



NHS Dumfries and Galloway

External Audit Report for the financial year ended 31 March 2020

Annual Report to the Board and the Auditor General for Scotland

Final Report

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Financial statements at a glance



We received the primary financial statements at the outset of our audit. The annual report, including performance information was received in line with our revised timetable later in the audit cycle following management review. Due to the COVID-19 outbreak and Management's focus on the Board's response, the financial statements preparation and audit timetable was revised to defer the approval of the financial statements to the Board meeting in August 2020. We thank management for their support and assistance throughout the audit.



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.



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

An audit
underpinned by
quality and adding
value to you



We have issued an unmodified audit opinion on the annual report and accounts. Our audit opinion includes an emphasis of matter paragraph in relation to the material uncertainty over the valuation of land and buildings arising as a result of Covid and the forecasted economic downturn.



Significant audit risks were: management override of controls; the risk of fraud in revenue recognition; 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. An additional significant audit risk was identified in relation to Covid-19, reported to those charged with governance in early May.



We updated our audit materiality to reflect your 2019/20 draft financial statements. Materiality is set at £8.515 million for the Group consisting of the consolidated accounts of NHS Dumfries and Galloway and NHS Dumfries and Galloway Endowment Fund (Board only: £8.505 million). This represented 2% of gross expenditure excluding IJB transactions which we exclude on the basis that the nature of recording transactions with the IJB effectively double counts income and expenditure transactions.

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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 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 2019/20, reflecting on prior year feedback we worked with finance to agree a timetable for our audit work and looked at ways of ensuring audit procedures were completed in a timely manner. This included focusing on significant areas of audit risk early in the audit process. Through our audit reporting and meetings with management we aim to share our wider NHS and public sector experience including emerging issues and wider insights from England. 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.

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Introduction

Reporting

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2020.

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

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

Once the signed annual report and accounts is laid in parliament this report will be made publicly available on the Audit Scotland website (www.audit-scotland.gov.uk).

Our report was presented as a draft to the NHS Dumfries and Galloway Audit Committee on 23 July and finalised for the Board meeting on 3 August 2020.

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

Structure of this report

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

Our conclusions on wider scope risks identified in the audit plan are set out in the relevant wider scope sections of this report.



Our Opinion

For the financial year ended 31 March 2020 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)

Emphasis of matter – property valuation

We draw attention to NHS Dumfries and Galloway's annual report and accounts Note 1 to the financial statements, which describes the basis for valuing land, buildings (including dwellings). Management engaged an expert to value their land and buildings portfolio. The expert's valuation included a 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to management's valuation than would normally be the case. Our opinion is not modified in respect of this matter.

Materiality

Our audit approach was set out in our audit plan presented to the Audit Committee on 18 November 2019 and finalised on 28 February 2020. We updated our audit materiality to reflect your 2019/20 draft financial statements setting materiality at £8.515 million for the Group (Board only: £8.505 million), representing 2% of gross expenditure excluding IJB transactions

Since issuing the draft audit plan, we recognised an additional risk in relation to the impact of Covid-19 pandemic on NHS Dumfries and Galloway and the risk of material misstatement to the financial statements. This was reported as a plan amendment in May 2020 to the Audit and Risk Committee.

We report to management any difference identified over £250,000 (Trivial capped at £250,000 by Audit Scotland).

We applied a lower materiality threshold for Directors Remuneration disclosures within the Remuneration and Staff Report to ensure that remuneration has been disclosed within the appropriate bandings (being £2,500).

The audit process

In accordance with our annual external audit plan our audit work commenced on 4th May 2020. We received the draft primary financial statements in line with our agreed timetable which Management had prepared based on the Scottish government Health and Social Care Directorate template accounts. The word version of the accounts, including Annual Report and Governance Statement were received on 5 June 2020.

Due to the COVID-19 outbreak and Management's focus on the Board's response to the pandemic, the year end accounts production and approval process was revised. This pushed back the production and finalisation of the accounts from end June 2020 to 3 August 2020. However, in line with our external audit plan we completed substantially all our audit procedures over the primary financial statements in line with the original timetable.

Due to the travel restrictions and social distancing measures introduced by the government in response to the Covid-19 pandemic, we have delivered the audit remotely.

There were no adjustments to the draft primary financial statements. There were two unadjusted misstatements to the accounts. None of these were considered either individually or collectively material to the financial statements.

We also identified a number of disclosure adjustments in respect of the draft financial statements including disclosure of financial instruments in the financial statements.

See detail set out in Appendix 1.

Internal control environment

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

- Considered procedures and controls around related parties, journal entries and other key entity level controls.
- Performed walkthrough procedures of key financial processes including income and expenditure recognition, journal postings, and payroll.

Our work over controls is limited to our ISA requirements in understanding an entities control environment. Our audit is not controls based and we do not place reliance on controls operating effectively as our audit is fully substantive in nature. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

Service auditors reports

NHS Dumfries and Galloway utilise a number of shared IT systems, IT applications and processes with other Scottish Health Boards. Assurance reports are prepared by service auditors in the health sector under ISA (UK) 402 covering the national systems/arrangements.

During 2019/20 the service audit reports from KPMG on NSS Primary Care Payments and NSS' National IT contract for services provided by ATOS Origin Alliance supporting eFinancials were qualified.

The BDO service auditor report over National Single Instance (NSI) eFinancials was unqualified.

Management have disclosed the qualification in the Annual Governance Statement but do not consider the control deficiencies identified to have an impact on the accuracy of the financial statements.

We adopt a fully substantive audit approach and therefore while we consider the findings from the Service auditor reports and the impact on our audit procedures, we do not place direct reliance on their work. From consideration of the reports we are satisfied there is no impact on our planned audit approach.

Internal Audit

As set out in our external audit plan our audit approach is to comply with the ISA's and we did not place formal reliance on the work of NHS Dumfries and Galloway's internal auditor during 2019/20. We have reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach. The opinion of Internal Audit for the year was that NHS Dumfries and Galloway:

"Internal Audit have concluded that there were adequate and effective internal controls in place throughout the year and the Accountable Officer has implemented a governance framework in line with required guidance sufficient to discharge the responsibilities of this role:"

The findings of internal audit are consistent with our knowledge and experience of NHS Dumfries and Galloway. From our review we are satisfied that there were no areas arising from the work of internal audit that would impact on our audit of the financial statements and that appropriate disclosure is contained within the annual governance statement. We are satisfied that the capacity of the Internal Audit function is sufficient for NHS Dumfries and Galloway.

Responding to significant risks

Risk area	Identified audit risks at planning
Risk of fraud in revenue recognition	<p>As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. Within the 2019/20 draft accounts NHS Dumfries and Galloway's total revenue resource allocation was £368 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 £326 million and revenue from other Scottish Boards of £11 million 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. Within the 2019/20 draft accounts 'other income' was £25 million. As financial performance targets are primarily set for year end outturn position, the risk is prominent around year end revenue transactions and balances.</p>
Work completed	
<ul style="list-style-type: none">• Walkthroughs of the controls and procedures over other income• Substantive testing (at an elevated risk level) income recognised pre and post year end to identify if there is any potential misstatement• Substantive testing (at an elevated risk level) of income recognised in the final two months of the year to identify if this has been potentially overstated• Review and sample testing of accrued income, prepayments and debtors to gain comfort around the recoverability of balances at the year end.	
Our conclusion	
<p>Based on our testing we conclude:</p> <ul style="list-style-type: none">• We did not identify any exceptions in our cut-off testing of year end income.• We did not identify any material misstatements arising from our testing of accrued income, prepayments and debtors at the year end or material concerns around the recoverability of balances.	

Risk area

Risk of fraud in Expenditure recognition

Identified audit risks at planning

Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Financial Reporting Council (FRC) 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 £322 million contribution to the Integration Joint Board million and expenditure with other Scottish Boards (£25 million).which are relatively well forecast and inter-Board expenditure agreements, therefore we do not consider there 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. For 2019/20 total non-pay expenditure was £552 million. Excluding inter- NHS Scotland board expenditure of £25 million and contributions to the integration joint board of £322 million the balance of 'other expenditure' was £205 million. 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.

Work completed

- Walkthroughs of the controls and procedures over other operating expenditure streams
- Substantive testing (at an elevated risk level) expenditure recognised post year end to identify if there is any potential understatement
- Substantive testing (at an elevated risk level) of expenditure in the final two months of the year to identify if this has been potentially overstated
- Challenged the regularity of expenditure incurred to ensure alignment with the type/nature of NHS Dumfries and Galloway as an organisation.
- Review of accruals, deferred income and provisions, where material, around the year end to consider if there is any indication of understatement or overstatement of balances held through consideration of accounting estimates.

Our conclusion

Based on our testing we conclude:

- We did not identify any exceptions in our cut-off testing of year end expenditure.
- We did not identify any exceptions in the completeness and accuracy of accruals, deferred income or provisions balances at the year end.
- Through our substantive procedures and sample testing we confirmed expenditure testing was in accordance with the nature of NHS Dumfries and Galloway (regularity).

Risk area

Management override of controls

Identified audit risks at planning

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.

Work completed

- Considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures.
- Reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2020 and retrospective review of those estimates as at 31 March 2019.
- Journals testing including:
 - Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;
 - Risk assessment of 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 tested these journals to ensure they are appropriate and suitably recorded in the financial ledger;
 - Target testing of transactions around the financial year end, reviewing large journals and those which appear unusual to understand the rationale for the transaction.

Our conclusion

Based on our testing we conclude:

- There was no evidence of management override in our testing of controls.
- NHS Dumfries and Galloway's draft financial statements include the following areas of significant estimate and judgements: Provision for Pension and injury benefits; clinical and medical negligence costs; and the valuation of property, plant and equipment.
- Through our audit testing we have also considered accounting estimates over the valuation of property, plant and equipment.
- We did not identify any unusual or significant transactions throughout the financial year or during the financial close period which were out with the ordinary operations of NHS Dumfries and Galloway.

Risk area

Valuation of property, plant and equipment

Identified audit risks at planning

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. As at 31 March 2020, NHS Dumfries and Galloway held PPE of £313 million, including Land and buildings (including dwellings) of £295 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.

NHS Dumfries and Galloway appoint Avison Young, an independent valuer to provide advice and guidance on the valuation of land and buildings. Land and buildings were fully revalued in 2018/19 and in the current year subject to annual indexation. The indices applied were based on rates provided by the independent valuer.

Work completed

- Walkthrough of the controls and procedures over the valuation of land and buildings
- Documented our understanding of the arrangements in place at the board for ensuring the carrying value of land and buildings remains appropriate and in accordance with IAS 16.
- Reviewed the suitability of indices applied in the valuation of land and buildings including challenging the reasonableness of the rates applied and considering alternative rates.
- Challenged Managements' assessment of potential impairment of PPE including considering if there are any indications of impairment of PPE not recognised by the board.
- Challenged the recognition of the valuations applied, including completeness and accuracy of accounting entries to record the valuations.

Our conclusion

Based on our testing we conclude:

- Property, plant and equipment has been valued in accordance with IFRS 16 and the FReM.
- The assumptions adopted by Management and the valuers are reasonable and we have not identified any issues with the completeness or accuracy of the underlying data used in the valuation.
- 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.

The Royal Institute of Chartered Surveyors (RICS) have issued a valuation practice note regarding material uncertainties in valuations as a result of impacts to the market caused by Covid-19. The RICS Red Book defines material uncertainty as 'where the degree of uncertainty in a valuation falls outside any parameters that might normally be expected and accepted. NHS Dumfries and Galloway's valuers have reported their valuation advice on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global Standards effective from 31 January 2020. Consequently, less certainty, and a higher degree of caution, should be attached to the valuation advice than would normally be the case. We have included an emphasis of matter paragraph within our independent audit opinion to highlight the matter to the reader of the accounts. Our audit opinion is not modified in respect of this matter.

Risk area

Covid-19

Identified audit risks at planning

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and restrict the evidence we can obtain through physical observation;
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

Work completed

- Worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations;
- Evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- Evaluated whether sufficient audit evidence could be obtained through remote technology;
- Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as recovery of receivable balances; and
- Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

Our conclusion

Based on our testing we conclude:

- Covid-19 and remote working did not restrict NHS Dumfries and Galloway's ability to prepare the financial statements or restrict the audit evidence required to complete the audit.
- Management's assumptions underpinning financial forecasts and the going concern assessment have adequately considered the potential impact of Covid-19.
- We have not identified any significant impact on NHS Dumfries and Galloway's debtor recovery, although acknowledge that the majority of these are with other public bodies
- The impact of COVID-19 has resulted in a material uncertainty surrounding the valuation of property, plant and equipment (see Valuation of Property, plant and equipment significant risk)
- Management have included within the governance statement and other sections of the annual report and accounts commentary on Covid and the impact on the governance arrangements.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Accounting policies	Application of IFRS and deferral of IFRS 16: Leases	NHS Dumfries and Galloway's Accounting policies are in accordance with IFRS as interpreted and adapted by the 2019/20 NHS Accounts Manual and we consider these to be appropriate to the organisation. These have been applied consistently to the previous year. No new International Financial Reporting Standards (IFRS) have been adopted in the year as the adoption of IFRS 16 for public bodies has been delayed by a year as a result of the Covid-19 pandemic.	 Green
Revenue recognition	Revenue and funding recognition	<p>The majority of NHS Dumfries and Galloway's expenditure is met through funds advanced by the Scottish Government within an approved revenue resource limit (RRL). Cash draw downs to fund expenditure within RRL are not recognised as revenue and instead credited to the General Fund. All other income receivable by the Board is recognised as income in year.</p> <p>For 2019/20 revenue resource funding was £368 million. The Board also receives income from other Scottish Health Boards' for goods and services provided in year. For 2019/20 this totalled £11 million. The Board also recognises income from other revenue streams predominantly in the provisions of services and for 2019/20 this totalled £25 million. While the Board's accounting policy follows the NHS Scotland Accounting Manual, there is an opportunity to enhance the accounting policy as to more explicitly reflect on when income is recognised within the financial statements.</p>	 Amber

Assessment

-  Marginal accounting policy which could potentially be open to challenge
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	Pension provisions and injury benefit	NHS Dumfries and Galloway provides for future estimated payments in relation to permanent injury benefit awards to former employees as well as amounts relating to former employees who retired early in the interests of the service. The total amount provided at 31 March 2020 was £3.848 million. We are satisfied that the provision has been appropriately calculated in accordance with the NHS Accounts Manual and has been independently agreed to supporting information from the Scottish Public Pension Agency and HM Treasury which we have reviewed as an appropriate source of management evidence.	
	Clinical and Medical Legal Claims and CNORIS provisions	<p>NHS Dumfries and Galloway provides for Clinical and medical legal claims. 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. Audit Scotland have provided an independent assessment of the suitability of the CLO and a review of the methodology to calculate CNORIS provisions. 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 NHS Dumfries and Galloway.</p> <p>NHS Dumfries and Galloway Council's draft financial statements also disclosed key sources of judgement and estimation around employee benefits accrual and assessment of leases. Under International Accounting Standard 1: Presentation of Financial Statements (IAS 1) there should be separate disclosures from material estimation. In addition, we identified that the disclosed amounts did not always meet the definition of a significant estimate or judgement or disclosure requirements. We have raised an unadjusted disclosure difference within Appendix 1.</p>	
Property, plant and equipment	Material estimation uncertainty in the valuation of land and buildings	Due to the impact of Covid-19 on markets, including reduced level of data points to support valuations, the Board's appointed valuers have included a material valuation uncertainty disclosure in their valuations provided as at 31 March 2020 highlighting the high. Consequently, NHS Dumfries and Galloway's financial statements include the disclosure of a material estimation uncertainty in relation to the valuation of property, plant and equipment. Consequently, less certainty, is attached to the valuation provided. We have included an emphasis of matter paragraph within our independent audit opinion to highlight the matter to the reader of the accounts. Our audit opinion is not modified in respect of this matter.	
		The Board's disclosures do not include a sensitivity analysis of the estimation. However, we are satisfied that this does not have a material impact to the reader of the accounts.	

Assessment

-  Marginal accounting policy which could potentially be open to challenge
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Going concern

The financial forecasts for NHS Dumfries and Galloway project that for 2020/21 the Board has a financial gap of £16 million with further pressures over the coming years. A further challenge in 2020/21 is the uncertainty surrounding the impact of Covid-19 and how this may detrimentally impact on savings plans and this will need to be reassessed during quarter one as part of NHS Dumfries and Galloway's recovery plans. Work is ongoing to develop and implement NHS Dumfries and Galloway's remobilisation plan to bring back all elective and other services which were paused during the emergency period

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.

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. NHS Dumfries and Galloway has a net assets position of £72 million and has sufficient cash flows to meet its obligations as they fall due.

Property impairments

During 2019/20 NHS Dumfries and Galloway amended the estates plan and capital investment programme. This included changes to the planned development of the Cresswell site. As a consequence of this decision, expenditure incurred on the development to date (within assets under construction) of £1.4 million was impaired as this no longer represented any value to NHS Dumfries and Galloway. This has been correctly recorded within the financial statements. While the Board has approved the capital programme, including the decision not to proceed with the investment in the Cresswell site, there was no explicit reporting of the financial implication of ceasing the project and that this would result in a £1.4 million impairment cost to NHS Dumfries and Galloway. We recommend that for future capital decisions there is clear recorded consideration of the wider financial implications on the Board.

Action plan point - 1

Fraud and irregularity

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

Related parties

Under IAS 24, NHS Dumfries and Galloway is required to disclose related party transactions. While we are satisfied all material transactions with related parties have been identified, we noted that there are opportunities to enhance the disclosure in accordance with the FReM requirements. We have included this as an unadjusted disclosure difference within Appendix 1 and Management are undertaking a review of related party disclosure note in future years.

National Fraud Initiative

NHS Dumfries and Galloway participates in the National Fraud Initiative (NFI), a counter fraud exercise coordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the National Audit Office to identify fraud and error. To date there have been 1,840 matches, including three high risk matches. All high risk matches have been investigated with no identified frauds. Progress has been noted through the investigation of other risk matches and this is reported to the Audit and Risk Committee. We found NHS Dumfries and Galloway arrangements for participation in the NFI exercise during 2019/20 to be satisfactory.

Narrative elements of your annual accounts

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

Performance Report

Provides a summary of key performance activity across the year

The report summarises the key priorities, achievements and developments during the year. In accordance with Scottish Government guidance arising due to Covid-19, NHS Dumfries and Galloway have reduced the level of performance information reported in the annual report and accounts, referencing existing performance information that was readily available.

Overall Observations

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

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 Governance statement reflects assurances provided in year by both Management and Internal Audit.

Wider scope key messages



NHS Dumfries and Galloway met its financial targets for 2019/20. They delivered a break-even position, achieving a small surplus of £77,000 for the year against the Core Revenue Resource Limit (RRL) and surplus against non-core revenue resource limit of £68,000. A £63,000 underspend was achieved against the capital resource limit. Whilst an achievement to deliver a small surplus at year end, NHS Dumfries and Galloway does continue to face future financial challenges, particularly around the levels of confidence in a future balanced financial outturn. The financial impact of Covid19 will create further risk and uncertainty over the future financial position.



Like all Scottish Health Boards, NHS Dumfries and Galloway face financial pressures. The Financial Plan for 2020/21 to 2022/23 estimates that the organisation will need to deliver over £72.9 million of savings over the next three years. This includes £26.6 million of savings in 2020/21, representing approximately 8.7% of annual operating costs. The three year financial plan was produced before the Covid19 pandemic.



Service delivery challenges facing NHS Dumfries and Galloway including managing delayed discharges, waiting times and emergency admissions continue to feature. Once NHS Dumfries and Galloway is in the recovery Covid-19 phase many of these services will resume, but differently to previously. It will take time to fully understand the impact of Covid19 on future service delivery, linked to the financial position.

Wider scope – significant risks

Within our annual audit plan we identified two significant wider scope risks in relation to financial sustainability and delivering performance targets in a backdrop of financial challenge. As part of our audit we have reviewed the arrangements in place at NHS Dumfries and Galloway around these wider scope risks.

Wider Scope Significant Risk: Financial Sustainability identified in our Annual Audit Plan

NHS Dumfries and Galloway faces significant financial challenges. It is essential that NHS Dumfries and Galloway's underlying operating model to deliver its strategic objectives is financially sustainable over the medium to longer term. This will require the development and successful implementation of the SAM Programme. Specifically in relation to NHS Dumfries and Galloway we will consider the extent to which the organisations workforce planning arrangements are aligned to financial plans.

Audit response to significant 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.

Grant Thornton's conclusion on the Financial Sustainability risk identified

Like all Scottish Health Boards, NHS Dumfries and Galloway face financial pressures. The Financial Plan for 2020/21 to 2022/23 estimates that the Board will need to deliver over £72.9 million of savings over the next three years. This includes £26.6 million of savings in 2020/21, representing approximately 8.7% of annual operating costs. The three year financial plan was produced before the Covid19 pandemic.

The Sustainability and Modernisation Programme (SAM) has been developed to help deliver a more sustainable operating model for the future of NHS Dumfries and Galloway with a Programme Director appointed in March 2020 to support its delivery. A central project team has been established to support the SAM project.

2020/21 will be a period of significant challenge for NHS Dumfries and Galloway with the need to deliver financial savings whilst also managing the Covid-19 pandemic and remobilisation of services. NHS Dumfries and Galloway recognise that there is a unique opportunity to review the model for the provision of care in the region to look to develop a financially sustainable way of working.

The Sustainability and Modernisation Programme (SAM) has been developed to help deliver a more sustainable operating model for the future of NHS Dumfries and Galloway. This is a critical time for NHS Dumfries and Galloway given demand pressures on services and the impact of Covid-19. NHS Dumfries and Galloway will need to find a balance between re-mobilisation and a continued focus on the SAM programme and achieving savings, in an environment of increasing costs and uncertainty on future funding.

**See wider scope detail
Financial Management
& Sustainability and
Value for Money**

Action plan point -2

Wider Scope Significant Risk: Value for money identified in our Annual Audit Plan.

NHS Dumfries and Galloway continues to face operational and financial challenges, creating a risk that there will be insufficient available resources to promote and deliver continuous improvement activity. In previous years, NHS Dumfries and Galloway's performance against the Local Delivery Plan (LDP) targets was mixed, reflecting a period of transition to the new acute hospital and related increased levels of activity. However, NHS Dumfries and Galloway has a 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.

A key risk is balancing the delivery of priorities and outcomes while facing significant financial challenges. An essential element of this is how NHS Dumfries and Galloway work with key strategic partners to enhance performance. In particular working with the Council and the IJB to transfer the balance of care from acute services to primary care.

Audit response to significant wider scope risk

We will assess the extent to which NHS Dumfries and Galloway 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.

Grant Thornton's conclusion on the Value for Money Risk identified

NHS Boards in Scotland continue to fall short in achieving the performance targets set. As at March 2020, NHS Dumfries and Galloway were reporting they had not achieved 50% of its 18 performance measures. Particular challenges have been experienced in delayed discharges, waiting times and emergency admissions.

NHS Dumfries and Galloway have a number of initiatives to address these challenges including the Waiting Times Improvement Plan (WTIP). In addition, as part of remobilisation planning, NHS Dumfries and Galloway is taking an initial review of the services offered and model of care it provides. The next few months represent a critical period for NHS Dumfries and Galloway as it looks to work with strategic partners, to help develop a sustainable and effective model of care.

**See wider scope detail
Value for Money**

Wider Scope Commentary

Financial management and financial sustainability

Financial Performance 2019/20

NHS Dumfries and Galloway delivered a break-even position, achieving a small surplus of £77,000 for the year against the Core Revenue Resource Limit (RRL) and surplus against non-core revenue resource limit of £68,000. A £63,000 underspend was achieved against the capital resource limit set of £2.914 million.

Despite achieving a break-even position in 2019/20, NHS Dumfries and Galloway continue to operate within a challenging financial environment, relying on non-recurring savings to achieve the in year financial budget.

NHS Dumfries and Galloway delivered savings of £15.07 million. However, of these savings, £5.78 million related to recurrent savings, with the balance of £9.29 million being non-recurring. Saving schemes in year included Primary care prescribing of £1.9 million through switching to new cost effective medicines and review of GP prescribing variations. Similarly £1.1 million of savings were achieved in secondary care prescribing through more cost effective medicines. In addition, there were savings through more efficient use of the estate as well as staffing underspends of £1 million.

The level of non-recurring savings in-year was £4.589 million more compared to the initial budget, with £0.54 million slippage on recurring savings.

	Resource Limit £'000	Outturn Expenditure £'000	Variance (over)/under £'000
Revenue resource limit – core	353,444	353,367	77
Revenue resource limit – non-core	14,624	14,556	68
Total	368,068	367,923	145

Capital Expenditure

The biggest capital spend this year was on the continued delivery of the Mountainhall Project and Replacement, Development and Contingency (RDC) Programme including DGRI with total capital spend for the year of £2.851 million.

Financial Management

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 position and remains appropriate. From review of the financial reporting and minutes of the Board and Performance Committee meetings we noted:

- Financial performance reports were easy to understand
- Financial pressures and challenges are discussed, and savings profiles revised during the year to ensure accurate future forecasting, as captured in the minutes
- Budget versus actual position was broadly in line throughout the year.

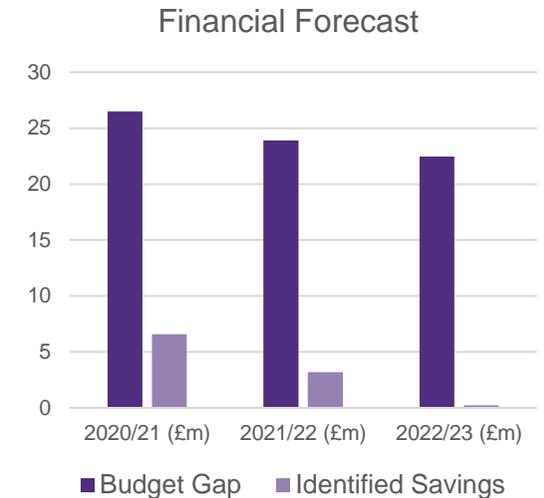
NHS Dumfries and Galloway have effective leadership through an experienced and qualified finance team. However, retaining existing employees as well as attracting the correct individuals from a limited resource pool is an on-going challenge for the Board regarding succession planning.

Financial Sustainability

The Financial Plan for 2020/21 to 2022/23 estimates that the Board will need to deliver circa £72.9 million of savings over the next three years. This includes £26.6 million of savings in 2020/21, representing approximately 8.7% of annual operating costs. While NHS Dumfries and Galloway has identified over £5.781 million of savings, the Board face significant financial challenges in order to deliver its financial targets of breakeven in 2020/21 as well as developing a financially sustainable operating model over the medium term.

Financial planning assumptions

Management recognise that they need to move away from reliance on non-recurring savings and, as a result, the savings plan has been developed through the Sustainability and Modernisation Programme (SAM) work. However, at present, NHS Dumfries and Galloway do not have worked up savings schemes to cover the savings gap which means there is a high risk that they will not be able to achieve financial targets for the 2020/21 financial year alongside the proposed performance trajectories set out within the AOP.



The 2020/21 Financial Plan was developed in advance of the Covid-19 pandemic and is presented based on “business as usual”. The plan was presented for approval by the Board as normal but recognising that significant further review will be required during 2020/21 and that the global pandemic impacts on the Board’s ability to undertake business as usual and that the additional risks arising from this crisis will impact on savings and service delivery models. It is recognised that significant extraordinary costs are being incurred and will continue to be incurred for the foreseeable future through the Board’s operational response to the pandemic under direction from Scottish Government.

Sustainability and Modernisation (SAM) Programme

The NHS Board and the Health and Social Care Partnership are working collaboratively through the Sustainability and Modernisation (SAM) Programme on plans to seek to move towards closing the gap. Key areas of focus will be on locum and agency staffing, medicines, procurement and non-clinical areas.

The SAM Programme governance structure has been established, incorporating four workstreams which have been aligned with the existing Programme Board Structure.

By March 2020, a total estimated £1.9million of savings have been identified as potentially deliverable through the SAM project, but further work is required through workstreams to identify in full the level of this opportunity and the mandate process applied to fully understand risk, feasibility and deliverability. A SAM Mandating Group has been established and will be concerned with supporting the creation of defined project documentation setting out prescriptively what each project aims to achieve, the benefits to be realised, how these will be measured and key milestones to completion. The SAM Programme Director was appointed and took up post on 16 March 2020.

Given the pressures outlined, we have concerns around the capacity and capability within NHS Dumfries and Galloway to address the financial challenges faced. There is a significant risk of overreliance and stretch of existing management and staffing resources to deliver the required change. (see action point 2)

Governance and transparency

Covid-19 governance arrangements

In March 2020, the Board approved temporary amendments to its Code of Governance in response to the developing threat from Covid-19. The Board had previously recognised that the operational services would be responding to a revised strategic imperative – the reduction in unnecessary deaths arising from the Covid-19 threat. The changes to the Governance Framework for the Board was reviewed on a four weekly basis initially so that a return to the more established arrangements could be achieved at the earliest opportunity.

As part of the revised arrangements, Board meetings are held remotely to assist in compliance with the social distancing requirements. We note that the Board meetings were held in private and therefore does not support openness and transparency. However, the Board recognise that this is only a temporary measure and the Board's business, papers for the meetings will be published on line prior to the meeting date. For Committees of the Board, an enhanced (but modified) Committee structure has been re-established, referred to as Committee 'Lite'. The term 'Committee Lite' is a new way of working. Whilst recognising the limitation of the current COVID-19 planning phase, it will ensure the Board is able to undertake a more appropriate level of scrutiny through its governance committees than has been the case in the first phase of COVID-19 response.



In May 2020, it was proposed that of the five governance committees the Board have in place at the moment, which are Audit and Risk Committee, Healthcare Governance Committee, Performance Committee, Person Centred Health and Care Committee and Staff Governance Committee (including Remuneration Sub-Group), only Audit and Risk Committee, Healthcare Governance Committee and Staff Governance Committee (including Remuneration Sub-Group) have been re-established at this time. This governance arrangements will be reviewed every 2 months, with a formal review of the committee structure being brought back to the October 2020 NHS Board meeting, where the remaining two committees will be considered.

Governance Arrangements

The appointment of two new non-executives was made during the year. However the appointment of a chair of the Area Clinical Forum representative on the Board remains outstanding. In December 2019, the Board approved the creation of a Public Health Governance Committee, which set within the context of a revision of the Board governance framework, and will provide an opportunity to balance the Boards perspective towards longer term planning and sustainability.



The remit of the new committee is provide assurance to the NHS Dumfries and Galloway Board that public health governance is being discharged in relation to the Board's statutory duty for quality of care and protection and improvement of the health of the population. It will also promote effective partnership working arrangements between NHS Dumfries and Galloway, the Health and Social Care Partnership, the Local Authority, Community Planning Partnership, the Third Sector and local Communities to achieve the Public Health Priorities. Due to the impact of Covid-19 the Committee's first scheduled meeting of April 2020 did not take place and the new committee's first meeting will take place as governance arrangements are gradually re-established.

For the majority of the 2019/20 financial year, the NHS Dumfries and Galloway committee structure continued to operate as in prior year and the governance structure and lines of decision making are in line with our understanding.

Openness and Transparency

We found that Board minutes and papers were on NHS Dumfries and Galloway's website and produced in a timely manner. The website itself has been recently updated and we found it straightforward to navigate. NHS Dumfries and Galloway key corporate publications including annual report and accounts as well as report's detailing the Board's underlying performance and activities are also on the website.

Blueprint for Good Governance

NHS Dumfries and Galloway undertook a self-assessment against NHS Scotland's Blueprint for Good Governance in February 2019. The assessment concluded that overall, the governance arrangements were sound, however, it identified opportunities for improvement. As a result of the self-assessment, a Corporate Governance Improvement Plan was put in place.

Following the initial report, which was submitted to Scottish Government in May 2019, the Board was required to submit an update on the progress of the action plan to Scottish Government by the end of October 2019. This took place following Board approval on 7 October 2019. The report gave an update on each of the actions to give assurance that progress is being made to improve on the existing governance structures and systems within the Board. NHS Dumfries and Galloway continue to make progress in implementing these actions. In addition, NHS Dumfries and Galloway undertook a survey of all Board members to assess their collective understanding of governance arrangements and identify areas of improvement. An action plan has been developed to take forward in 2021 with particular focus on enhancing individual and collective skills and competencies through training and experience.

Risk Management

NHS Dumfries and Galloway has established a risk management strategy and underlying framework to support the identification and management of risks. The Executive Directors meet with the Corporate Business Manager on a quarterly basis to review each item on the Corporate Risk Register to ensure it continues to reflect the risk to the Board, to ensure all hazards relating to the risk has been identified and that the control measures in place and planned have been highlighted to help mitigate against the risk identified.

An update on the review of each risk is included within the strategic risk management report, which is taken to Audit and Risk Committee for review on a quarterly basis. The report gives assurance that the appropriate processes and monitoring has been put in place to manage risk within the organisation, however, the register is ultimately the responsibility of the Board and should be reviewed by Board members on a regular basis to ensure the risks are being appropriately managed and that they continue to cover the corporate objectives and priorities of the Board.

Management recognise that risk management arrangements require further development to ensure a consistent approach to risk management across the organisation. In early 2020 NHS Dumfries and Galloway initiated a review of the Risk Management Strategy, incorporating a review of the strategic, tactical and operational risk management arrangements. However, Covid-19 pandemic has caused delay in completion.

During 2019/20, Internal Audit reported a limited assurance opinion on their internal audit of review of risk management arrangements. Management are currently working through the actions emerging from this report as it looks to continue to develop risk management arrangements in place at the Board. It is important that NHS Dumfries and Galloway look to operationalise the risk management strategy across the organisation to ensure risks are managed consistently.



Action plan point - 3

Review of organisational culture

All boards were directed by the Cabinet Secretary for Health and Social Care to undertake a review of their own system in the light of the Sturrock report and recommendations and develop an action plan for improvements.

NHS Dumfries and Galloway undertook a review of their culture, in October 2019, and have agreed an organisational commitment to actions that continue their organisational journey to develop and maintain a positive culture in the organisation.

A self-assessment was undertaken, led by the Employee Director and the completed self-assessment and recommendations were due to be presented to the March 2020 Staff Governance committee for final approval. However, due to the impact of Covid-19, this process has been delayed. The draft report identifies that NHS Dumfries and Galloway has a number of areas for development in terms of supporting an open and inclusive culture. In particular, ensuring people centred leadership as well as developing arrangements to provide targeted individual support for employees.

It will be essential as the Board looks to re-mobilise and re-shape the way services are delivered it retains a focus on the importance on culture and working towards the recommended actions from the Sturrock report. From review of the draft self-assessment we found opportunities to further develop the response into a clear action plan, defining measurable targets and next steps.



Value for money

Performance and partnership working

As at March 2020, NHS Dumfries and Galloway was reporting that they had not achieved 50% of its 18 key performance measures.. Particular challenges have been experienced in delayed discharges, waiting times and emergency admissions.

NHS Dumfries and Galloway have a number of initiatives to address these challenges including the Waiting Times Improvement Plan (WTIP). In addition, as part of remobilisation planning, NHS Dumfries and Galloway is taking an initial review of the services offered and model of care it provides.

As NHS Dumfries and Galloway look to develop new ways of working in a sustainable and effective manner, it is important that they work closely with its key strategic partners including the Dumfries and Galloway Integration Joint Board (IJB) and Dumfries and Galloway Council. The board has worked in partnership with its key partners to support the development of medium term plans reflecting the Scottish Government's Health and Social Care: *Medium-Term Financial Framework* and the Waiting Times Improvement Plan. NHS Dumfries and Galloway is in the process of reflecting on the model of care as it looks to remobilise following the outbreak of Covid-19 and temporary suspension of key services including elective operations. The board is looking to reassess the future model of healthcare in Dumfries and Galloway including the provision and range of services being provided. While this will likely require discussions and engagement with the Scottish Government at a national level, it is important that the board work closely with its key partners, the IJB and Dumfries and Galloway Council, to develop a coordinated model of health and social care in the region.

Agency Costs

NHS Dumfries and Galloway have cost pressures in relation to medical locum staff. These costs totalled £10.7 million in the current year (2018/19: £9.958 million). There has been a higher demand on the locum reserve than previous year due to higher levels of absence rather than filling vacancies. 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 are developing their workforce plans in line with the national NHS Workforce plan. It will be important that from both a financial and operational perspective a key aspect of this plan is addressing the reliance on locum and other temporary staff. It will also be critical that the workforce is designed to fit for the future, including supporting the integrated delivery of health and social care services and meeting the needs of potential new ways of working through the remobilisation plan.



Appendices

- Audit adjustments
- Action plan and recommendations
- Follow up of prior year recommendations
- Audit fees and independence
- Fraud arrangements
- Communication of audit matters

Audit adjustments

Uncorrected and corrected misstatements

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

The following unadjusted misstatements arose during our audit. This has not been corrected by the client on the basis that it is not material to the financial statements. We are satisfied that the unadjusted differences are not considered material.

Item	Dr (£'000)	(Cr) (£'000)	Description
1		(229)	<i>Being adjustment to reclassify impairment of portacabins as loss on disposal</i>
	229		
2		(423)	<i>Being adjustment for actual prescribing accrual at year end</i>
	423		

During the course of our audit work we identified a number of disclosure adjustments required to the draft financial statements. The following are those adjustments that have been adjusted for in the updated draft accounts.

Item	Description	Adjusted
1	Annual governance statement	Minor disclosure amendments
2	Remuneration report	Minor changes to enhance disclosure information contained within the report
3	Annual report	Some changes arising during the course of the audit around clarification of performance information

Disclosure misstatements – uncorrected

The following disclosure misstatements have not been corrected by management. We do not consider these to be material to the accounts and Management have agreed to review during the preparation of next years financial statements:

Significant Judgements: NHS Dumfries and Galloway currently disclose significant estimates and judgements within Note 1 to the financial statements. However per IAS 1 these should be distinction between material estimation and significant judgements. Furthermore, we found that the disclosed amounts did not always meet the definition of a significant estimate or judgement or disclosure requirements of IAS 1. Where a judgement is to be disclosed these should clearly define the judgement, how the judgement has been considered by management and the impact on the accounts. Where a estimation uncertainty is disclosed, this should be areas where there is a significant risk of a material adjustment to the carrying amounts of assets and liabilities in the next financial year arising from the estimation. The board should disclose information to allow the reader to fully understand the nature of the estimation uncertainty and how assumptions may impact on the value of the asset / liability.

In addition, from review of the Estimates and judgements disclosure clinical and medical negligence costs are individually assessed by the Central Legal Office based on a professional judgement and therefore we would challenge as to whether there was a material estimation uncertainty. We are satisfied that the current accounting disclosure is not materially misstated.

Property, plant and equipment – The financial statements currently refer to fair value in reference to the valuation of land and buildings. While this follows the Manual for Accounts it is inconsistent with HM Treasury FreM where the definition should be current value. While we are satisfied the underlying valuations are correct, the disclosure should reflect the basis of current value (being depreciated replacement cost for specialist property or reference to market value in existing use).

Financial instruments: The financial instruments disclosures summarises the financial assets and financial liabilities held by NHS Dumfries and Galloway. The current disclosures refer to “loans and receivables” and “available for sale” which is no longer appropriate under the IFRS and should refer to Amortised Cost, Fair value through OCI or fair value through profit and loss. In addition, the accounts refer to the fair value of long-term receivables as equal to current value where Management has not obtained a calculation of fair value. The note does not explain when financial assets and financial liabilities arise including the purchase or sale of non-financial items such as goods or services. Therefore NHS Dumfries and Galloway’s disclosure does not meet the disclosure requirements of IFRS 13 in that it does not contain sufficient information around the valuation techniques and assumptions applied in determining fair value.

PPP/PFI Disclosures – PFI obligations are measured at current value being the present value of the minimum lease payments. However, boards are required to disclose the fair value of these arrangements. Currently, NHS Dumfries and Galloway does not have sufficient information to provide this disclosure.

Related party transactions - Update of related party disclosure information in accordance with NHS Manual for Accounts to ensure all related party disclosure requirements are incorporated into the financial statements.

Accounting policies: Accounting policies do not explicitly refer to IFRS 15 and some of the description of the deferral of income is inconsistent with the requirements of the standard and out of date. In addition, the accounting policy for impairment does not define how impairment is considered in accordance with the methodology outlined within the FReM and IFRS 9. From our audit procedures performed we are satisfied that the recognition of income and expenditure is not materiality misstated and therefore do not consider the omission in accounting policies to be material.

We are satisfied that these are not material disclosure errors.

Action plan and recommendations

We have set out below, based on our audit work undertaken in 2019/20, the four significant recommendations arising from our audit work.

Recommendation

Agreed management response

1. Capital impairments

During 2019/20 NHS Dumfries and Galloway amended the estates plans and capital investment programme. While the Board has approved capital programme, including the decision not to proceed with the investment in the Cresswell site, there was no explicit reporting of the financial implication of ceasing the project and that this would result in a £1.4 million impairment cost to the Board. We recommend that for future capital decisions there is clear consideration of the wider financial implications on the Board.

Management response: A review of reporting arrangements for this type of adjustment are underway and will likely be presented to Board or Audit and Risk Committee.

Action owner: Deputy Director of Finance

Timescale for implementation: November 2020 for Q2 reporting

2. Financial Management and sustainability

Like many Scottish health boards, 2020/21 will be a period of significant challenge for NHS Dumfries and Galloway with the need to deliver financial savings whilst also managing the Covid-19 pandemic and remobilisation of services. NHS Dumfries and Galloway recognise that there is a unique opportunity to review the model for the provision of care in the region to look to develop a financially sustainable way of working. This is a critical time for NHS Dumfries and Galloway and while we recognise the investment in the SAM programme, there is a risk that the impact of Covid-19 and potential future impact on services could have significant implications on the Board's ability to remobilise and transform services to support a financially sustainable operating model. The Board should ensure that it has clear financial and operational plans in place to support the remobilisation of services and development of a sustainable operating model going forward.

Management response: The Quarter One financial review will assess the overall financial position for 2020/21 post the initial Covid-19 crisis, this will be completed by September 2020. The work of the Sustainability and Modernisation programme has been re established and will work alongside the remobilisation plans with the overall financial plan reviewed for the draft plans for 2021/22.

Action owner: Director of Finance

Timescale for implementation: December 2020

3. Risk Management

Management recognise that risk management arrangements require further development to ensure a consistent approach to risk management across the organisation. During 2019/20, Internal Audit reported a limited assurance opinion on their internal audit of review of risk management arrangements at the Board. Management are currently working through the actions emerging from this report as it looks to continue to develop risk management arrangements in place at the Board. It is important that NHS Dumfries and Galloway look to operationalise the risk management strategy across the organisation to ensure a risks are managed consistently.

Management response: The risk strategy review is underway alongside the review of actions required to implement the actions identified in the internal audit review. This is being led by the Nurse Director through the Risk Executive Group.

Action owner: Nurse Director

Timescale for implementation: March 2021

Recommendation

4. Performance

NHS Dumfries and Galloway continues to face operational challenges including managing delayed discharges, waiting times and emergency admissions. In addition, 2020/21 will be an acutely challenging year as the Board look to manage the impact of Covid-19 and the planned remobilisation of services.

As the Board looks to remobilise all services, they should look for opportunities to modernise and redesign services to develop sustainable and effective models of care in partnership with strategic partners including the IJB and Dumfries and Galloway Council.

Agreed management response

Management response: Partnership working has been evident through the Covid-19 crisis through the Strategic and Tactical Local Resilience Partnerships and we are keen to retain and further build on these effective working relationships.

The work to develop the remobilisation is ongoing with revised draft due by 31st July. This is aligned with the Sustainability and Modernisation Programme.

Action owner: Chief Operating Officer

Timescale for implementation: March 2021

Follow up of 2018/19 recommendations

We set out below our follow up of our 2018/19 recommendations and these are reflected below for information.

Recommendation

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.

Initial management response

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

Follow up - Closed

Indexation applied based on independent valuers indexation rates was as at 31 March 2020.

Revenue 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.

Initial 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

Follow up - Closed

Financial targets achieved for 2019/20.

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.

Initial 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.

Follow up – Superseded and no longer applicable

See action plan point 2. The SAM programme has progressed during the year including the appointment of a programme director. However, we note that there is currently no standalone PMO support in place and considerable reliance on existing internal resource to support the delivery of modernisation plans.

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.

Initial 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

Follow up – Closed

Reflecting the revised NHS Scotland Guidance, the performance information in the front end of the accounts was summarised to provide an overview of financial performance. This provides a summary and reference to the Board's overall financial performance information.

Segmental reporting

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.

Initial management Response

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

Follow up – ongoing

The Segmental reporting for 2019/20 reflects the financial performance in the current year. The Board report based on the information presented internally. The current disclosure reflects the NHS Scotland template accounts but we would recommend that the disclosure could include a reconciliation of net outturn position for the Board as well as net assets to reconcile to the primary financial statements.

Responsible Officer: Deputy Director of Finance

Revised implementation date: 2020/21 Financial statements

Audit 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 £
We confirm that for 2019/20 we did not receive any fees for non-audit services	Nil

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.

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.
- 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.

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 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'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 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's 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.

Communication of audit matters

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 below.

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 Confirmed, no matters to report.	•	•
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 None identified although commentary included on financial sustainability alongside going concern commentary.	•	•
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 Included within the report.		•
Significant findings from the audit Included within the report		•
Significant matters and issues arising during the audit and written representations that have been sought Included in this report and letter of representation obtained at date of signing.		•
Significant difficulties encountered during the audit None identified.		•
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 identified		•
Unadjusted misstatements and material disclosure omissions Reported in Appendix 1 of this report.		•
Expected modifications to the auditor's report, or emphasis of matter. Emphasis of matter included in the audit report, due to valuation of property, plant and equipment uncertainty.		•



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 reporting 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.

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