



NHS Dumfries and Galloway

External Audit Plan for the financial year ending 31 March 2020

Final Plan to Audit and Risk Committee

28 February 2020

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Our audit at a glance



Group planning materiality is set at **£7.06 million** (board only: £7.04 million), being approximately 2% of gross expenditure based on 2019/20 budget. This is based on our assessment of what misstatement either individually or in aggregate could be significant as to be misleading to the users of financial statements. Our materiality benchmark is operating expenditure adjusted for contributions to Dumfries and Galloway Integration Joint Board to remove the effective double recognition of this expenditure on our materiality. We will apply a lower materiality threshold on review of the Remuneration and Staff report to ensure that remuneration has been disclosed within appropriate bandings (being **£2,500**). We will revisit our materiality throughout our audit including updating to reflect the unaudited financial statements.



In accordance with Audit Scotland's planning guidance, during 2019/20 we will have particular audit focus around the risk of fraud and corruption in NHS Dumfries and Galloway's [procurement arrangements](#).



Performance materiality is set at 75% of overall materiality. This is consistent with the prior year reflecting our audit knowledge and understanding with no material adjustments in the prior year.



Significant audit risks are: management override of controls; risk of fraud in revenue recognition as set out in International Standards on Auditing (ISAs UK); the risk of fraud in expenditure recognition as set out in Financial Reporting Council's (FRC) Practice Note 10; and, the valuation of property plant and equipment.



NHS Dumfries and Galloway faced significant financial challenges over the next three years with forecast savings of £31.324 million required over the next three years. It is essential 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. This will require the development and successful implementation of the SAM Programme.

An audit
underpinned by
quality and adding
value to you



Our audit is undertaken in accordance with the Audit Scotland Code of Audit Practice and reflects the wider scope nature of public audit. Through our audit planning we have identified wider scope risks reflecting the Board's [financial sustainability](#) and [arrangements for delivering value for money](#). Throughout our planning and audit work we re-review wider scope risks and will update these are necessary during the year.

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Overarching principles of our audit

Our audit is risk based and undertaken in accordance with the International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016 ('the Code'). Our overall objective is a effective, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- ✓ professional scepticism
- ✓ a focus on audit risks and key areas of management judgement
- ✓ Delivering a quality audit through our experienced public sector audit team, use of data analytics to focus our audit and understanding of the organisation
- ✓ clear and upfront communications, with regular communication during the year
- ✓ reporting with focused actions which will support you in improving your controls/operations

External Audit plan

The External Audit Plan summarises our responsibilities in accordance with ISAs and the Code:

- Respective responsibilities;
- Our audit process and timeline
- Materiality
- Our risk based audit approach to the audit of the financial statement
- Our wider scope responsibilities including those in relation to the four wider audit dimensions prescribed in the code: Financial management; financial sustainability; governance and transparency; and, value for money.

Continuous improvement and adding value

Our aim is to add value to NHS Dumfries and Galloway through our external audit work. This will be delivered through delivering a high-quality audit. Specifically for NHS Dumfries and Galloway we will also undertake the following arrangements:

Continuous learning and development: We have discussed with Management opportunities to develop our audit approach to ensure we deliver an efficient and effective audit approach. This has included a workshop with senior members of the finance team to discuss the financial statements and the supporting information we will require during our audit.

Robust and effective audit methodology: Our ISA compliant audit methodology is tailored to focus audit resource on significant risk areas and key estimates and judgements. **Constructive challenge and feedback:** We aim to provide constructive challenge by identifying areas of improvement and by recommending and encouraging good practice.

Audit appointment

The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. The Auditor General is independent and not subject to control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of the Scottish Government and most public bodies, including NHS bodies in Scotland, and reporting on their financial health and performance.

Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out her statutory functions, including monitoring the performance of auditors through a quality control process.

The Auditor General has appointed Grant Thornton UK LLP as external auditor of NHS Dumfries and Galloway for the five year period 2016/17 to 2020/21.

Our team

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The audit will be supported by a team of qualified and part qualified accountants from our public sector audit team. Where required we will use other audit experts, including Public Sector technical accounting team to support our audit.

Respective responsibilities

As set out in the Code of Audit Practice there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	NHS Dumfries and Galloway Responsibilities
Corporate governance	<ul style="list-style-type: none"> Establishing arrangements for proper conduct of its affairs Legality of activities and transactions Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)
Financial statements	<ul style="list-style-type: none"> Preparing financial statements which give a true and fair view of their financial position Maintaining accounting records and working papers Putting in place systems of Internal Control and maintaining proper accounting records Preparing and publishing an annual governance statement, management commentary and remuneration report Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money
Financial position	<ul style="list-style-type: none"> Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure Value for Money
Fraud and error	<ul style="list-style-type: none"> Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed

Our responsibilities



- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an ISA compliant opinion on financial statements and where appropriate regularity of transactions
- Review and report on, as appropriate, other information eg annual governance statements, management commentary, remuneration reports
- Notify the Auditor General when circumstances indicate a statutory report may be required
- Demonstrate compliance with wider public audit scope in accordance with Audit Scotland's Code of Audit Practice and applicable guidance
- Contributing to Audit Scotland Performance Reports
- Providing regular updates to Audit Scotland to share awareness of current issues across our audit clients
- Notify Audit Scotland of any cases of money laundering or fraud
- Contribute to National Fraud Initiative (NFI) report
- Contribute to Audit Scotland technical guidance

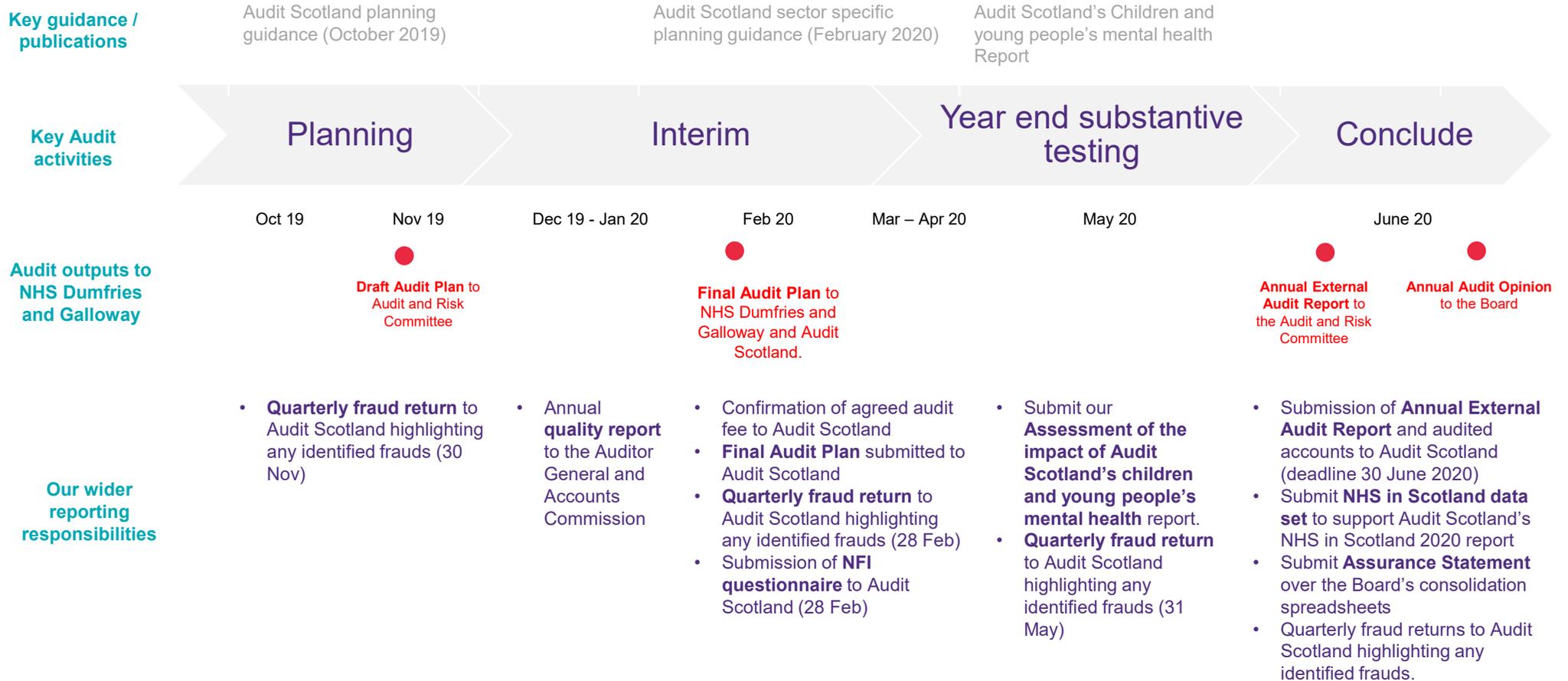
How do we do this in practice



- By reviewing and providing judgements and conclusions on NHS Dumfries and Galloway arrangements including those across the wider scope of audit dimensions.
- Suitability and effectiveness of corporate governance arrangements in year
- Financial position and arrangements for ensuring financial sustainability in the medium to longer term
- Review of other information in line with our knowledge and understanding of NHS Dumfries and Galloway
- Ongoing dialogue and engagement with Audit Scotland during the year
- Providing quarterly fraud updates to Audit Scotland and information on any money laundering
- Providing relevant data to Audit Scotland relating to NHS Dumfries and Galloway to contribute to shared risk assessment and national performance reports, including NHS in Scotland 2020
- Consider and report on audited bodies participation in NFI
- Support Audit Scotland through engaging in technical guidance publications

Audit process and timeline

Our planned audit timeline is detailed below. In accordance with the Code of Audit Practice and audit Scotland Planning Guidance, we are required to undertake and report on a range of areas. The diagram below summarises our planned audit timetable for 2019/20, and output both to NHS Dumfries and Galloway and Audit Scotland.



Throughout the audit process there will be continuous communication and engagement. We will also continue to engage with Audit Scotland to ensure they are aware of any current or emerging issues at the Board.

Materiality



We undertake your audit in accordance with International Standards on Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). On an annual basis we are required to give an opinion as to whether the Financial Statements:

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

Basis for materiality

We determine financial statement materiality based on a proportion of the total operating expenditure less IJB contributions accounting entries. This approach is consistent with our prior year materiality determination. We have determined Group materiality to be **£7.060 million** (Board: £7.04 million), which equates to approximately **2%** of your budgeted total operating expenditure for the year, adjusted for contributions to the Integration Joint Board.

Performance materiality

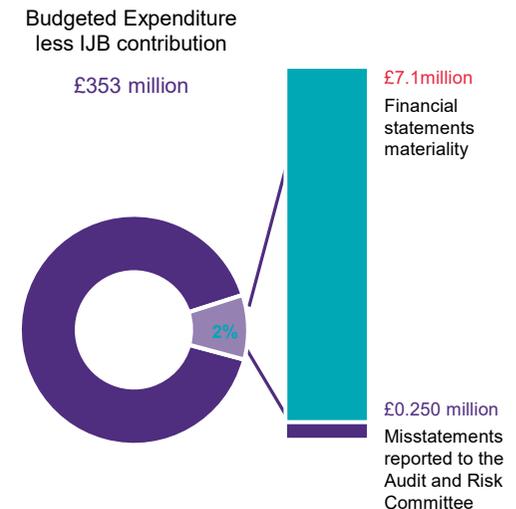
Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. Based on our audit experience we have retained this for 2019/20 at **75%**, being **£5.3 million** (Board: £5.28 million). Performance materiality determines those accounts which testing will be undertaken on and the level of sample testing performed where applicable. Performance materiality is set at 75% of overall materiality. This is consistent with the prior year reflecting our audit knowledge and understanding with no material adjustments in the prior year.

Our materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. We will apply a lower materiality threshold on review of the Remuneration and Staff report to ensure that remuneration has been disclosed within appropriate bandings (being **£2,500**).

We will update our materiality based on the unaudited 2019/20 financial statements. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

Reporting to those charged with governance

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be **£250,000**.



A risk based audit methodology

A core part of audit planning is understanding NHS Dumfries and Galloway and the wider health sector. This is our fourth year as the external auditors of the Board appointed under the Audit Scotland framework. Through our audit planning procedures we consider a range of factors to assess the risk of material misstatement to the financial statements. Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. Our risk assessment includes the following;

Consideration of critical accounting estimates including provisions for early retirement and clinical and medical negligence claims and valuation of property, plant and equipment

Assessment of inherent risk factors including changes in the organisation's activities and environment

Understanding of entity level controls and the control environment, including IT controls and associated assurances through service auditors.

Financial and operational performance during the year, including pressures in delivering outcomes while operating within financial resources limits

Identified Significant risks

- Risk of fraud in Revenue recognition
- Risk of fraud in expenditure recognition
- Management override of controls

We continue to assess the risk of material misstatement and our response to these risks throughout our audit. Within our Annual Audit Report we will report to you the conclusions from our audit procedures over these risks, including any further risks identified or changes to our planned audit response.

Significant financial statement risks

Risk area	Areas of focus	Description of risk
Risk of fraud in revenue recognition	Other Revenue (at the year end) (Occurrence) Receivables (Existence, Valuation)	As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In 2018/19, NHS Dumfries and Galloway's total revenue resource allocation was £344 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 over revenue resource allocation. Similarly, funding from services commissioned from the Integration Joint Board of £306 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 identify our significant risk is relevant to 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.

Audit Response

- Walkthroughs of the controls and procedures over other income.
- Perform substantive testing (at an elevated risk level) over income recognised in the final two months of the year where there is an increased risk of fraudulent recognition
- Evaluation of the existence of debtor balances held at 31 March 2020 through agreeing balances held to invoices and/or other supporting records.
- Using our data analytics tools to provide assurance that income recognised is in line with expectation.
- Perform income cut-off procedures and substantive testing over pre and post year end balances, over non revenue resource allocation funding income streams.
- A focus on recoverability of balances through agreeing a sample of debtor balances (at an elevated risk level) and agreeing to post year end cash receipt.

Significant financial statement risks

Risk area	Areas of focus	Description of risk
Risk of fraud in Expenditure recognition	Other Expenditure (at the year end) (Completeness) Payables (Completeness, Valuation)	<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 £306 million contribution to the Integration Joint Board million 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. Delivery of IJB related services by the Board is considered through payroll and non-payroll costs. 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>
Audit Response		
<ul style="list-style-type: none"> • Walkthroughs of the controls and procedures over other expenditure • Perform substantive testing (at an elevated risk level) expenditure recognised post year end to identify if there is any potential understatement • Testing post year end bank statements and review of minutes to identify any potential unrecorded liabilities. • Reviewing accruals and deferred income around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimate 		

Significant financial statement risks

Risk area	Areas of focus	Description of risk
Management override of controls	Journals Accounting Estimates	<p>As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Board's controls for specific transactions. We consider those key judgements that are most susceptible to significant audit risk of management override are those over expenditure recognition. These are areas where management has the potential to influence the financial statement through estimate and judgement.</p>

Audit Response

Accounting estimates:

In assessing the risk of management override, consider those key accounting estimates and judgements that could impact on the organisations financial results and where there is an inherently increased risk of fraudulent misstatement or where management bias could result in a material misstatement. In response to the significant audit risk we will:

- consider the design of controls in place over key accounting estimates and judgements
- Review accounting estimates for management bias / indication of fraud that could result in material misstatement. This will include review of estimates as at 31 March 2020 and retrospective review of those estimates as at 31 March 2019.

Journals testing:

We will use our data analytics tool *Inflor* to support our evaluation of journal transactions during the year. In response to the significant risk we will:

- Assess the design of controls in place over journal entries, including how these are prepared, authorised and processed onto the financial ledger;
- Will risk assess the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We will test these journals to ensure they are appropriate and that suitably recorded in the financial ledger;
- We will perform targeted testing of transactions around the financial year end reviewing those journals are large or otherwise appear unusual to understand the rationale for the transaction.

Significant financial statement risks

Risk area	Areas of focus	Description of risk
Valuation of property plant and equipment	PPE – Valuation (Land, buildings and dwellings)	<p>In accordance with the NHS Accounting Manual and the HM Treasury Financial Reporting Manual (FReM), subsequent to initial recognition, the Board is required to hold property, plant and equipment on a valuation basis. The exact valuation basis depends on the nature and use of the assets. Specialised NHS Land, Buildings, equipment, installations and fittings are held at depreciated replacement cost, as a proxy for fair value. Non-specialised land and buildings, such as offices, are held at fair value. There are further modifications to values depending on the nature and use of assets to ensure PPE is appropriately stated. As at 31 March 2019, NHS Dumfries and Galloway held PPE of £314 million, including Land, buildings and dwellings of £291 million. Given the value of PPE held by the Board and the level of complexity and judgement in the estimation of valuations, there is an inherent risk of material misstatement in the valuation of land and buildings. The risk is less prevalent in non land and buildings assets as these are generally held at depreciated historic costs, as a proxy of fair value and therefore less likely to be materially misstated.</p> <p>NHS Dumfries and Galloway appoint an independent valuer to value all Land and Buildings.</p>

Audit Response

Management expert

We will consider the independence and objectivity of the appointed valuer and consider their competence and experience as a suitable management expert. We confirm the completeness of underlying information provided by NHS Dumfries and Galloway to the valuer, including instructions provided to ensure that these are in line with the requirements of the FReM as interpreted through the NHS Accounting Manual and Capital Accounting Manual. We will review the valuation report provided by the valuer and reconcile to the underlying accounting entries made by the Board.

Valuation

We will consider the suitability of the valuation methodology to ensure consistent with the FReM as interpreted through the NHS Accounting Manual and Capital Accounting Manual.

We will review the appropriateness of the assumptions adopted by the valuer, including where relevant, reference to third party information (indices etc)

We will assess the valuation across land and buildings and compare actual valuation movements against expectation (based on average revaluation movements) to identify and large or unusual movements. We will assess the reasonableness of these through discussion with Management and the Valuer to gain assurance over valuations applied.

Other audit areas

Going concern considerations

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements, alongside our assessment based on substantive testing and audit procedures.

Working with Internal Audit

The Auditing Standards Board's version of ISA (UK) 610 “Using the work of internal auditors” prohibits the use of internal audit to provide “direct assistance” to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

During 2019/20, we engage with Internal Audit to confirm any awareness of fraud or suspected fraud. Where Internal Audit have identified specific material deficiencies in the control environment that would create a risk of material misstatement to the financial statements, we will consider adjusting our testing so that the audit risk is covered by our work.

Internal control environment

Throughout our audit planning and fieldwork we will continue to develop our understanding of the overall control environment (design) as related to the financial statements. In particular we will:

- Consider procedures and controls around related parties, journal entries and other key entity level controls including controls to mitigate Management override of controls.
- Perform walkthrough procedures on key controls around identified risk areas including operating income, payroll expenditure, other expenditure, journal entries, property, plant and equipment and accounting estimates including provisions.

International Financial Reporting Standards 16: Leases (IFRS 16)

IFRS 16 was effective for accounting periods beginning on or after 1 January 2019 and is due to be adopted for bodies reporting under the FReM for financial years beginning on or after 1 January 2020 . The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces the previous standard IAS 17. IFRS 16 introduces a single lessee accounting model aimed at providing a fairer representation of a lessee's assets and liabilities and disclosures around these. Under IFRS 16, the lessees' recognises assets and liabilities with a term of more than 12 months, unless the underlying asset is of low value. In practice, this is likely to result in lease or lease type arrangements associated assets and liabilities being recognised in the financial statements of the lessee, where these may have previously been treated as operating leases where there was no asset or liability recognised and only an annual lease charge through expenditure.

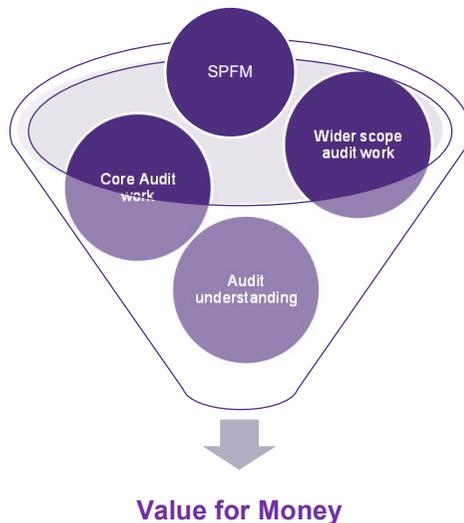
During 2019/20 we will review the progress made by NHS Dumfries and Galloway in evaluating the potential implications on adoption of the new accounting standard. This will be reflected in the 2020/21 financial statements. We will consider the disclosures in the 2019/20 financial statements in relation to the anticipated impact of the new standard.

Wider scope audit

Our responsibilities under Audit Scotland's Code of Audit Practice extend beyond the audit of the financial statements. The Code sets out four dimensions that frame wider scope audit work into identifiable areas. Alongside Value for Money, the audit dimensions set a common framework for our audit work and we review and conclude on the four dimensions and that there are organisational arrangements in place to secure Value for Money.



Wider scope approach



Our wider scope audit work is a **risk based** approach. It is built upon our understanding of the organisation and consideration of:

- Scottish Public Finance Manual (SPFM) nine characteristics of Value for Money
- Our core audit work and audit knowledge
- Audit Scotland planning guidance

We consider each of these areas through our audit planning process. We summarise our planning consideration over the wider scope areas below, including where we have identified a significant wider scope risk, our planned audit response. We have also identified areas that we will continue to consider throughout our audit to allow us to conclude on the wider scope areas in our Annual Audit Report.

Wider scope audit dimensions

Financial sustainability

NHS Dumfries and Galloway face significant financial challenges over the short to medium term. 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 will not be 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, over the medium to long term more fundamental changes are likely to be required to continue to meet forecast financial challenges

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. Management recognise that it needs 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.

Significant wider scope risk identified: NHS Dumfries and Galloway faced significant financial challenges over the next three years with forecast savings of £31.324 million required over the next three years. 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. This will require the development and successful implementation of the SAM Programme. Specifically in relation to NHS D&G we will consider the extent to which the Board's workforce planning arrangements are aligned to financial plans.

Audit
response

Response to wider scope risk

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. 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. We will consider the extent to which the Board's workforce planning arrangements are aligned to financial plans. In addition we will assess the progress made by the Board in developing and implementing the level of service redesign that will enable the Board to meet its performance measures, while operating within available financial resources.

Other wider scope procedures

In relation to broader financial sustainability we will continue to develop our understanding of the Boards financial planning arrangements including workforce plans and how these developed both supporting and recognising the financial and operational challenges facing the board.

Wider scope audit dimensions

Financial management

Based on our cumulative audit experience over the last three years, we have found that NHS Dumfries and Galloway has reasonable financial management arrangements. 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. This was broadly in line with budget.

From review of minutes and financial performance reports, the reporting provides the quality of information that we would expect on a routine basis compared to budget and this information is reported to the Performance Committee and Board on a timing basis. This is in line with our expectations given the importance of achieving the statutory limits set by the Scottish Government.

Audit
response

We will continue to review the Board's financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as delivery of savings plans. Our work will consider the extent to which the performance impact of in year savings is monitored.

Governance and transparency

The Board faces significant financial and operational challenges over the coming years, including the need to deliver over £31 million of savings over the next three years. 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. NHS Dumfries and Galloway has continued to develop governance arrangements in place at the Board. A number of new appointments were made to the Board during 2018/19, including a new Chair in December 2018.

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.

Audit
response

We have not identified any specific wider scope audit risks in relation to the Boards' governance and transparency. To support our wider scope audit, 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.

We will consider the progress made by NHS Dumfries and Galloway in implementing the opportunities for improvement identified in the self-assessment against NHS Scotland's Blueprint for Good Governance identified opportunities for improvement.

During our audit we will consider NHS Dumfries and Galloway's risk management arrangements, including the level of oversight and scrutiny of strategy risks to the board.

Wider scope audit dimensions

Value for money

NHS Dumfries and Galloway 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. NHS Dumfries and Galloway's performance in 2018/19 against the Local Delivery Plan (LDP) targets was mixed; eight green, six amber and five red but overall has improvement on prior year (six green, two amber and ten red). This reflected a period of transition to the new acute hospital and related increased levels of 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. Performance management arrangements are well established and aligned to the delivery of the organisations strategic priorities.

Significant risk identified: A key risk for the Board is balancing the delivery of priorities and outcomes while facing significant financial challenges. A critical element of this is how the board work with key strategic partners to enhance performance. In particular how the board work with the council and the IJB to transfer the balance of care from acute services to primary care.

Audit
response

Response to significant risk: We will assess the extent to which the Board works with key strategic partners to enhance performance improvement and deliver outcomes for the local citizens. We will consider how the performance management framework is used to help monitor and shape performance improvement recognising the financial and resource pressures facing the board.

Other wider scope procedures:

NHS Dumfries and Galloway recognise the challenge in delivering performance targets, in particular delayed discharges and waiting times, against a backdrop of financial pressures.

While no significant wider scope risks have been identified in relation to value for money, 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.

Audit deliverables

As set out in the Code of Audit Practice, as appointed auditors we have a number of wider reporting responsibilities beyond the audit of the financial statements. Below we summarise the key areas of work during our 2019/20 audit, including expected reporting under Audit Scotland's Code of Audit Practice and audit planning guidance (2019/20 Guidance on Planning the Audit)

Requirement	How we will report our findings
Annual accounts Perform an audit of the annual accounts and express and express specified audit opinion on them.	<ul style="list-style-type: none"> External audit plan External auditor's opinion on the financial statements Annual external audit report findings from our audit work of the financial statements
Wider scope audit dimensions Conclude and report on our assessment of the wider scope audit dimensions	<ul style="list-style-type: none"> Annual external audit report (audit findings report)
National Fraud Initiative Evaluate the Boards participation in the National Fraud initiative	<ul style="list-style-type: none"> Annual external audit report (audit findings report) Reporting participation to Audit Scotland including completion of NFI questionnaire
Performance and NHS overview reports Contribute to performance audits (including overview reports, performance audit reports, and impact reports)	<ul style="list-style-type: none"> Submission of datasets to Audit Scotland of key financial and non-financial data of the body Providing Information returns to Audit Scotland
Intelligence sharing Share intelligence with health and social care national agencies	<ul style="list-style-type: none"> Intelligence returns to Audit Scotland sharing our knowledge and understanding of the Board to support shared intelligence gathering across health and social care national agencies
Emerging issues Communication of emerging issues to Audit Scotland and highlight any issues for potential statutory reports	<ul style="list-style-type: none"> Communicating throughout our audit emerging issues throughout the year
Correspondence queries Carry out preliminary enquiries into any correspondence relevant to the Board that is referred to Audit Scotland.	<ul style="list-style-type: none"> Providing responses to any correspondence received based on our audit knowledge and understanding and the results of any review as agreed with Audit Scotland
Whole of Government Accounts Provide assurance over the Board's Whole of Government Accounts (WGA) returns	<ul style="list-style-type: none"> Providing Assurance Statement to HM Treasury over the Board's WGA return.
Money laundering and fraud Provide information on cases of money laundering or fraud	<ul style="list-style-type: none"> Reporting cases to the National Crime Agency of an instances of money laundering at the Board and identified frauds
Technical guidance Contribute to Technical Guidance Notes	<ul style="list-style-type: none"> Providing responses to Audit Scotland consultations on draft Technical Guidance notes for Auditors.

Audit deliverables

Requirement	How we will report our findings
<p>Audit Scotland area of focus - Procurement</p> <p>In accordance with Audit Scotland's planning guidance, during 2019/20 we will have particular audit focus around the risk of fraud and corruption in NHS Dumfries and Galloway's procurement arrangements. We will evaluate the arrangements at the audited body to mitigate that risk, auditors may wish to consider whether:</p> <ul style="list-style-type: none"> • Procurement risk is recognised and managed with key owner; • controls around the procurement process, including segregation of duties, are adequate, followed and enforced • Appropriate policies and procedures in place around procurement including gifts and hospitality • Capacity and capability to undertake procurement activity • internal audit coverage of procurement systems is adequate and proportionate to the risks faced by the body • There are arrangements to encourage and protect whistle-blowers. 	<ul style="list-style-type: none"> • Our audit work will consider the arrangements for the prevention and detection of fraud and corruption. Specifically, we will consider the extent to which the Board follows the principles of CIPFA's Code of Practice on Fraud. Our conclusions will be reported in our 2019/20 Annual External Audit Report.

Appendices

Appendices:

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Appendix 1: Fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	114,200
Pooled Costs	12,840
Contribution to Audit Scotland costs	6,480
Contribution to Performance Audit and Best Value	-
2019-20 Fee	133,520

Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees	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 Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council'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.

Audit Scotland sets an expected fee for each audit carried out under appointment which assumes that the body has well-functioning controls, an effective internal audit service, and an average risk profile.

Audit Scotland reviews the expected fee each year and adjusts it if necessary based on auditors' experience, new requirements, or significant changes to audited bodies. The audit fee is calculated in accordance with guidance issued by Audit Scotland. In accordance with the Audit Scotland guidance we can increase the fee by up to 10% from the base fee set by Audit Scotland, depending on risk factors identified by us as your external auditors. We cannot reduce the fee from the baseline set out by Audit Scotland. For 2019/20 we have retained the fee at expected baseline fee. The fee is based on the following assumptions:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and the Boards' activities will not change significantly from planned
- NHS Dumfries and Galloway will make available management and accounting staff to help us locate information and to provide explanations. We reserve the right to charge an additional fee for any additional work.
- We will only receive (and audit) 3 sets of accounts (1st draft; amended draft and final)
- Specific balances such as valuations of assets are supported by an independent specialist

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

Appendix 2: Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is 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 relations 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. Typically we do 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.

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.

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at NHS Dumfries and Galloway we will report to the Auditor General as required by Audit Scotland.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is NHS Dumfries and Galloway 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 work with NHS Dumfries and Galloway to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing NHS Dumfries and Galloway arrangements in response to the national fraud initiative exercise.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

Appendix 4: Communication with those charged with governance

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.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while our Annual Report to those Charged with Governance will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will 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.

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	•	•
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	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of NHS Dumfries and Galloway's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the entity or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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