



NHS Dumfries and Galloway

**External Audit Annual Report to the Board and the Auditor General for
Scotland for the financial year ended 31 March 2019**

Audit and Risk Committee and then Board Meeting 17 June 2019

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Our audit at a glance

– Audit of Financial Statements



We have fulfilled our responsibilities per International Standards on 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 received a good complete set of financial statements including the Performance Report, Accountability Report and Governance Statement.

Minor disclosure adjustments were identified during the course of our audit and these have been reflected in the final draft of the accounts.



We have performed 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.



The Accountability Report is in line with our understanding of NHS Dumfries and Galloway and in particular their vision and strategic priorities. The Governance Statement, included within the Accountability Report, outlines the governance framework.

The Remuneration and Staff report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000, and directions thereunder. The disclosures in the Remuneration and Staff report are consistent with underlying payroll records.

An audit underpinned by quality



Materiality is set at £5.850 million, representing 1.5% of gross expenditure based on the 2017/18 audited financial statements, adjusted for the IJB contributions accounting entries to prevent use of an inflated materiality.

We did not consider it necessary to update our materiality figure to reflect the draft 2018/19 financial statements as our planned figure remained appropriate based on our professional judgement on what would be of such significance to impact the economic decisions of the users of the accounts.



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

Our audit at a glance

– Audit of Wider scope



NHS Dumfries and Galloway have a small, but skilled, experienced and capable finance team. We have noted the ability of the finance team to flex to accommodate gaps in staffing during 2018/19.



While significant progress has been made, NHS Dumfries and Galloway still has considerable level of unidentified savings (£9.149 million from an overall savings target of £19.682 million) it will need to address over the coming year.



NHS Dumfries and Galloway have cost pressures in relation to medical locums, which were £9.958 million in the current year. Initiatives are in place to reduce the cost of medical locums, however there is risks associated with the achievement of the level of reductions required.

An audit underpinned by quality



While NHS Dumfries and Galloway is exposed to potential risks with regards EU withdrawal, we found that it is well prepared for EU withdrawal. A multi disciplinary working group was established by NHS Dumfries and Galloway to prepare for the local implications of a disorderly EU withdrawal. This was chaired by the CEO with representatives from key clinical and support services to provide tactical planning of all implications. The Board was fully engaged in the work of the national Brexit sub-group of the National Resilience Partnership.



Management recognise that it needs to move away from reliance on non-recurring savings and in response formed the Sustainability and Modernisation (SAM) Programme with a focus on financial and workforce sustainability. SAM will undertake a continuous review to ensure NHS Dumfries and Galloway are meeting expectations whilst not having a limiting impact on the wider role of the other Programme Boards. SAM should enhance both the rigour and pace in the delivery of savings.

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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 on 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 held an external audit workshop for the finance team explaining the purpose of the audit, the audit processes and how to prepare for the audit. We have also shared relevant publications with management.

We reviewed the accounting treatment of Mountainhall and the transactions with Highwood Health early in the audit process and had routine conversations during the year with the Director of Finance on arising NHS Scotland matters.

We have made a positive contribution at the Audit and Risk Committee during the year, sharing our wider NHS and public sector experience including emerging issues and wider insights from England and Wales. We also have representation on NHS Scotland Technical Accounting Group (TAG) to ensure we have sufficient understanding of the latest technical accounting guidance and practice.

Introduction

Reporting

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2019.

Our work has been undertaken in accordance with International Standards on 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.

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 arrangements as they relate to: financial management; financial sustainability; governance and transparency and value for money.

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

Our report was presented as a draft to NHS Dumfries and Galloway Audit and Risk Committee on 17 June 2019. NHS Dumfries and Galloway took this final report alongside the 2018/19 financial statements to the Board meeting also on the 17 June 2019, for noting.

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

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 and 2

Financial management – Section 3

Financial sustainability – Section 4

Governance and transparency – Section 5

Value for money – Section 6



Our Opinion

For the financial year ended 31 March 2019 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 a good complete set of Annual Report and Accounts on 6 May 2019 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 and the Board. We did identify disclosure adjustments to the Remuneration report as well as minor disclosure adjustments within the notes to the financial statements (See Audit adjustments Appendix 1). We are satisfied these have been reflected within the final financial statements.



Our financial statements audit



Materiality is set at £5.850 million, representing 1.5% of gross expenditure based on the 2017/18 audited financial statements. We did not consider it necessary to update our materiality figure to reflect the draft 2018/19 financial statements as our planned figure remained within our acceptable range of between 1-2% of gross expenditure.



The draft financial statements were of a good standard and in line with the NHS accounts template. The financial statements were supported through detailed working papers. During the year we held an external audit workshop explaining the purpose of the audit, the audit processes and how to prepare for the audit, this led to improvements in the audit process this year and we will continue to work with management to enhance the audit process.



We have issued a true and fair audit opinion on the financial statements, including the wider information contained in the financial statements, and regularity opinion. The information within the audited parts of the Directors Remuneration Report are consistent with underlay payroll records.



There were no changes to the significant risks identified in our Audit Plan and testing provided assurance on all identified areas of our significant audit risks. There were no material audit differences arising during the course of our audit.

Audit approach and materiality

1. Our audit approach was set out in our annual audit plan presented to the Audit and Risk Committee on 28 January 2019. As set out in our plan, our materiality calculations were based on the audited 2017/18 financial statements. Overall materiality has been set at £5.850 million (1.5% of gross expenditure adjusted for the Integration Joint Board contributions accounting entries to prevent use of an inflated materiality) and performance materiality is set at £4.387 million (75% of materiality). We report to management any audit difference identified over £250,000 (Trivial as 5% of materiality, capped at £250,000). We did not consider it necessary to update our materiality figure to reflect the draft 2018/19 financial statements as our planned figure remained within our acceptable range of between 1-2% of gross expenditure (remained at 1.5%), meaning our audit approach would have remained unchanged.
2. The draft financial statements were of a good standard supported through detailed working papers. There were improvements in the audit process this year and we will continue to work with management to enhance the audit process.

Audit opinion

3. 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. Performance Report and Governance Statement, is consistent with the financial statements
 - regularity of expenditure
 - audited parts of the remuneration and staff report have been prepared in accordance with applicable guidance

Internal control environment

4. During the year we sought to understand NHS Dumfries and Galloway overall control environment (design) 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.
5. 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 Galloways 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

6. As set out in our external audit plan we have not placed formal reliance on the work of internal audit during 2018/19. We have reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach. For 2018/19, Internal Audit's opinion conclusion states "*There were adequate and effective internal controls in place throughout the year. The Accountable Officer has implemented a governance framework in line with required guidance sufficient to discharge the responsibilities of this role*" and "*we have undertaken sufficient work to provide reasonable assurance that there is an adequate control environment in place*" We are satisfied that there were no areas arising from the work of internal audit that would impact on our audit opinion or require specific disclosure in the annual governance statement.

Key audit issues

Responding to significant risks

7. Within our annual external audit plan we identified significant audit risks and our planned approach. We have set out below a summary of the work undertaken over these risks and our audit conclusions

	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, NHS Dumfries and Galloway's revenue resource allocation was £354 million. While material, we consider this funding to be well forecast and directly agreed to Scottish Government funding letter and draw down. We therefore consider the opportunity and incentive to manipulate this revenue stream as low and rebut the presumed risk around revenue recognition. Similarly funding from services commissioned from the Integration Joint Board of £292 million and revenue from other Scottish Boards is relatively well forecast and agreed to funding letter / inter-Board funding agreements. This reduces the opportunity for manipulation and the inherent risk of material misstatement in revenue recognition. We therefore focus our testing on 'Other' revenue. As financial performance targets are primarily set for year end outturn position, the risk is prominent around year end revenue transactions and balances.</p>	<ul style="list-style-type: none"> Walkthroughs of the controls and procedures around material income streams and validation of key controls where appropriate were documented. Considered management's assessment of the impact of IFRS 15 on revenue streams and ensured that revenue has been recognised in accordance with the new standard. Evaluation of the existence of debtor balances held at 31 March 2019. Considered income cut off procedures and substantive testing over pre and post year end balances, over non grant in aid revenue streams. 	<ul style="list-style-type: none"> From our audit procedures performed we are satisfied that revenue is free from material misstatement. We are satisfied that revenue has been recognised in the appropriate financial year.
Management override of controls	<p>As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities.</p>	<ul style="list-style-type: none"> We focused on understanding how/where management override of controls may occur. Reviewed the controls over journal entries using our journal analyser tool to focus on higher risk journals. Gained an understanding of key areas of judgement and accounting estimates within the financial statements and the basis for these judgements and the application of accounting policies. This included the CLO provision. Reviewed unusual and/or significant transactions that are out with the normal course of business, such journals to seldom used accounts. 	<p>We did not identify any significant areas of bias in key judgements by management. We have not identified any unusual or significant transactions during the course of the year that would indicate management manipulation.</p>

Identified audit risk at planning	Work completed	Our conclusion
<p>Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities. As payroll expenditure is well forecast and agreeable to underlying payroll systems there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on non-pay expenditure. The Board's gross expenditure also includes £292 million contribution to the Integration Joint Board and expenditure with other Scottish Boards which are relatively well forecast and inter-Board expenditure agreements, therefore we do not consider their to be a significant risk of fraud in these expenditure stream. Therefore, delivery of IJB related services by the Board is considered through payroll and non-payroll costs and associated testing. We focus our risk on other material expenditure stream including Goods and Service with other UK NHS bodies and voluntary organisations. As financial performance targets are measured on year end outturn, we consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure.</p>	<ul style="list-style-type: none"> • Performed cut off testing over pre and post year end transactions, invoices and bank statement transactions. • Reviewed the completeness of creditors (and expenditure) recognised. • Gained an understanding of the key expenditure controls in place by conducting walkthroughs. • Regularity – Considered that the expenditure incurred was in accordance with the type/nature of NHS Dumfries and Galloway as an organisation. 	<ul style="list-style-type: none"> • Assurance gained that expenditure has been recorded within the appropriate financial year and that payables are free from material misstatement. • We are satisfied that expenditure has been incurred in accordance with the type/nature of NHS Dumfries and Galloway as an organisation.

Other key areas of the financial statements

8. As part of our audit there were other key areas of focus. Whilst not considered a significant risk, these are areas of increased risk due to their complexity or magnitude. This includes areas of key estimation and judgement and application of accounting policies.

Commentary:

9. NHS Dumfries and Galloway accounting policies are in accordance with IFRS as interpreted and adapted by the 2018/19 NHS Accounts Manual (where relevant to the health board) and we consider these to be appropriate to the organisation. These have been applied consistently to the previous year with the exception of the adoption of two new accounting standards IFRS 9 and 15.

Accounting estimates and judgements:

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



- **Valuation of property, plant and equipment:** NHS Dumfries and Galloway holds property, plant and equipment at fair value. Valuations of land and buildings are reassessed by professional valuers, Avison Young, annually. During 2018/19 the revaluation resulted in a net increase in the carrying value of property, plant and equipment of £14.037 million. We have agreed the revaluation to the independent revaluation report and confirmed through testing a sample of revaluation entries, that these have been appropriately recognised in the financial statements. Additionally, we confirmed the qualifications and experience of the valuer as well as challenged the assumptions and methodology used by the valuer. We are satisfied that the revaluation has been appropriately reflected in the financial statements. Upon review of the valuers report it was noted that the valuations are initially completed at 31 January 2019, and are then subsequently sense checked at 31 March 2019 ([Action Plan, point 1](#)).
- **Clinical and Medical Legal Claims and CNORIS provisions:** NHS Dumfries and Galloway provides for Clinical and medical legal claims against the board. NHS Dumfries and Galloway participates in the Clinical Negligence and Other Risk Indemnity Scheme (CNORIS). Under CNORIS, NHS Dumfries and Galloway meets the costs of claims up to £25,000. Any amount above this is covered through a pooled CNORIS share made up from contributions from all health boards. NHS Dumfries and Galloway contribute annually to the CNORIS scheme. Provisions have increased by £10 million to £46.676 million in 2018/19 (£36.672 million in prior year), this was mostly driven by a claim which changed category and has an expected settlement of £7.5 million in 2018/19 (£125,000 was provided for in prior year). We have reviewed clinical and medical legal claims and CNORIS provisions and have confirmed that the amounts recognised are in accordance with advice received from the Central Legal Office in relation to claims outstanding against the board.

NHS Dumfries and Galloway - Provisions	Pensions and other similar obligations (£'000)	Clinical & Medical (£'000)	Participation in CNORIS (£'000)	Total (£'000)
2019	3,604	32,059	11,013	46,676
2018	3,464	22,023	11,185	36,672
Movements	140	10,036	(172)	10,004



New accounting standards

11. The 2018/19 financial statements reflect the adoption of two new International Financial Reporting Standards (IFRS): IFRS 9: Financial Instruments, and IFRS 15: Revenue Recognition. While the introduction of IFRS 9 resulted in some minor disclosure changes to the accounts, Management's assessment of these standards was that they did not have a material impact on the financial statements. We concur with Management's review.

Going concern

12. As set out in the Financial Plan – 2019/20 to 2021/22, NHS Dumfries and Galloway has an agreed budget for 2019/20 and financial forecasts for 2020/21 and 2021/22. The Board has received a draft resource allocation letter for 2019/20, however final confirmation of allocations will not be received until later in the financial year.
13. NHS Dumfries and Galloway budget for 2019/20 recognises increasing financial pressures. The final budget for NHS Dumfries and Galloway for 2019/20 noted the remaining level of unidentified savings at £9.149 million from an overall savings target of £19.682 million (prior year £17.6 million). NHS Dumfries and Galloway are developing a financial improvement programme to enhance both the rigour and pace around how they manage the savings programme. This sustainability and modernisation (SAM) programme is focussed around financial, service and workforce sustainability.
14. In concluding on the going concern basis, we have assumed that Scottish Government will continue to provide revenue and capital resource allocations to NHS Dumfries and Galloway. The board maintains net assets position of £60.619 million and sufficient cash flows to meet its obligations as they fall due.



Post balance sheet events

15. In April 2019 NHS Dumfries and Galloway sold Crichton Hall. Due to the sale value differing to the carrying value in the accounts, this resulted in an immaterial difference. Therefore, the accounts reflect the sale within the post balance sheet event note but have not been updated to reflect the sale.



Endowment Consolidation process

16. 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 NHS Dumfries and Galloway accounts.
17. 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

18. 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.

Overall observations

NHS Dumfries and Galloway recognises the importance that the Annual Report and accounts have in communicating the board's performance during the year. The "front end" of the Annual Report and Accounts, tells the story of the Board as an organisation including strategic priorities, risks and achievements made during the year.

Only minor changes were identified between the unaudited and audited version of the annual report and accounts. Overall the structure and layout of the accounts adhere to the requirements of the NHS Accounts Manual and that the information contained within the report is consistent with the financial statements.

Annual report and accounts include the Performance report and Accountability report (including remuneration and governance)

Remuneration and staff report

The Remuneration and Staff report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000, and directions thereunder.

The disclosures in the Remuneration and Staff report are consistent with underlying payroll records.

Governance statement

The governance statement is included within the Accountability Report. The report outlines the governance framework in place at NHS Dumfries and Galloway.

The Report includes the Statement of the Accountable Officer's responsibilities and those of the members of NHS Dumfries and Galloway board.

No material issues of governance in year that are required to be reported and the statement is supported by individual assurances to the Accountable Officer over internal controls.

The governance statement is in accordance with the FReM.

Financial management



NHS Dumfries and Galloway met its key financial targets for 2018/19. This included a £44,000 surplus against total revenue resource limits of £344.383 million and an £9,000 surplus against total capital resource limits of £3.907 million.



Despite achieving break-even position in 2018/19, NHS Dumfries and Galloway continues to operate under a challenging financial environment, having to rely on non-recurring savings to achieve a balanced budget. To achieve its financial targets, NHS Dumfries and Galloway delivered savings of £17.3 million. However, of these savings, £4.5 million related to recurrent savings, with the balance of £12.8 million being made up on non-recurring savings.



Financial performance was broadly in line with budget set at the start of the year and is closely monitored. Financial performance reports are provided bi-monthly 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 / areas of concern during the year.

The reporting provides the information that we would expect on a routine basis compared to budget and this information is reported to the Board on a timely basis.



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 2018/19 this flexibility has continued.

Overall the finance team do have vacancies, such as Financial Controller, but have traditionally struggled to recruit into the team given the geography of Dumfries and salary expectations.

During our audit planning process, no specific financial management risks were identified for 2018/19. 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 for 2018/19

19. During 2018/19, NHS Dumfries and Galloway generated a surplus against Scottish Government Health and Social Care Directorate (SGHSCD) revenue resource limit of £44,000.
20. While the overall outturn position was in line with budget, the position was only achieved through the delivery of £17.3 million of efficiency savings, of which £4.5 million related to related to recurrent savings, with the balance of £12.8 million being made up on non-recurring savings. When combined with the level of required savings per annum (£22.6 million of efficiency savings made in 2017/18), the cumulative challenge to breakeven in the longer term is significant.

	Resource Limit £'000	Outturn Expenditure £'000	Variance (over)/ Under £'000
Revenue resource limit – Core	343,206	343,162	44
Revenue resource limit – Non-Core	1,177	1,177	0

Delivery of savings

21. Whilst the outturn position is a positive one, reflecting the efforts of NHS Dumfries and Galloway in identifying savings in a period of significant organisational change, the level of non-recurring savings supporting this position increased by £2.786 million as compared to the original target, with £5.349 million slippage on recurring savings.
22. The main efficiency savings which contributed to the overall savings made were as follows; a £0.6 million saving due to the reduction in use of medical locums, £2.758 million in savings relating to effective prescribing as well as a further £2.630 million in savings from service efficiencies across all Board Directorates and includes schemes such as property rationalisation, administration and management reviews, review of skill mix and staffing configurations and overall review of service provision in specific areas.

Capital Expenditure

23. NHS Dumfries and Galloway reported a small underspend against capital resource limit of £9,000, with an outturn position of £3.898 million for 2018/19. The biggest spend this year has been the delivery of Phase 1 of the Mountainhall project, which related to the refitting of Mountainhall to facilitate the move from Crichton Hall. In addition to this significant investment, there were a number of service developments, changes and equipment replacement programmes as follows:

- Ultrasound equipment in Galloway Community Hospital (GCH) to enhance the Rheumatology Service.
- OCT Machine in GCH to enhance the Ophthalmology service.
- Mountainhall and Crichton Hall Telephone System.
- Enhancements to the Clinical Portal.
- Replacement equipment

	Resource Limit £'000
Capital Resource Limit £'000	3,907
Outturn Capital Expenditure £'000	3,898
Variance (over)/under £'000	9

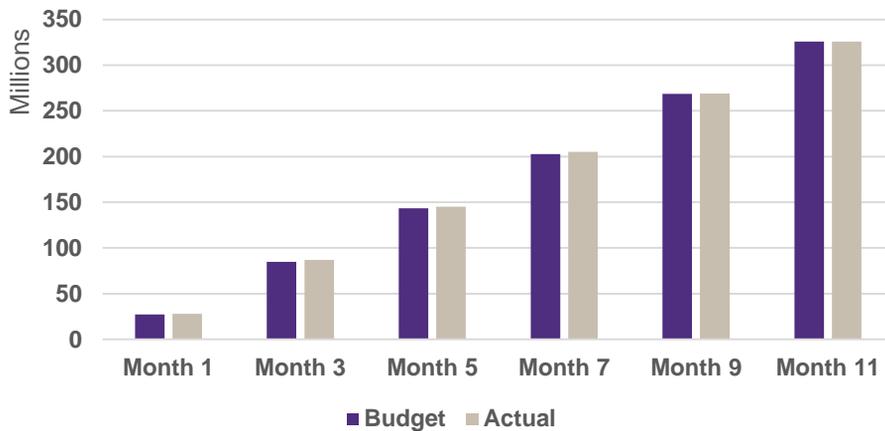
Financial management

24. Financial performance is monitored by management and reported bi-monthly 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 noted:



- Financial performance reports were easy to understand.
- There appears to be challenge and scrutiny of performance in the year and key variances between actual and outturn performance, as evidence in the minutes.
- Financial pressures and challenges are discussed and savings profiles revised during the year to ensure accurate future forecasting.
- Budget versus actual position was broadly in line throughout the year:

Financial Performance 2018/19 Budget vs. Actual



Financial capacity and capability

25. NHS Dumfries and Galloway has effective leadership through 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.

26. We observed that controls (such as segregation of duties) over key financial processes (such as fixed asset, income, expenditure, payroll and journals) were designed effectively. The financial management arrangements are underpinned through documented financial policies and procedures and scheme of delegation.



Financial sustainability



The Financial Plan – 2019/20 to 2021/22 which was presented to NHS Dumfries and Galloway Board on the 8 April 2019, sets the context of rising cost pressures which are not offset through increased resources funding. To achieve financial balance, Management has identified the need to deliver significant efficiency savings over the next three years. By 2021/22, £31.324 million of savings will need to be delivered on a recurring basis. While we recognise the progress made by NHS Dumfries and Galloway in identifying savings to date, over the medium to long term more fundamental changes are likely to be required to continue to meet the forecast financial challenges.



Approval of the final budget for NHS Dumfries and Galloway for 2019/20 was given by the Board, noting that the current level of unidentified savings was at £9.149 million from an overall savings target of £19.682 million (prior year £17.3 million).



The 2019/20 financial planning assumptions appear reasonable and are explained within the Financial Plan. To date £10.534 million of savings have been identified. £5.834 million will be achieved through recurring savings (such as £1.500 million on locums and £1.916 million on prescribing) and £4.700 million through non-recurring savings (such as £2.000 million from review of commitments against allocations and £1.000 million on Non recurring staff savings).



Management recognise that they need to move away from reliance on non-recurring savings. NHS Dumfries and Galloway are developing a financial improvement programme to enhance both the rigour and pace around how they manage the savings programme. This sustainability and modernisation (SAM) programme is focussed around financial, service and workforce sustainability.

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.

27. 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 face significant financial challenges over the short to medium term. 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. The current revenue plan identifies a financial gap of £17.3 million in year. While the Board has made significant progress to identify savings to meet financial pressures in year, there is a continued reliance on non-recurring savings to deliver financial targets. Over the medium term this is unsustainable. Like many other Scottish health boards, NHS Dumfries and Galloway faces a range of challenges including rising pressures on services through increased demand as well as increasing operational costs including wages and salaries and prescription costs. Additionally the Board face local pressures including the first full year of operation of the new Dumfries and Galloway Royal Infirmary as well as recruitment challenges, particularly across nursing and consultants where the Board has recently reported vacancies levels of 22%, higher than the Scottish average of 8% and putting additional reliance on bank staff. It is critical that the Board's underlying operating model to deliver its strategic objectives is financially sustainable over the medium to longer term and that the Board.</p> <p>Our Response:</p> <p>We will review the financial plans in place and regular reporting on future financial scenarios. We will assess the progress made by the Board in developing financially sustainable operating plans that continue to support the delivery of the Board's statutory functions and strategic objectives.</p>	<p>The Financial Plan 2019/20 to 2021/22, presented to the Board on the 8 April 2019, 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 £19.682 million in year, reflecting increased pay due to the agenda for change, increase in prescribing prices, demand for more expensive drugs, increase in service and inflationary pressures for 2019/20 and a recurring deficit of £10.8 million brought forward from previous years due to the high level of non-recurring savings delivery in 2018/19.</p> <p>The gap is reduced to £9.149 million once savings plans are factored in for 2019/20. 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.</p> <p>The 2019/20 financial planning assumptions appear reasonable and are explained within the Financial Plan. To date £10.534 million of savings have been identified as follows;</p> <ul style="list-style-type: none"> • £5.834 million will be achieved through recurring savings, such as £1.500 million on locums and £1.916 million on prescribing • 4,700 million through non-recurring savings (such as £2.000 million from review of commitments against allocations and £1.000 million on Non recurring staff savings and underspends <p>The remaining financial gap of £9.149 million of savings yet to be identified</p> <p>The level of savings required by NHS Dumfries and Galloway increase significantly each year. The Board recognise that given the financial challenges faced it can not continue to rely on one-off non-recurring savings. The Medium Term Health and Social Care Financial Framework requires NHS Boards to deliver financial break-even over a three year planning period with the first year of the new cycle set as 2019/20.</p>  <p>NHS Dumfries and Galloway has developed sustainability and modernisation (SAM) programme to enhance both the rigour and pace around how they manage the savings programmes. This programme will focus on financial, service and workforce sustainability.</p> <p>Management recognise that the Board faces significant financial challenges in the coming years. While we recognise that breakeven has been achieved in recent years this has been done so through reliance on non-recurring savings, which increases the pressure in future years alongside increase service, demand and cost pressures, making financial targets increasingly difficult to achieve. (Action Plan, point 2).</p>

Medium Term Financial Framework

28. The Medium Term Health and Social Care Financial Framework requires NHS Boards to deliver financial break-even over a three year planning period with the first year of the new cycle set as 2019/20. Boards have flexibility to report underspends or overspends of up to 1% of Boards core revenue funding. For NHS Dumfries and Galloway, 1% flexibility would equate to £3.4 million.
29. At this stage NHS Dumfries and Galloway are not relying on this flexibility of the Medium Term Health and Social Care Financial Framework for 2019/20 as it cannot confidently confirm a break-even position ([Action Plan, point 2](#)).



Capital planning for 2019/20 to 2023/24

30. From 2019/20 to 2023/24 the Board have planned capital expenditure of £47.587 million, with £8.475 million relating to 2019/20.
31. The £8.475 million relates to £5.500 million of anticipated expenditure on Acute Services Redevelopment Projects for Mountainhall (Phase 2 & 3), Dumfries and Galloway Royal Infirmary equipment as well as £2.975 million for the Replacement, Development and Contingency Programme. This programme supports the rolling replacement of ongoing business requirements in Information Management and Technology, equipment and property refurbishments.



Sustainability and modernisation (SAM) programme

32. In May 2019, NHS Dumfries and Galloway formed the Sustainability and Modernisation (SAM) Programme with a focus around financial, service and workforce sustainability and will be supported by a risk register and action log.
33. The remit of the SAM is to review the inclusive of Workstreams, effectiveness of programme Boards and Directorates, review Programme status, progress and act as a point of escalation to ensure any bottlenecks can be quickly remedied and to provide clear leadership throughout NHS Dumfries and Galloway to the programme and also to ensure effective communication strategy is in place.
34. SAM will align with other Programme Boards to support delivery of their efficiencies and sustainability of service with short, medium and long term focus whilst joining stands of work together.
35. SAM will focus on financial aspects of efficiency plans and also provide challenge and support where required in order to achieve efficiencies. SAM will undertake a continuous review to ensure NHS Dumfries and Galloway are meeting expectations whilst not having a limiting impact on the wider role of the other Programme Boards. ([Action Plan, point 3](#)).
36. The formation of this Programme Board should help to support NHS Dumfries and Galloway in the identification and delivery of efficiency savings going forward.



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 assurance of the governance arrangements.

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



During 2018/19, NHS Dumfries and Galloway has continued to look to develop governance arrangements in place at the Board. A number of new appointments to the Board have been made in year, including a new Chair.



NHS Dumfries and Galloway has undertaken a self-assessment against NHS Scotland's Blueprint for Good governance. The assessment concluded that overall the governance arrangements were sound however it identified opportunities for improvement. As a result of the self-assessment, an action plan is in place for NHS Dumfries and Galloway to enhance governance arrangements.



NHS Dumfries and Galloway committee structure continues to operate as in prior year. 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 2018/19 the Board successfully recruited a new Board Chair which will further strengthen arrangements.

37. 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>Governance and transparency</p> <p>The Board faces significant financial and operational challenges over the coming years, including the need to deliver over £17 million of savings. Effective governance arrangements, including oversight and scrutiny, are critical to enable the Board in delivering its strategic objectives and providing quality of healthcare in the region.</p> <p>A key element of effective governance is the effective scrutiny of performance. To ensure that available resources are planned and prioritised to key areas of performance. Further, it is critical that decision making is clear and transparent to ensure there is clear understanding of the rationale for decision making and to encourage corporate buy-in to these.</p> <p>Our Response:</p> <p>We will continue to consider through discussions with management and review of minutes NHS Dumfries and Galloway's overarching governance arrangements. We will consider the extent to which these reflect good practice including NHS Dumfries and Galloway self assessment in relation to a 'Blueprint for Good Governance'.</p> <p>Additionally, there have been number of new appointments to the Board including a new Chair. We will consider the on-boarding process and impact on the strategic direction of the Board.</p>	<p>NHS Dumfries and Galloway have continued to review their governance arrangements during 2018/19. In February 2019, the Scottish Government published a 'Blueprint for Good Governance' to ensure that all boards assess and develop their corporate governance systems. The Blueprint describes a three-tiered model that defines the function of a governance system, the enablers for governance, and the support required to effectively deliver those functions.</p> <p>The Board have developed an improvement plan to look to implement the recommendations and good practice following the completion of the self-assessment and workshop process led by the Director of Finance and Corporate Business Manager. Upon review we noted;</p> <ul style="list-style-type: none"> • The assessment, completed by non-executives and executive directors, concluded that overall the governance arrangements were sound however it identified opportunities for improvement around Setting The Direction, Holding to Account Assessing Risk, Engaging Stakeholders and Influencing Culture. An action plan is in place for NHS Dumfries and Galloway to enhance governance arrangements. • It was noted that as part of the implementation of the Corporate Governance Blueprint a number of pieces of national work are being progressed, including the establishment of new Board/Committee Paper Templates to be rolled out across all Boards, a single terms of reference template for all Boards and Committee, a single template for Standing Financial Instructions and Scheme of Delegation. NHS Dumfries and Galloway have committed to undertake a self assessment on corporate governance once per year to ensure compliance with the national templates and best practice processes. • The Board workshop highlighted the need for clarity around the governance between the Integration Joint Board, NHS Dumfries and Galloway and Dumfries and Galloway Council. The Chief Operating Officer is producing a report to provide clarity on this matter. <p>Additionally we noted the following in relation to governance and transparency</p> <ul style="list-style-type: none"> • Following the appointment of two Non-Executive Board members in April 2018, the Board successfully recruited a new Board Chair. • Audit and Risk Committee membership was reviewed at the start of 2018/19, with four new Non-Executive Board members joining the committee in May 2018 and two stepping down. • 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. • Leadership walk rounds continue to operate monthly and have an open invitation to non-executive members to attend. • 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 strategic risk register.

Risk management

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38. In line with the Scottish Public Finance Manual, the Board has established a risk management strategy and underlying framework to support the identification and management of risks.
 39. The corporate risk register is monitored through the Audit and Risk Committee and was presented to NHS Dumfries and Galloway Board throughout the year. The register has been subject to scrutiny and development to ensure that the risks identified and mitigating actions are appropriate and reflects the strategic risks facing the service. Operational risks are monitored across the organisation through the Board's web based risk management system (DATIX).
 40. During the year the Audit and Risk Committee has continued to challenge the effectiveness of the risk management arrangements in place and in particular how the risk appetite framework is applied in practice across the organisation, related to the organisations culture on risk awareness. Investment has taken place on risk appetite and the challenge is now to embed that, so it is applied consistently and known and understood across the organisation.
 41. Looking ahead, in 2019/20 the Board will continue to explore how risk management is overseen and the controls in place to mitigate risk tracked and reported, particularly where a risk falls out with appetite. Overall there has been good engagement by the Audit and Risk Committee in respect of risk, and evidence of how the committee is influencing the development of risk in a positive manner (**prior year Action Plan, point 2**).

Fraud and Irregularity

42. NHS Dumfries and Galloway has arrangements in place to help prevent, detect and mitigate the risk of fraud or irregularity, including anti-bribery and whistleblowing policies.
 43. While we consider these to be reasonable, no arrangements can fully prevent against the risk of fraud, theft or irregularity. We are not aware of any material frauds at NHS Dumfries and Galloway during the course of the year and have confirmed this with management.
 44. The Board participates in the National Fraud Initiative (NFI), a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the National Audit Office to identify fraud and error.
 45. To date, there have been 1840 matches noted (Payroll – 79, Creditors – 1755 and Procurement – 29), only 3 Payroll matches were deemed high risk, these have been investigated with no issues noted. All Creditors reports have been reviewed, with 708 being identified as repeat monthly payments with a different reference and 23 matches have been closed off on the system although a number are under investigation. No frauds have been identified to date.
 46. We found NHS Dumfries and Galloway arrangements for participation in the NFI exercise during 2018/19 to be satisfactory.
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EU Withdrawal

47. There are uncertainties surrounding the terms of the UK's withdrawal from the European Union and these are subject to ongoing negotiation between the UK government and EU. Whatever the outcome of these negotiations there is inevitably implications for devolved government in Scotland and for NHS Dumfries and Galloway.
48. There is considerable uncertainty around the potential impact of Brexit. Likely areas to impact the Board are: workforce implications; funding; and regulation. We have used Audit Scotland's planning guidance to evaluate the Board's readiness for EU withdrawal across workforce (People and Skills); Finance; and Regulations.
49. We found that NHS Dumfries and Galloway has incorporated the risk of EU withdrawal into its risk management arrangements and monitored through Management and the Board. Overall we found that NHS Dumfries and Galloway had clearly considered the potential consequences of EU Withdrawal, particularly the potential implication of a 'no-deal' withdrawal from the EU. However, work is ongoing and there are opportunities for further consideration of evaluation of the medium to longer term implications of EU withdrawal at the Board.
50. Overall, NHS Dumfries and Galloway demonstrates a good level of preparation for EU Withdrawal, we would therefore conclude that the organisation is 'well prepared'. Despite being well prepared for the implications of EU Withdrawal this is an area of ongoing development and continued uncertainty and therefore NHS Dumfries and Galloway should continue to monitor its readiness against any future developments.

Openness and transparency

51. There is an increased focus on how public money is used and what is achieved. This includes the extent to which NHS Dumfries and Galloway keeps pace with public expectations and good practices in this area. Including: increased public availability of papers, insight into why any business is conducted in private and development of the form and content of annual reporting.
52. We considered Audit Scotland's guidance around openness and transparency as we consider governance arrangements during 2018/19. We found that Board minutes and papers were on NHS Dumfries and Galloway website and produced in a timely manner. NHS Dumfries and Galloway's key corporate publications including annual report and accounts as well as reports detailing the Board's underlying performance and activities are also on the website.
53. The Board has commissioned the development of a new website which was due to be in place in 2018/19 but is not yet 'live'. It was highlighted in our prior year audit report that despite there being a link to the Board reports on the front page of the website, Board reports could be more prominent. This modification cannot be made in the current version of the website and will be reviewed when the the new website is launched ([prior year Action Plan, point 3](#)).



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 2018/19 against the Local Delivery Plan (LDP) targets has been mixed; eight green, six amber and five red but overall has improvement on prior year (six green, two amber and ten red). 2017/18 targets were impacted by the move to the new acute hospital and related increased levels of activity.



NHS Dumfries and Galloway have cost pressures in relation to medical locum staff costs. These costs total £9.958 million in the current year. Initiatives are in place to reduce the cost of medical locums, however due to the complexity of the medical agency market, this represents a substantial risk in achieving the level of reductions anticipated.



NHS Dumfries and Galloway has recently had to respond to an issue with a significant key supplier in relation to clinical waste management. This resulted in additional cost, as a result of the contingency plans being put in place, totalling £0.306 million. This cost was absorbed by the Scottish Government.

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.

54. 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

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.

The Board has continues to face significant operational and financial challenges, creating a risk that there will be insufficient available resources to promote and deliver continuous improvement activity. However, the Board has clear strategic framework in place which aligns the organisation's vision and values to support the strategy and quality framework.

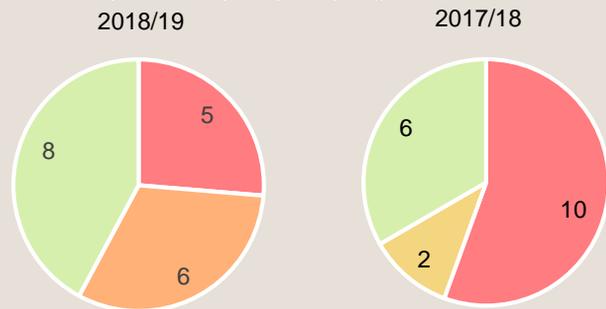
Like many boards, NHS Dumfries and Galloway recognise the challenge in delivering performance targets, in particular delayed discharges and waiting times, against a backdrop of financial pressures. We will continue to review the Board's performance against the annual operating plan standards, the Boards reporting and monitoring of these and the actions taken to improve the performance of the Board.

Conclusion

Performance reporting within the Annual report

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 Local Delivery Plan (LDP) using performance indicators.

NHS Dumfries and Galloway's performance in 2018/19 against the LDP targets has been mixed; eight green, six amber and five red but overall has improved on prior year (six green, two amber and ten red).



The main reasons for the improvement from prior year is that results where impacted in 2017/18 due to the migration to the new acute hospital and related increased levels of activity. 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.

Performance reporting to the Board

The Board continues to look to develop its performance reporting arrangements within the Annual Report to align it with the reporting being provided to the Board and IJB. In April 2019, the first Summary Performance Report was submitted to the Board replacing the "At a Glance" report which the Board felt was focussed too narrowly on the performance of Acute and Diagnostics.

The Board recognise the significant challenge it faces in the delivery of performance targets in relation to delayed discharges (which increased from 1,736 in February 2019 to 1,959 in March 2019), and although this is a focus of the IJB, performance targets are not yet being met. Similarly, waiting times and emergency admissions performance targets are not being met, 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 - 2019/20 to 2021/22.

Performance



55. The Board continues to look to develop its performance reporting arrangements within the Annual Report to align it with the reporting being provided to the Board and IJB. In April 2019, the first Summary Performance Report was submitted to the Board replacing the “At a Glance” report which the Board felt was focussed too narrowly on the performance of Acute and Diagnostics.
56. Although the Summary Performance Report still captures the performance of Acute and Diagnostics (nine performance indicators), it also includes four other sections to reflect a system-wide approach which include; Community Health and Social Care (two performance indicators including delayed discharge), Mental Health (one performance indicators), Women and Children’s (one performance indicators) and Corporate Services (one performance indicators).
57. Work is ongoing to identify suitable performance indicators to include in this report and NHS Dumfries and Galloway should seek to increase the number of indicators in the four areas out with Acute and Diagnostics to ensure the Boards request of wider performance reporting. ([Action Plan, point 4](#)).

Agency costs

58. NHS Dumfries and Galloway have cost pressures in relation to locum staff costs. These costs total £9.958 million in the current year for medical locums.
59. 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.



Dependency on key suppliers



60. The collapse of Carillion and the subsequent impact across the public sector, has brought into focus the risk of key supplier failure and underperformance. We have used Audit Scotland’s planning guidance to evaluate the Board’s exposure to dependency on key suppliers.
61. NHS Dumfries and Galloway has recently had to respond to an issue with a significant key supplier in relation to clinical waste management. This resulted in additional cost as a result of the contingency plans being put in place for clinical waste between December and March 2019, totalling £0.306 million. The Scottish Government absorbed the additional cost as this issue was taken forward on a national level.

Appendices

Audit adjustments

Action plan for 2018/19 and follow up of 2017/18 recommendations

Fees, independence and fraud arrangements

Communication of audit matters

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 and we did not identify any misstatement above our reporting threshold of £250,000.

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 a number of minor disclosure adjustments to the draft accounts received for audit which were identified by the finance team through the ongoing review process. In addition, we noted minor disclosure and formatting changes which resulted from our review, all of which have been processed in the final annual report and accounts. None of these changes were considered material and/or significant in nature and helped to improve the readability of the accounts.

Action plan and recommendations

We have set out below, based on our audit work undertaken in 2018/19, 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.

Recommendation

Agreed management response

1.) Date of valuations

It was noted from review of the valuers (Avison Young) report that the valuations are initially completed at 31 January 2019, and are then subsequently sense checked at 31 March 2019. Due to the value of the property assets held by NHS Dumfries and Galloway, there is a risk that even a nominal movement in the value between 31 January 2019 and 31 March 2019, could be material to the financial statements. We would therefore recommend that valuations be undertaken as at 31 March.

Management response:

This will be included in the specification for the valuation work as part of the 2019/20 valuation of assets.

Action owner:

Deputy Director of Finance

Timescale for implementation:

31 March 2020

2.) Financial budget gap 2019/20

Revenue plan identifies a financial gap of £19.682 million in year, reducing to £9.149 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 at least within the £3.4 million of flexibility required by the Medium Term Health and Social Care Financial Framework for NHS Boards, as long as a breakeven position can be achieved by 2021/22.

Management response:

The financial position will continue to be reviewed as part of the quarterly financial reviews, with monthly reporting information submitted to SG. The Director of Finance will assess the position to drive the organisation towards breakeven.

Action owner:

Director of Finance

Timescale for implementation:

31 March 2020

3.) Sustainability and modernisation (SAM) programme

As the SAM programme is new, management need to continue to engage with the programme, using the programme to drive through efficiency savings whilst not duplicating arrangements already in place. This programme should be a NHS Dumfries and Galloway wide programme not finance led.

Management response:

The SAM programme is being jointly led by the CEO, COO and DOF and work is ongoing to minimise duplication with existing programme boards.

Action owner:

Director of Finance

Timescale for implementation:

31 March 2020

Recommendation

4.) Performance indicators in Summary Performance Report

It was noted from review of the new Summary Performance Report that nine of the indicators relate to Acute and Diagnostics, with only five other indicators covering the other four areas. NHS Dumfries and Galloway have recognised this and is working to identify suitable performance indicators to include in this new report. It is recommended that this is done on a timely basis, in order to provide the Board with a wider view on performance across the NHS Dumfries and Galloway, which was the main driver of this new report replacing the 'At a Glance' performance report.

Agreed management response

Management response:

It is planned that the performance information contained within the annual report for 2019/20 will align to the performance information provided to the Board throughout the year. It is envisaged that the reporting provided to the Board will be widened to reflect the requests of Board members.

Action owner:

Chief Executive

Timescale for implementation:

31 March 2020

5.) Segmental Analysis

The disclosures within the segmental analysis note within the annual accounts could be improved to bring it in line with the requirements of the 2018/19 NHS Accounts Manual.

Management response:

The reporting in Note 5 for segmental analysis will be updated for the 2019/20 financial statements.

Action owner:

Deputy Director of Finance

Timescale for implementation:

31 March 2020

Follow up of 2017/18 recommendations

We set out below our follow up of our 2017/18 recommendations and this is reflected below for information.

Recommendation

Agreed management response

1.) Financial budget gap 2018/19

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

Follow-up: Closed. See the response to similar issue raised as current year action.

2.) 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

Follow-up: Closed.

3.) Governance and transparency of Board meetings

Despite the Board papers being made available to the public on 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

Follow-up: : Closed. NHS Board papers are available on our website as it currently stands, the development of the new website has been delayed but we are confident in the interim there is appropriate transparency and access to papers as they stand.

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
2018-19 Fee	131,400

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 2018/19 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 and Risk 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	•	•
We are independent of NHS Dumfries and Galloway and have not identified any conflicts of interest.		
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	•	•
We have not incurred any non-audit fees during the year and no threats to independence identified.		
Significant matters in relation to going concern	•	•
No significant going concern matters identified.		
Views about the qualitative aspects of NHS Dumfries and Galloway accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Set out in the Financial statements Section.		
Significant findings from the audit		•
No significant findings from our audit.		
Significant matters and issues arising during the audit and written representations that have been sought		•
Letter of representation will be shared and signed by the Chief Executive when signing the financial statements. This is our standard, unmodified letter of representation.		
Significant difficulties encountered during the audit		•
No difficulties encountered.		
Significant deficiencies in internal control identified during the audit		•
None identified.		
Significant matters arising in connection with related parties		•
None identified.		
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
None identified.		
Non-compliance with laws and regulations		•
None noted.		
Unadjusted misstatements and material disclosure omissions		•
None noted. Minor disclosure amendments only and these were not material in nature.		
Expected modifications to the auditor's report, or emphasis of matter		•
None, an unqualified opinion.		

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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