap is not a position which can currently be managed within the assessed financial position so a breakeven position is not projected at this stage and there are a range of significant financial risks in the current position.

The senior management team should continue to identify savings and continuing to look for recurring savings; asset sales and future estate plans. This will ensure that the budget gap is met or consideration of brokerage if the gap cannot be closed.

**Management response:** Work is ongoing across the Board to review the financial position to develop plans to close the gap for 2018/19. This is reported through the management team, performance committee and the Board. The first formal review of the financial position will take place after quarter 1.

**Action owner:** Director of Finance

**Timescale for implementation:** March 2019

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### Risk management

During 2017/18 the Board continued to work on developing and then embedding the Risk appetite statement. Going forward, there is an opportunity to sense check that the governance framework related to risk and management of risk, and also ensuring that the risk appetite is linked to Board decision making and prioritisation.

**Management response:** The Board has reviewed its risk appetite statement and provided updated templates to the Board and the Committees. This information will be monitored, reviewed and reported during 2018/19 through the risk executive group and the Audit and Risk Committee.

**Action owner:** Chief Executive

**Timescale for implementation:** March 2019

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### Governance and transparency of Board meetings

Despite the Board papers being made available to the public on the NHS Dumfries and Galloway website, it is not always easy to find specific papers and decisions.

A link to Board papers could be provided on the home page of the website and an overview of the papers considered and decisions made, added to Board papers.

**Management response:** The Board has commissioned the development of a new website which is due to be in place in 2018/19. The link to the Board reports are on the front page of the internet pages but it is recognised this could be more prominent. This change is not possible on the current version and will be reviewed in line with the new website.

**Action owner:** Corporate Business Manager

**Timescale for implementation:** March 2019

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# Follow up of 2016/17 recommendations

## Follow up of 2016/17 External Audit Recommendations

Action as at May 2018

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### Performance report - LDP Performance

LDP performance is currently set out in one table – it would be helpful to split performance into those which are split into red, amber and green performance, with explanations and proposed remedial action for those scoring red.

**Complete** – The report has been updated to show RAG status with supporting narrative

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### Financial performance reporting

Monthly performance reporting does not currently include a balance sheet. The inclusion of a balance sheet would strengthen the quality of analysis.

**Complete** – This is included in the Board papers on a quarterly basis.

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### Risk appetite

Significant work has taken place on agreeing a definition of NHS Dumfries and Galloway's approach to risk appetite. Going forward, linked to the overall assurance mapping exercise management should continue to prioritise actions in line with appetite recognising there is limits to resources (people/financial/time) and the actions and controls in place need to align to key risks facing the organisation.

**Complete** – See 2017/18 Action plan

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### Property, plant and equipment

During our substantive audit testing we identified 4 assets that were shown in the Fixed Asset Register as having a nil NBV but had been disposed of, and the register not updated. We note through discussion with Finance that given the new hospital a large Programme of asset verification is underway and any such similar assets with a nil NBV that no longer exist will be captured and the register updated.

**On going** – This will be actioned as part of Q1 review.

There is a risk that the asset register reflects assets that are no longer in use and been disposed of by the organisation.

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# Fees, independence, fraud arrangements

## External Audit Fee

Service	Fees £
External Auditor Remuneration	109,060
Pooled Costs	15,760
Contribution to Audit Scotland costs	6,580
Contribution to Performance Audit and Best Value	0
<b>2017-18 Fee</b>	<b>131,400</b>

The audit fee was calculated in accordance with guidance issued by Audit Scotland and agreed with Management.

The above fee has not changed and our final fee was £131,400.

## Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2017/18 financial year.	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

## Fraud arrangements

In assessing our audit risks, the audit team was alert to the possibility of fraud at NHS Dumfries and Galloway.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls.
- Leading a discussion with those charged of governance (for NHS Dumfries and Galloway this is assumed to be the Audit Committee) on their view of fraud. We did this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud.
- responding appropriately to any fraud or suspected fraud identified during the audit. None were identified in-year.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

It is NHS Dumfries and Galloway's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- Developing, promoting and monitoring compliance with standing orders and financial instructions.
- Developing and implementing strategies to prevent and detect fraud and other irregularity.
- Receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we worked with NHS Dumfries and Galloway to review specific areas of fraud risk, including the operation of key financial controls.

We also examined certain policies in place, strategies, standing orders and financial instructions, as relevant to the fraud framework, to ensure that they provide a reasonable framework of internal control.

No suspected frauds or irregularities have been identified by Management and reported in-year.

# Communication of audit matters

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
<b>We are independent of NHS Dumfries and Galloway and have not identified any conflicts of interest</b>		
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
<b>We have not incurred any non-audit fees during the year and no threats to independence identified</b>		
Significant matters in relation to going concern	•	•
<b>No significant going concern matters identified</b>		
Views about the qualitative aspects of NHS Dumfries and Galloway accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
<b>Set out in the Financial statements Section 1</b>		
Significant findings from the audit		•
<b>No significant findings from our audit</b>		
Significant matters and issues arising during the audit and written representations that have been sought		•
<b>Letter of representation will be shared and signed by the Accountable Officer when signing the financial statements. This is our standard, unmodified letter of representation</b>		
Significant difficulties encountered during the audit		•
<b>No difficulties encountered</b>		
Significant deficiencies in internal control identified during the audit		•
<b>None identified</b>		
Significant matters arising in connection with related parties		•
<b>None identified</b>		
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
<b>None identified. A nil fraud return was submitted to Audit Scotland in April 2018 in accordance with the planning guidance</b>		
Non-compliance with laws and regulations		•
<b>None noted</b>		
Unadjusted misstatements and material disclosure omissions		•
<b>None noted. Minor disclosure amendments only and these were not material in nature</b>		
Expected modifications to the auditor's report, or emphasis of matter		•
<b>None, an unqualified opinion</b>		

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

We communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to NHS Dumfries and Galloway Management and the Audit and Risk Committee.



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