

# NHS Dumfries and Galloway

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for NHS Dumfries and Galloway

March 2023

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# Contents

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<a href="#"><u>Introduction</u></a>	3
<a href="#"><u>Financial statements audit planning</u></a>	5
<a href="#"><u>Wider Scope and Best Value</u></a>	10
<a href="#"><u>Reporting arrangements, timetable, and audit fee</u></a>	13
<a href="#"><u>Other matters</u></a>	16
<a href="#"><u>Appendix 1. Your audit team</u></a>	18

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of NHS Dumfries and Galloway (the board). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

## Audit Appointment

2. We are pleased to be appointed as the external auditor of NHS Dumfries and Galloway for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

## Adding value

5. We aim to add value to NHS Dumfries and Galloway through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. We will also attend meetings of the Audit & Risk Committee. In so doing, we will help NHS Dumfries and Galloway promote improved standards of governance, better management and decision making and more effective use of resources.

## Respective responsibilities of the auditor and Audited Body

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and NHS Dumfries and Galloway. Key responsibilities are summarised below.

### Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at NHS Dumfries and Galloway. In doing this, we aim to support improvement and accountability.

### NHS Dumfries and Galloway's responsibilities

9. NHS Dumfries and Galloway is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. NHS Dumfries and Galloway has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

### Communication of fraud or suspected fraud

11. In line with ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this plan to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. During our audit, should members of the Board have any such knowledge or concerns relating to the risk of fraud within it, we invite them to communicate this to us for our consideration.

# Annual report and accounts audit planning

## Introduction

**12.** The annual report and accounts are an essential part of demonstrating NHS Dumfries and Galloway's stewardship of resources and its performance in the use of those resources.

**13.** We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

**14.** Materiality is an expression of the relative significance of a matter in the context of the annual accounts. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

## Materiality levels for the 2022/23 audit

**15.** The materiality values for NHS Dumfries and Galloway and its group are set out in [Exhibit 1](#).

## Exhibit 1

### 2022/23 Materiality levels for NHS Dumfries and Galloway and its group

Materiality	Board	Group
<p><b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of NHS Dumfries and Galloway's operations. For the year ended 31 March 2023 we have set our materiality at 1.5% of gross expenditure less contributions to the Integration Joint Board (IJB) based on the audited financial statements for 2021/22.</p>	£6.895 million	£6.909 million

<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.	£4.482 million	£4.491 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£172 thousand	£173 thousand

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**16.** Our risk assessment draws on our cumulative knowledge of NHS Dumfries and Galloway its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, and internal audit, attendance at committees and a review of supporting information.

**17.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

**18.** Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. This is the risk which has the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2022/23 Significant risk of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard</p>	Owing to the nature of this risk, assurances from management are not applicable in this instance	<ul style="list-style-type: none"> <li>Assess the design and implementation of controls over journal entry processing.</li> <li>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>		<ul style="list-style-type: none"> <li>• Test journals at the year-end and post-closing entries with a focus on significant risk areas.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</li> <li>• We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focussed testing of accounting accruals and prepayments.</li> </ul>

Source: Audit Scotland

## Consideration of the risks of fraud in the recognition of revenue and expenditure

**19.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk as most of the board's funding is received from the Scottish Government. This funding is clearly communicated and can be readily agreed to third party confirmations.

**20.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for the main expenditure streams of NHS Dumfries and Galloway. Most expenditure is in low-risk areas where individual transactions are well-controlled (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale, with management or Board approval required for transactions greater than £1 million. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

## Other areas of audit focus

**21.** As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

**22.** The areas of specific audit focus are:

- **Estimations and judgements – valuation of land and buildings:** This is an area of audit focus, given the significant degree of subjectivity in the valuation of this category of assets. The value of land and buildings subject to specialist revaluations was £325.1million as at 31 March 2022. A full revaluation is expected to be conducted at 31 March 2023. We will review the arrangements in place to satisfy the board that the annual revaluation process is complete and is free from material misstatement.
- **Estimations and judgements – assessment of clinical medical negligence and CNORIS provisions:** NHS Dumfries and Galloway recognised provisions of approximately £33.8 million as at 31 March 2022 for clinical and medical claims against the health board and its share of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). These provisions are based on the assessed likelihood and settlement value of claims against the board, which also has a large degree of subjectivity. We will review how the provisions have been estimated to ensure they are free from material misstatement.

**23.** An issue has arisen following the January 2023 e-Financials systems upgrade from version 5 to version 6 which has yet to be fully rectified. The system is hosted by NHS Ayrshire and Arran. The upgrade has impacted on some elements of the finance function, the main issue being the instability of DbCapture, the optical character recognition tool used by the NHS to scan/read invoices for payment. As part of our audit, we will assess the impact of the upgrade on the system's controls and payment processes. We will also review and consider the implications of the NHS Dumfries and Galloway NSI 2022/23 service auditor report references to the upgrade.

## Audit of the performance report, governance statement and remuneration and staff report

**24.** In addition to the appointed auditor's opinion of the financial statements, the appointed auditor is required to provide opinions as to whether the performance report, the governance statement, and the audited part of the remuneration and staff report have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the accounts.

**25.** To inform these opinions we will consider whether the disclosures within each statement comply with the applicable guidance and confirm that relevant information reflects the contents of the accounts and other supporting documentation.



## Group Consideration

**26.** As group auditors, we are required under International Standard on Auditing (ISA) (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

**27.** NHS Dumfries and Galloway has a group comprised of Dumfries and Galloway Integration Joint Board and the Dumfries and Galloway Health Board Endowment Fund. Based on our discussions with management and assessment of the group we have concluded that there the IJB is a significant group component for audit purposes. The audit of the financial information of the IJB is performed by the same core team as NHS Dumfries and Galloway. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of both components on which to base our group audit opinion.

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# Wider Scope and Best Value

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## Introduction

28. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

29. In summary, the four wider scope areas cover the following:

- **Financial management** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership and governance** – we will conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by NHS Dumfries and Galloway. We also consider the effectiveness of the governance arrangements to support delivery.

NHS Dumfries and Galloway is participating in the National Fraud Initiative (NFI) in Scotland in 2022/23. We will monitor progress made with investigating the matches identified by this process.

- **Use of resources to improve outcomes** – we will consider how NHS Dumfries and Galloway demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

## Wider scope risks

30. We have not identified any significant wider scope audit risks; however, we have identified a number of wider scope areas of focus:

- Financial Sustainability - The 2022/23 - 2024/25 financial plan anticipates an in-year deficit of £3.5 million for 2022/23 and £4 million for 2023/24 and 2024/25. The financial plan concludes that the board is unable to provide a balanced financial position for the three-year plan and therefore will require non-recurring support from the Scottish Government of £20 million for 2022/23 and an indicative £20 million and £18 million in years

two and three of the plan respectively. The board will require to meet challenging savings targets, to identify recurring savings options where possible, whilst focussing on recovery and renewal.

- Performance Reporting – Internal Audit issued a report to the April 2022 Audit and Risk Committee meeting in relation to performance reporting. The report identified several high-risk areas including a lack of an integrated performance management framework, regular performance reporting and inconsistency of reporting to Scottish Government. Following this, a draft Performance Management Framework (PMF) report was presented to the Performance and Resources Committee in November 2022. NHS Dumfries and Galloway have made progress in developing a performance management framework, however it is still in the draft stages and further work is required.

Budget Monitoring – Finance update reports submitted to the NHS Dumfries and Galloway Board and Performance and Resources Committee provide a high-level focus on reporting against the financial plan and managing the £20 million projected deficit position. As a result of this focus and capacity issues, regular budget monitoring reports outlining directorate performance budgets against outturn have not been reported directly to the Performance and Resources Committee or Board. Such reports are, however, produced and reviewed at an operational directorate level. In addition, mid-year performance reviews were held in November 2022 for all operating directorates and all corporate directorates had review meetings with the Chief Executive.

- Workforce Pressures – As a consequence of the deemed rurality of the Dumfries and Galloway area, combined with the wider workforce and recruitment issues within the NHS, the board is facing substantial workforce pressures which impacts on its service delivery and transformational change capabilities.

**31.** Our planned work on our wider scope responsibilities is risk based and proportionate and, in addition to local risks, we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider work undertaken by the board to respond to climate change and cyber security threats.

## Climate Change

**32.** Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**33.** The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on NHS Dumfries and Galloway's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

## Cyber Security

**34.** There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider NHS Dumfries and Galloway's arrangements for managing and mitigating cyber security risks.

## Duty of Best Value

**35.** [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within NHS Dumfries and Galloway.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**36.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 6](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**37.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

**38.** We will provide an independent auditor's report to NHS Dumfries and Galloway, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide NHS Dumfries and Galloway and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**39.** [Exhibit 6](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 30 June 2023.

## Exhibit 6 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2023	The AAP will be issued to ARC members in advance of the 31 March 2023 deadline and presented formally to the ARC on 24 April 2023.
Independent Auditor's Report	30 June 2023	26 June 2023
Annual Audit Report	30 June 2023	26 June 2023

Source: Audit Scotland

## Timetable



**40.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 7](#) that has been discussed with management.

**41.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

**42.** We intend to take a hybrid approach to the 2022/23 audit, with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

## Exhibit 7

### Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited SG Model with complete working papers package (including consolidation of Endowments)	02 May 2023
Latest submission date for the receipt of the unaudited consolidated annual report and accounts with complete working papers package (consolidation of IJB and summary of changes between version, exc. Governance Statement)	15 May 2023
Latest submission date for the receipt of the unaudited Governance Statement	05 June 2023
Latest date for final clearance meeting with Director of Finance	15 June 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	26 June 2023
Agreement of audited and unsigned annual report and accounts by the Audit and Risk Committee	26 June 2023
Issue of Annual Audit Report to those charged with governance	29 June 2023
Signed Independent Auditor's Report	29 June 2023

Source: Audit Scotland

## Audit fee

**43.** In determining the audit fee, we have taken account of the risk exposure of NHS Dumfries and Galloway and the planned management assurances in place. The proposed audit fee for 2022/23 is £169,900 (£145,530 in 2021/22).

**44.** Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

**45.** In setting the fee for 2022/23 we have assumed that NHS Dumfries and Galloway has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**46.** It is the responsibility of the NHS Dumfries and Galloway to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

**47.** While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and our wider scope audit responsibilities.

## Independence and objectivity

**48.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

**49.** Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**50.** The appointed auditor for NHS Dumfries and Galloway is Fiona Mitchell-Knight FCA, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of NHS Dumfries and Galloway.

## Audit Quality

**51.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

**52.** Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and [supplementary guidance](#)) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality



reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

**53.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

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# Appendix 1. Your audit team

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**54.** The audit team involved in the audit of NHS Dumfries and Galloway have significant experience in public sector audit.

Fiona Mitchell-Knight FCA  
Audit Director  
[FMitchell-Knight@audit-scotland.gov.uk](mailto:FMitchell-Knight@audit-scotland.gov.uk)

Fiona is the appointed auditor and engagement lead for the audit of NHS Dumfries and Galloway and will sign off the independent auditor's report on the Fund's annual accounts. Fiona has 30 years of public sector audit experience with Audit Scotland, covering local government, health, pension funds and the further education sector

Peter Lindsay CPFA  
Senior Audit Manager  
[PLindsay@audit-scotland.gov.uk](mailto:PLindsay@audit-scotland.gov.uk)

Peter has over 26 years of auditing experience and has delivered external audit services to a range of organisations across all areas of the Scottish public sector. Peter will have overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly, planned, resourced and executed.

Aimee MacDonald CA  
Audit Manager  
[aimacdonald@audit-scotland.gov.uk](mailto:aimacdonald@audit-scotland.gov.uk)

Aimee has 9 years of public sector audit experience delivering audits across several areas of the Scottish public sector. Aimee will be your primary contact and will be responsible for the day-to-day management of the NHS Dumfries and Galloway audit.

**55.** The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

**56.** Where possible and appropriate, we use our data analytics team to enable us to capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

# NHS Dumfries and Galloway

## Annual Audit Plan 2022/23

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
Phone: 0131 625 1500 Email: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)