NHS Dumfries and Galloway

2023/24 Annual Audit Report

AUDIT SCOTLAND

Prepared by Audit Scotland
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Key messages

2023/24 annual report and accounts

1 Our audit opinions on the annual accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.

Financial management

2 NHS Dumfries and Galloway has effective arrangements for reporting its financial position. Although the board reported that it met all its financial targets for 2023/24 and operated within its Revenue Resource Limit (RRL), this was achieved using £23 million of additional non-recurring financial support from the Scottish Government. This was in addition to the £9.3 million of additional non-recurring financial support received in 2022/23 which means that the board will need to repay £32.3 million when it achieves financial balance.

3 The board realised £17 million of efficiency savings, of which £4 million were achieved on a recurring basis. This means that the board starts financial year 2024/25 with a recurring funding gap of £35.293 million.

4 Effective internal control systems operated over the financial systems throughout the year.

Financial sustainability

5 NHS Dumfries and Galloway's three-year financial plan for 2024/25 – 2026/27 shows the board's services are not sustainable. To achieve breakeven in 2024/25 the board is forecasting it requires additional financial support of £32.9 million from the Scottish Government. However, the Scottish Government has advised the board that the financial support for 2024/25 will be capped at £22 million, leaving the board to make further savings of £10.9 million to achieve its financial breakeven target for 2024/25.

6 The Board has been unable to identify how these savings will be achieved and it may need to report an overspend against its financial revenue spend target in the 2024/25 accounts.

7 These challenges are not new, in 2022/23 the Board received £9.3 million of additional non-recurring financial support in 2022/23 which means that the board will need to repay £32.3 million when it achieves financial balance.

8 It is the Board's responsibility to lay out in its plans the options available to deliver a level of services, within its available funding. Financial balance now requires radical reform of health services. Difficult decisions need to be taken on what services may need to be reduced or stopped. Future financial plans must demonstrate how its services will be changed to reflect the funding it will receive.

9 Staff costs have increased by 8.8 per cent in 2023/24 to £263.299 million. One of the board's ongoing challenges is recruiting staff. While vacancy rates have reduced this year, ongoing vacancies remain. Expenditure on agency staff increased by 6.3 per cent to £17.5 million in 2023/24.

Vision, leadership and governance

10 NHS Dumfries and Galloway has a Strategic Statement which sets out the board's mission to 'support local people to live healthy, happy, active and fulfilling lives,' supported by the Annual Delivery Plan.

11 Overall effective governance arrangements are in place that support good governance and accountability. Board members provide adequate scrutiny and challenge at meetings to ensure the board's performance is effectively reviewed.

12 The board's self- assessment against the NHS Scotland Blueprint for Good Governance, identified no significant areas for improvement.

13 A 2023 Cyber Security Scotland report on the board concluded 'NHS Dumfries and Galloway is a strongly-performing board with a clear commitment to the Network and Information System's audit programme.'

14 A focused cyber attack on the board's IT systems took place in late February 2024. Hackers accessed and subsequently published a significant amount of data including patient and staff information. The board is working with others to prevent further successful attacks and to support patients and staff in how they can best protect themselves from the impact of the release of the information. The attack has had no impact on the provision of healthcare to patients. The financial systems producing the board's accounts were not compromised. Police Scotland are investigating the incident.

15 An external quality assessment reports that Internal Audit needs to improve to meet Internal Audit Public Sector Standards. The Chief Internal Auditor is reporting on improvement actions to the Audit and Risk Committee

Use of resources to improve outcomes

16 Service performance against national waiting time standards is behind target, as pressures are felt from increased demand and the ongoing impact of the pandemic.

17 The board's Medium Term Plan and 2023/24 Annual Delivery Plan set out the challenges facing the board and actions proposed to help the board improve performance levels.

18 The board continues to develop its performance management framework to support continuous improvement.

19 Officers regularly report to members on the arrangements in place to secure Best Value. The board's 2023/24 Best Value self-assessment showed no questions were assessed as red and out of the sixty-two questions assessed, nine were given an amber rating with actions planned for each.

Introduction

1. This report summarises the findings from our 2023/24 annual audit of Dumfries and Galloway Health Board, commonly known as NHS Dumfries and Galloway (the board). The scope of the audit was set out in an Annual Audit Plan presented to the 29 January 2024 meeting of the Audit and Risk Committee. This annual audit report comprises:

- significant matters arising from an audit of the board's annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the *Code of Audit Practice 2021*:
    - Financial Management
    - Financial Sustainability
    - Vision, Leadership, and Governance
    - Use of Resources to Improve Outcomes.

2. This report is addressed to the Board of NHS Dumfries and Galloway and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

3. We took a hybrid approach to the 2023/24 audit, with a blend of onsite and remote working.

4. My team and I would like to thank Board members, Audit and Risk Committee members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance in this year.

Responsibilities and reporting

5. NHS Dumfries and Galloway has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. NHS Dumfries and Galloway is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

6. The responsibilities of the independent appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the *Code of Audit Practice 2021* and supplementary guidance and International Standards on Auditing in the UK.

7. Weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist.

Communicating these does not absolve management of NHS Dumfries and Galloway from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at Appendix 1 setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £180,170, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

10. We add value to NHS Dumfries and Galloway by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability
- sharing intelligence and good practice.

1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Our audit opinions on the annual accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.

Audit opinions on the annual report and accounts are unmodified

11. The Board approved the annual report and accounts for NHS Dumfries and Galloway and its group for the year ended 31 March 2024 on 27 June 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report was prepared in accordance with the financial reporting framework
- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

12. The working papers provided to support the accounts were of a good standard and the audit team received good support from finance staff which helped ensure the final accounts audit process ran smoothly.

Overall materiality was assessed on receipt of the unaudited annual report and accounts as £7.9 million

13. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues

may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

14. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Board	Group
Overall materiality	£7.913 million	£7.928 million
Performance materiality	£5.143 million	£5.153 million
Reporting threshold	£0.400 million	£0.400 million

Source: Audit Scotland

15. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

16. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 65 per cent of overall materiality, reflecting the fact there were no significant issues identified in the prior year audit impacting our audit approach.

17. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance in NHS Dumfries and Galloway.

Significant findings and key audit matters

18. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the board including our view about the qualitative aspects of the body's accounting practices.

19. The significant findings are summarised in Exhibit 2 overleaf. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included.

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
1. Enhanced Depreciated Replacement Cost Asset Impairments The Financial Reporting Manual (FReM) and NHS Capital Accounting Manual require that any Depreciated Replacement Cost Asset addition/enhancement that is valued lower than the initial cost should be treated as an impairment loss and charged to operating costs in the Statement of Comprehensive Net (SOCNE), with the impairment loss being recognised within the cumulative depreciation section of the Property, Plant and Expenditure note. From work performed, possible impairments totalling £5.950 million have been identified in 2023/24. However, the accounting treatment in the 2023/24 accounts has netted the impairment loss against the revaluation figures, being taken to the revaluation reserve as a downward revaluation. This issue links to the point raised in our 2022/23 Annual Audit Report, whereby the board had not been accounting for the annual transfer of the realised element of the revaluation reserve. In addressing this point, officers conducted an exercise to improve the accuracy of the revaluation reserve split between individual asset components, as opposed to simply allocating to land or buildings as in prior years. As a result, the 2023/24 opening revised component revaluation reserve balances are based on a reasonable estimate from the information available. However, officers are unable to identify whether the impairments are a result of the revaluation of existing assets or as result of the new asset enhancements/additions. As a result, the board has accounted for the write down on the assumption that the loss relates to existing assets and, where a component of the asset impaired has not had the required revaluation reserve balance to reflect the impairment loss, the impairment loss has been applied to an existing revaluation reserve balance from another component of the same asset.	It is considered that establishing accurate figures of which proportion of the movements relate to revaluations of existing assets and which relate to the write down of asset enhancements/additions would be very challenging and may involve a significant amount of estimation, not necessarily enhancing the quality of the accounts or accuracy of the revaluation reserve balances. The total impairments of £5.950 million are not material to the accounts, so there is no risk of a material misstatement of the 2023/24 accounts from this issue. However, we have recommended that the board should consider improvements to their current methods of componentisation, recognition and valuation of enhancements/Assets Under Construction (AUC), including: • Recognising or tracking components in a way that allows the value of the old component to be identified and derecognised as required by IAS 16 when replacement of key components or aspects of the building occurs • Ensuring that, where enhancements occur, assets are grouped together and recognised in a way that most accurately reflects the type of assets and their useful lives. **Recommendation 1** (refer Appendix 1, action plan)
2. Dilapidations The board holds ‘right of use asset and liabilities’ for Lockerbie Health Centre and Castle Douglas	Although the error identified is below our reporting threshold, we recommend that the board considers the inclusion and

Issue	Resolution
Medical Group (2023/24 annual lease charges of £0.234m). Both lease agreement terms note an expectation of dilapidations (repairs) required at the end of the lease. However, no dilapidation provisions have been included in the 2023/24 accounts.	reflection of a dilapidation provision for both of these leases. **Recommendation 2** (refer Appendix 1, action plan)
3. Health and Social Care Integration The integration joint board's (IJB) activities have been reflected in the board's accounts. £421.135 million has been included in the board's other health care expenditure relating to the board's payments to the IJB. Income of £423.624 million for services commissioned by the IJB has also been included. The IJB has been consolidated into the group accounts as joint ventures, £4.395 million has been shown in financial assets, representing the board's share of the IJB's cumulative financial outturn to 31 March 2024. The IJB figures are based on the unaudited accounts for each IJB and the deadline for these accounts to be audited is 30 September 2024. We do not anticipate any material changes to the draft figures used in consolidation.	For information only.

Source: Audit Scotland

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

20. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. Exhibit 3 overleaf sets out the significant risks of material misstatement to the financial statements we identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3
Identified Significant risks of material misstatement in the annual report and accounts

Significant risk of material misstatement	Audit response to risk	Results and conclusions
1. Risk of material misstatement due to fraud caused by management override of controls As stated in International Standard 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.	We assessed the design and implementation of controls over journal entry processing. We made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. We carried out detailed testing of journal entries with a focus on significant risk areas, including year-end and post-close down entries. We assessed the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. We assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. We evaluated significant transactions outside the normal course of business. We carried out substantive testing of income and expenditure transactions around the year-end to confirm they were accounted for in the correct financial year. We carried out focussed testing of accounting accruals and prepayments.	**Results:** We did not identify any incidents of management override of controls through our audit testing.

Source: Audit Scotland

21. In addition, we identified "areas of audit focus" in our 2023/24 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- the arrangements for ensuring the annual revaluation of assets (land and buildings) were free from material misstatement
- how the clinical medical negligence and CNORIS provisions have been estimated to ensure they are free from material misstatement
- the arrangements for ensuring that Service Level Agreements (SLA) income is only recognised when the board can demonstrate that each performance obligation set out in the SLA has been delivered.

22. Our audit work on these areas did not identify any material misstatements in the accounts. An issue was identified in the accounting of assets, this is detailed in Exhibit 2. There are no further matters which we need to bring to your attention.

There was one identified misstatement in the accounts above our reporting threshold that was not adjusted for in the accounts

23. One misstatement which was above our reporting threshold was identified which was not processed through the annual accounts and this has been classified as an unadjusted error of £0.531 million. If corrected, this would have had no impact on the reported net assets in the Consolidated and Board Statement of Financial Position as the correction would entail a movement between asset categories. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management do not propose to adjust for the item above as the amount is not considered material in the context of the annual accounts.

The unaudited annual report and accounts were received in line with the agreed timetable

24. The unaudited annual report and accounts were received in line with our agreed audit timetable set out in our 2023/24 Annual Audit Plan.

The performance report and governance statement are of a good standard

25. In addition to the opinion on the performance report covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of the body's performance report. The performance report should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

26. We reviewed the performance report provided to us as part of the unaudited 2023/24 annual report and accounts taking into account good

practice notes issued by Audit Scotland in recent years in relation to the content of performance reports in the NHS and Central Government. After adjustments were made following auditor recommendations, we have concluded that the board's 2023/24 performance report complies with good practice.

Remuneration report disclosures are to be added in 2024/25

27. The guidance covering the disclosures required to be made in the remuneration report requires that the details of the service contract for each senior manager who has served during the year: date of the contract, the unexpired term, and details of the notice period; provision for compensation for early termination; and any other details should be disclosed. However, these disclosures have not been included in the board's 2023/24 remuneration report. We have agreed with officers that these disclosures will be included in the 2024/25 remuneration report.

Good progress was made on prior year audit recommendations

28. The board has made good progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in Appendix 1.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Main judgements

NHS Dumfries and Galloway has effective arrangements for reporting its financial position. Although the board reported that it met all its financial targets for 2023/24 and operated within its Revenue Resource Limit (RRL), this was achieved using £23 million of additional non-recurring financial support from the Scottish Government. This was in addition to the £9.3 million of additional non-recurring financial support received in 2022/23 which means that the board will need to repay £32.3 million when it achieves financial balance.

The board realised £17 million of efficiency savings, of which £4 million were achieved on a recurring basis. This means that the board starts financial year 2024/25 with a recurring funding gap of £35.293 million.

Effective internal control systems operated over the financial systems throughout the year.

Although NHS Dumfries and Galloway operated within its Revenue Resource Limit (RRL) of £478.563 million, this was achieved using £23 million of additional non-recurring financial support from the Scottish Government

29. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within. The requirement for boards to develop three-year financial plans was reintroduced from 2022/23.

30. As illustrated in Exhibit 4 overleaf, the board reported that it operated within all limits during 2023/24. However, the underspend against Core RRL was achieved as a result of the board receiving additional non-recurring financial support of £23 million from the Scottish Government in May 2024.

Exhibit 4
Performance against resource limits in 2023/24

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	467.228	466.961	0.267
Non-core revenue resource limit	11.335	11.334	0.001
Total revenue resource limit	**478.563**	**478.295**	**0.268**
Core capital resource limit	7.833	7.776	0.057
Non-core capital resource limit	0.160	0.160	0
Total capital resource limit	**7.993**	**7.936**	**0.057**
Cash requirement	**506.642**	**506.642**	**0**

Source: NHS Dumfries and Galloway Annual Report and Accounts 2023/24

The 2023/24 budget showed an underlying recurring deficit

31. The final version of the board's three-year financial plan for 2023/24 – 2025/26 was presented to the meeting of the Board on 17 April 2023 and submitted to the Scottish Government thereafter.

32. The financial plan highlighted that the board would start 2023/24 with an estimated £34.089 million recurring deficit. The financial plan showed that the board's 2023/24 funding settlement from the Scottish Government brought an uplift to the base RRL (excluding 2022/23 pay settlement) of £6.9 million and that a further £1.4 million had been anticipated for an increase on the New Medicines Fund.

33. The finance update report presented to the Board meeting on 12 February 2024 provided an update on the projected 2023/24 financial position, a year end deficit of £28.9 million, requiring additional financial support, sometimes known as repayable brokerage, from the Scottish Government to achieve the statutory break-even position. The report also notes that the board was been re-assessed against the Scottish Government's escalation framework in November 2023 and has been assessed as Stage 2 (Enhanced Monitoring), receiving tailored support from the Scottish Government. This is discussed further at paragraph 55.

34. The board has a Financial Recovery Board (FRB) in place that is responsible for monitoring and taking corrective action to manage the delivery of the in-year financial plan to target, taking account of the impact of any decision on the 3 year plan and the board's longer term financial recovery plan. The FRB meets on a bi-weekly basis, is chaired by the Director of Finance and

the Chief Executive, Chief Operating Officer, Deputy Chief Operating Officer, Deputy Director of Finance and Head of Planning are members.

35. The 2023/24 year end financial outturn position was presented to the Board meeting on 10 June 2024. The report shows that for the services delegated to the Integration Joint Board (IJB), there was a £20 million overspend. The integration scheme for the IJB requires the board to fund any overspend on delegated health services. There was also a £3 million overspend in the board's corporate areas. Overall however a small underspend against Core RRL (shown in Exhibit 4) is reported due to receipt of the £23 million additional non-recurring financial support.

36. The report highlights that budget pressures continue across all operating directorates throughout the year, but most significantly with:

- Acute and Diagnostics in relation to medical locum use at DGRI
- Additional staffing and ward consumables for capacity/surge/acuity pressures being seen across Acute, Women and Children and Mental Health
- Galloway Community Hospital pressures including medical, nursing, radiology and accommodation costs
- Diagnostic pressures
- Medicines with significant increase in both price and volume
- Insulin pumps and consumables
- VAT energy charge for DGRI
- Additional residencies accommodation pressures in Dumfries
- Across the organisation remain within medical and dental; support services; medicines (both primary and secondary); energy, equipment and property.

Efficiency savings of £17 million were achieved, of which £4 million were recurring savings

37. The June report highlights that the board achieved £17 million of efficiency savings, of which £4 million were achieved on a recurring basis. Given that 76 per cent of the £17 million efficiency savings achieved were on a non-recurring basis, this means that the board starts financial year 2024/25 with a recurring funding gap of £35.293 million.

Financial systems of internal control operated effectively

38. As part of our audit, we develop an understanding of the board's control environment in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that NHS Dumfries and Galloway has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements. Our

audit is not controls based and, with the exception of payroll, we have not placed 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 2023/24 Annual Audit Plan.

39. The 2023/24 Internal Audit Annual Report presented to the Audit and Risk Committee meeting on 17 June 2024, did not highlight any weaknesses in relation to financial governance that impact on the annual accounts or our audit work. The Governance Statement included in the board's 2023/24 Annual Accounts highlights that assurance on all financial governance matters is reported through Audit and Risk Committee and continues to maintain a significant level of assurance. The Governance Statement also highlights that the Board and Performance and Resources Committee continue to receive regular reports on the financial position and the board's recovery programme.

Budget monitoring reports presented to the Performance and Resources Committee continue to be enhanced to provide more detail to allow increased scrutiny

40. In our 2022/23 Annual Audit Report we recommended that budget monitoring reports presented to the Performance and Resources Committee should be enhanced to provide more detail to allow increased scrutiny by non-executive members. The Financial Reporting Quarterly Update presented to the Audit and Risk Committee in April 2024, which includes an update on progress in implementing external audit recommendations, highlighted that officers have been working with the Board Chair and Chair of Performance and Resources Committee to review reporting and implemented some changes during 2023/24. It has been agreed that financial reporting to the Board should remain strategic and financial reporting to committee would be more detailed.

41. Officers are continuing to work during 2024/25 to align reporting from the Financial Recovery Board work and enhance detail and relevance of information. This work isn't concluded and is a work in progress.

Control weaknesses within NHS National Services Scotland resulted in the service auditor issuing qualified opinions

42. The NHS in Scotland procures several service audits each year to provide assurance on the controls operating within the shared systems.

43. NHS National Services Scotland procures service audits covering Practitioner and Counter Fraud Services (primary care payments), payroll and the national IT services contract that supports the associated systems.

44. For the Practitioner and Counter Fraud Services the Type II service audit resulted in a qualified opinion on the controls relating to dental payments as the controls associated with the objective '*Controls provide reasonable assurance that: GDS payments are made completely and accurately based on authorised claims to the valid contractors; GDS payments are made only once; and Verification is performed in accordance with Scottish Government Guidance*' did not operate effectively during the year.

45. For the national IT services contract the Type II service audit also resulted in a qualified opinion on the controls relating to access to the systems as the controls associated with the objective *'Controls provide reasonable assurance that logical access to applications, operating systems and databases is restricted to authorised individuals'* did not operate effectively during the year.

46. NHS Ayrshire & Arran procures a Type II service audit of the National Single Instance (NSI) eFinancials services. The service auditor assurance reporting in relation to the NSI eFinancials was unqualified. The assurance gap identified last year for the IT general controls, system backup and disaster recovery remains. Although this assurance gap did not impact on the board's systems this year, there remains a risk for future years. All boards should ensure that going forward they are satisfied that controls over the NSI eFinancials system are adequate in the absence of these service auditor assurances.

47. These service audit reports were presented to the Audit and Risk Committee meeting on 17 June 2024 and have been referred to in the Governance Statement included within the board's 2023/24 Annual Accounts.

48. We have considered the content of these service auditor assurance reports. We have received adequate audit assurances on the board's financial systems from our audit work, and our audit opinions are not impacted by the service auditor qualifications.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Main judgements

NHS Dumfries and Galloway's three-year financial plan for 2024/25 – 2026/27 shows the board's services are not sustainable. To achieve breakeven in 2024/25 the board is forecasting it requires additional financial support of £32.9 million from the Scottish Government. However, the Scottish Government has advised the board that the financial support for 2024/25 would be capped at £22 million, leaving the board to make further savings of £10.9 million to achieve its financial target of breakeven for 2024/25.

The Board has been unable to identify how these savings will be achieved and it may need to report an overspend against its financial revenue spend target in the 2024/25 accounts.

These challenges are not new, in 2022/23 the Board received £9.3 million of additional non-recurring financial support in 2022/23 which means that the board will need to repay £32.3 million when it achieves financial balance.

It is the Board's responsibility to lay out in its plans the options available to deliver a level of services, within its available funding. Financial balance now requires radical reform of health services. Difficult decisions need to be taken on what services may need to be reduced or stopped. Future financial plans must demonstrate how its services will be changed to reflect the funding it will receive.

Total staff costs have increased by 8.8 per cent in 2023/24 to £263.299 million. One of the board's ongoing challenges is recruiting staff. While vacancy rates have reduced this year, ongoing vacancies remain. Expenditure on agency staff increased by 6.3 per cent to £17.5 million in 2023/24.

A range of emerging financial pressures have exacerbated the financial position of the NHS in Scotland

49. As highlighted in Audit Scotland's *NHS in Scotland 2023* report, significant changes are needed to ensure the financial sustainability of Scotland's health service. Growing demand, operational challenges and increasing costs have added to the financial pressures the NHS in Scotland was already facing. Its longer-term affordability is at risk without reform. A range of financial pressures are presenting a significant challenge for all health boards. These include:

- inflation
- higher than expected pay deals
- prescribing costs
- increasing utility prices
- a growing capital maintenance backlog.

The three-year financial plan is not yet approved by the Scottish Government due to the projected deficit for 2024/25 being £10.9 million higher than the Scottish Government support cap for 2024/2025.

50. In our 2023/24 Annual Audit Plan we identified financial sustainability as a wider scope risk. The finance update report presented to the Board meeting on 12 February 2024 shows that the board would start 2024/25 with an estimated £35.293 million recurring deficit.

51. The February report highlighted the ongoing engagement between the board and the Scottish Government in relation to the 2024/25 financial plan and confirmed that the board is expected deliver the following:

- a clear programme of work and supporting actions to achieve the target of 3 per cent recurring savings on baseline budgets
- an improved forecast outturn position capped at a requirement for no greater than £25 million brokerage.

The report highlights that a number of meetings and workshops were to continue over the next two months as the plan was finalised.

52. In April an update report on the Financial Plan 2024/25 to 2026/27 was presented to the Board confirming an additional £3 million of Scottish Government funding. The projected in-year deficits were revised to £32.9 million in 2024/25, £26.7 million in 2025/26 and £18.5 million in 2026/27. However, due to the provision of additional funding, the Scottish Government advised that the brokerage cap for 2024/25 would reduce from an original figure of £25 million to £22 million, leaving the board to make further savings of £10.9 million to achieve its financial target of breakeven for 2024/25.

53. The key financial risks outlined in the finance update reports include:

- Agreement with Scottish Government on level of brokerage for 2024/25
- Ability to deliver a savings plan at 5 per cent to reach £35.9 million
- Continued reliance on locum workforce in particular medical at DGRI and Galloway Community Hospital
- Prescribing data backlog continues, risk on forecast and demonstrating delivery of savings target set

- Activity levels continue in excess of forecast causing the continuation of additional unfunded capacity.

54. The Director of Health and Social Care Finance, Digital and Governance at the Scottish Government advised the board in a letter dated 4 April 2024 that, due to the projected in-year deficit in 2024/25 being higher than the brokerage cap, the board's Financial Plan 2024/25 to 2026/27 could not be formally signed off by the Scottish Government at that stage. The letter said that the board must continue to work with both finance and performance colleagues within the Scottish Government to consider options to reduce expenditure to deliver a financial outturn within the brokerage cap communicated, although the letter acknowledged the significant actions to deliver the existing savings target of £18.3 million. In addition, the letter stated that if the board is unable to meet its brokerage gap, it may need to show a deficit in its annual accounts but that this would be the subject of ongoing discussion between the board and the Scottish Government.

55. The letter also confirmed that the board would remain at Stage 2 (Enhanced Monitoring) of the escalation framework for financial reasons and set out the expectations of the Scottish Government on the board ahead of 2024/25 Quarter 1 in-year reporting as follows:

- Progress delivery of a minimum 3 per cent recurring savings in 2024/25 and develop options to meet any unidentified or high risk savings balances
- Continue to progress with the areas of focus set out in the 15 box grid agreed as part of the tailored support from the Finance Delivery Unit at the Scottish Government
- Engage and take proactive involvement in supporting national programmes as they develop in 2024/25
- Develop further measures to reduce the board's residual financial gap towards the brokerage cap set
- Provide an update on the financial risks outlined within the financial plan to assess likelihood of these materialising and the impact these could have on the board's outturn.

56. An update report on the Financial Plan 2024/25 to 2026/27 was presented to the meeting of the Board on 10 June 2024, see paragraph 35.

57. It is the board's responsibility to lay out in its plans the options available to deliver a level of services, within its available funding, and reduce the residual financial gap. Financial balance for the board now requires radical reform of health services. Difficult decisions need to be taken on what services may need to be reduced or stopped. Future financial plans must demonstrate how its services will be changed to reflect the funding it will receive.

Recommendation 3

The board's future financial plans must demonstrate how its services will be delivered within the funding it will receive. The Board members must monitor and challenge progress.

NHS Dumfries and Galloway agency staff costs have increased by 6.3 per cent to £17.5 million in 2023/24

58. Total staff costs have increased from £242.009 million in 2022/23 to £263.299 million in 2023/24 (8.8 per cent increase). Agency staff costs have increased at a lower rate, £16.029 million in 2022/23 to £17.455 million in 2023/24 (an increase of 6.3 per cent). The use of agency staff is directly related to both availability of staff, depleted during the period due to continuing vacancies and levels of absence, and to growing levels of activity and demand for services throughout the board in all operational directorates. The main increases year on year were in medical consultant and middle grade doctors (speciality registrars), although nursing agency costs decreased from the previous year. The movements are detailed as follows:

- Nursing - decreased by £0.911 million due to continued scrutiny of spend and compliance with local agency standing operating procedures. There has still been a requirement to use agency at times when there has been a need for additional nursing withing specialist areas such as critical care, theatres and neonatal (£0.2 million) and also within wards to maintain safer staffing levels (£0.249 million).

- Medical - increased by £2 million due to a high number of difficult to fill posts with agency locums the only way to maintain services. The specialty specific issues change year on year but can be summarised into hard to fill vacancies, retirements and maintaining safe day time and on call rotas during levels of high demand. The middle grade medical staff agency locum requirement has increased due to gaps in rotas and demand (£0.904 million). The largest increase is within General Medicine at (£1 million) and this relates to the continued high levels of demand and vacancies.

- Other - Allied Health Professions (AHP's) has increased by £0.130 million due to difficulties in replacing substantive staff across all professions, with agency staff being used to cover these vacancies. Therapeutic agency use increased by £0.183 million within mental health psychology due to being unable to fill vacancies and increasing staffing levels to support waiting lists and to support the mental health staff services available.

The board's workforce data is reported regularly to committee

59. The Quarterly Workforce Data Report presented to the Staff Governance Committee meeting in March 2024 shows that as at December 2023, the board had 4,055 WTE staff in post, with the total number of vacancies comprising 97.3 WTE in Nursing and Midwifery, 28.1 WTE in Allied Health Professionals (AHP) and 9.5 WTE in Medical and Dental Consultants. The report notes that all

of these vacancy rates are lower than a year ago. The report also shows that the number of WTE staff has increased by 2.6 per cent from the previous year.

60. Quarterly Workforce Data Reports are presented to each meeting of the Staff Governance Committee (SGC), the minutes of which are taken to relevant meetings of the Board. These quarterly reports allow members to monitor the board's statistics in relation to staff numbers, vacancies, time to hire, hard to fill posts, redeployment of staff, leavers, staff absences staff appraisals, staff training, staff accidents/incidents, employee relations, a 'latest headlines' section providing the most up to date board wide summary and a directorate level headlines section for each directorate. The Acute Directorate continues to work with the Workforce Sustainability Team to ensure that the board continues to attract, recruit and retain the best possible candidates for hard to fill vacancies.

Sickness absence levels are higher than the national performance standard

61. NHS Dumfries and Galloway like most NHS boards is continuing to find it difficult to achieve the national performance standard of 4 per cent for sickness absence despite measures to maximise attendance at work. As at March 2024 the sickness absence rate was 5.97 per cent compared to 5.38 per cent at March 2023.

62. Short-term sickness (STS) rates have mainly been higher than the NHS Scotland rates since the start of 2020 apart from July 2022 to March 2023. Long-term sickness (LTS) rates have been mainly lower since the start of 2019 apart from Mar/Apr/Jul 2021 and October 2023. The Acute Directorate has launched a back-to-basics approach with regard to attendance management. This includes a deep dive into attendance figures, where staff have reviewed the year to date absence percentage as well as short term and long term sickness absence rates for the year to date. The directorate has also started rolling out attendance management training sessions with people managers and we have also started sending out a weekly email focusing on a different topic within attendance management policy each week.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Main judgements

The board has a Strategic Statement which sets out the board's mission to 'support local people to live healthy, happy, active and fulfilling lives,' supported by the Annual Delivery Plan.

Overall effective governance arrangements are in place that support good governance and accountability. Board members provide adequate scrutiny and challenge at meetings to ensure the board's performance is effectively reviewed.

The board's self- assessment against the NHS Scotland Blueprint for Good Governance, identified no significant areas for improvement.

Internal Audit needs to improve to meet Internal Audit Public Sector Standards. The Chief Internal Auditor is reporting on improvement actions to the Audit and Risk Committee.

A 2023 Cyber Security Scotland reported on the board's cyber security arrangements, concluded 'NHS Dumfries and Galloway is a strongly-performing board with a clear commitment to the Network and Information System's audit programme.'

A focused cyber attack on the board's IT systems took place in late February 2024. Hackers accessed and subsequently published a significant amount of data including patient and staff information. The board is working with others to prevent further successful attacks and to support patients and staff in how they can best protect themselves from the impact of the release of the information. The attack has had no impact on the provision of healthcare to patients. The financial systems producing the board's accounts were not compromised. Police Scotland are investigating the incident.

63. In April 2023, the Board approved a document laying out its Tactical Priorities for 2023/24 and its updated Strategic Statement. The Strategic

Statement sets out the board's mission to 'support local people to live healthy, happy, active and fulfilling lives'. The statement goes on to set out the vision and seven key ambitions that it feels are fundamental to achieving excellence in healthcare. The board's 2023/24 ADP was approved at the meeting of the Board on 12 June 2023 and for a number of the board's tactical priorities, the ADP is highlighted as one of the performance measures for monitoring addressing these priorities.

64. Reporting of progress on the delivery of the 2023/24 ADP is discussed further in the Use of Resources to Improve Outcomes section of this report.

Overall governance arrangements operated effectively throughout the year

65. The Board of NHS Dumfries and Galloway is supported by six committees, including the Audit and Risk Committee. The minutes of committee meetings are presented to the Board. In addition, papers on Dumfries and Galloway IJB matters are presented to Board meetings as appropriate, including how IJB directions are reported and managed by the board. Non-executive Board members are also members of selected committees and are represented at the IJB Board. From review of Board and committee minutes and papers, we found that there was clear and transparent reporting and decision making.

66. Board meetings for 2023/24 took place in a hybrid environment from April 2023. During the year there were six meetings with the recordings published on the board's website after the meeting. Board members provide adequate scrutiny and challenge at these meetings to ensure the Board's performance is effectively reviewed. In addition, there were five private "in committee Board meetings during the year. There has been no significant change to the board's governance arrangements during 2023/24.

67. Through our attendance at Audit and Risk Committee meetings, we concluded that committee papers were well prepared (and in sufficient time in advance of meeting for review), adequate time was allowed to discuss the issues on the agenda and committee members were well-prepared and asked appropriate questions. This enables the Audit and Risk Committee to exercise effective scrutiny.

68. As required by the Scottish Government Audit Committee Handbook, officers circulated a copy of the self-assessment checklist to non-executive Board members who sit on the board's Audit and Risk Committee for completion each year. The Chair of the Audit and Risk Committee agreed that the self-assessment checklist for 2024 should be undertaken collectively by Audit and Risk Committee non-executive Board members at a session which took place on 4 March 2024. The results of this exercise were approved at the Audit and Risk Committee meeting held in April 2024 alongside an associated action plan to be taken forward during 2024/25. No significant issues were identified from this exercise, although it was noted that the Audit and Risk Committee has a vacancy which is being reviewed by the Chair of the Board and committee members have expressed a preference for the new member to have an accountancy background.

Business continuity planning arrangements are being improved

69. Our 2022/23 Annual Audit Report highlighted that, there was scope for improvement with Business Continuity Planning (BCP) arrangements. We recommended that the board should expand BCP action cards to include consideration of natural or human-induced disaster that results in lack of access or damage to premises/key IT infrastructure assets or lack of IT staff capacity.

70. In response, management agreed to implement this but highlighted that the process of building the new BCP database and engaging the organisation to this new recording solution was taking time due to operational priorities. The current aim is for the previous IT General Manager to lead the creation of the new database and its initial completion across all Corporate and Operational Departments. At March 2024, the new BCP system had been developed and rolled out to the directorates who were in the process of moving their BCPs to this new system. As part of the board's response to the recent cyber incident discussed below, all General Managers and Directors were asked to review their BCPs and this is ongoing.

The board completed a self- assessment against the NHS Scotland Blueprint for Good Governance, no significant areas for improvement were identified

71. The NHS Scotland Blueprint for Good Governance (Second Edition) November 2022 was presented to the Board in February 2023 as part of a Corporate Governance Update report. The report highlighted that work was ongoing to ensure the board's Corporate Governance Framework and Workplan that was being developed encompassed and aligned to the requirements of the Blueprint.

72. As part of the implementation of the Blueprint, all boards were required to undertake a self-assessment with all of the Board members and then to hold a workshop to review the responses and draft up an action plan to address any gaps in information or improvements that could be made to existing processes.

73. The Corporate Governance Update report presented to the Board meeting on 8 April 2024 highlighted that a Board Development Session was held on 19 February 2024, which was facilitated by the Head of Organisational Development and Learning. The outcomes from the board's self-assessment were the main focus of the discussions at the Board Development Session, where a number of comments and ideas were recorded. A draft action plan was included as an appendix to the report for information. No significant areas for improvement were identified from the self-assessment. The finalisation of the action plan was delayed as a result of the cyber attack but a final version was completed by officers in mid-June 2024.

74. We concluded that the board's governance arrangements have continued to operate effectively during the financial year and they support good governance and accountability. Board members provide adequate scrutiny and challenge at regular meetings to ensure the board's performance is effectively reviewed.

Executive and non-executive members demonstrated effective leadership, challenge and scrutiny of the board's activity and performance in 2023/24

75. NHS board chief executives and senior teams are responsible for the delivery of critical day-to-day services as well as leading the changes to how services are accessed and delivered in their boards. This places significant demands on senior leadership teams.

76. In April 2023, two new non-executive Board members were appointed for a period of four years. Both members were provided with an induction pack which included links to a number of publications in support of their new roles. In addition, due to changes in the leadership of Dumfries and Galloway Council, a new elected member was appointed to the Board from March 2023. The board is to continue to support all non-executive members throughout their appointments by providing relevant training to enable them to fulfil their responsibilities.

77. We have concluded that the board's executive and non-executive directors have demonstrated effective leadership and scrutiny of the board's activity and performance in 2023/24. Going forward, the executive and non-executive directors will have some challenging decisions to make with regard to how services are best delivered in the current financial climate.

The board conducts its business in an open and transparent manner

78. There continues to be an increasing focus on demonstrating the best use of public money. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources.

79. NHS Dumfries and Galloway's commitment to transparency is demonstrated by:

- public availability of board papers and minutes of committee meetings
- the annual accountability review (where members of the public can attend)
- the form and content of annual reports.

80. As noted earlier, Board meetings for 2023/24 took place in a hybrid environment from April 2023 and during the year there were six meetings with the recordings published on the board's website after the meeting which demonstrates transparency.

81. As an alternative to public access to committee meetings, minutes of all meetings are available through the Board papers. We concluded that the board conducts its business in an open and transparent manner.

Internal audit needs to improve to meet Internal Audit Standards

82. The Board also obtained independent assurance on its governance arrangements from Internal Audit. The Chief Internal Auditor concluded that there were adequate and effective internal controls throughout the year. However, we noted that, as confirmed by the Chief Internal Auditor, 71.4 per cent of all Internal Audit actions were overdue as at 3 June 2024. The progress of the implementation of Internal Audit actions is monitored and discussed at each meeting of the Audit and Risk Committee. We recommend that management continue to work with Internal Audit to ensure that these overdue actions are implemented, addressed and completed as soon as is practicable. None of the outstanding actions impacted our audit approach.

83. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2023/24 we did not plan to place formal reliance on the work of internal audit to support our financial statements audit opinion. However, we considered internal audit report findings as part of our wider dimension audit work.

84. It is a requirement of the Public Sector Internal Audit Standards (PSIAS) that audit functions must have robust quality assurance and improvement processes in place. The standards state that Internal Audit functions should be externally assessed at least every 5 years to demonstrate that they are meeting the requirements PSIAS. The previous External Quality Assessment (EQA) of the board's Internal Audit function took place in 2016. The Chartered Institute of Internal Auditors (CIIA) were appointed in December 2023 to undertake an EQA of the board's Internal Audit function.

85. The final EQA report was presented to the Audit and Risk Committee meeting held on 29 April 2024. The report highlighted that the CIIA's overall opinion is that the board's Internal Audit function 'partially conforms' to the IIA Standards, which means that the CIIA has concluded that the function is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics section, or major category, but falls short of achieving some major objectives. The areas where action is required to address partial conformance with individual standards are:

- Updating the Internal Audit Charter
- Co-ordinating more formally with other assurance providers, to support the ongoing development of the board's assurance framework
- Recognising the Chief Internal Auditor's non-internal audit responsibilities and how potential impairments to independence and objectivity are managed
- Formalising the quality assurance and improvement programme for Internal Audit and ensuring the Audit and Risk Committee has visibility of the outcomes and conclusions from that activity
- Ensuring the Audit and Risk Committee have full visibility of Internal Audit resources when approving the Internal Audit Plan, and any in-year changes to the plan.

86. The Chief Internal Auditor has agreed to address all of the recommendations for improvement contained within the report and progress on the action being taken will be reported to the Audit and Risk Committee on a regular basis.

Cyber Security Scotland reviewed and reported on the board's cyber security arrangements in 2023. It concluded that NHS Dumfries and Galloway is a strongly-performing board with a clear commitment to the Network and Information System's audit programme

87. The board has a Cyber Incident Response Plan (CIRP) in place, which was last updated in December 2023. A cyber attack desktop exercise to test the CIRP and help develop BCP arrangements was carried out in September 2021 in partnership with NHS Scotland. However, a cyber incident preparedness exercise in the form of a cyber crisis simulation was undertaken in September 2023 in partnership with an external cybersecurity solutions and service provider. The exercise was attended by a total of 81 higher level managers across NHS Dumfries and Galloway to test and embed knowledge of incident management and response procedures throughout the organisation in the case of a cyber incident occurring.

88. The board is an Operator of Essential Services (OES) and is therefore required to adopt the cyber security controls set out in the EU Network and Information Systems Regulations 2018 (NISR). Compliance with the NISR is assessed on a regular basis by the Scottish Health Competent Authority, with the actual audit / review process undertaken by a service organisation. In the case of the board, in 2023 a full NIS audit review was carried out by Cyber Security Scotland, against updated framework controls set out in the 2023 NISR audit guidance provided to health boards.

89. A summary of the NISR Review Report 2023 (December 2023) findings was included in the Information Assurance Quarterly Update Report which was presented to the January 2024 Audit and Risk Committee meeting. The NISR Review Report 2023 highlighted that, "*Overall compliance is at 73 per cent a significant achievement, showing strength across the organisation and a strong level of performance.*" A key message of the NISR Review Report 2023 is that "*NHS Dumfries and Galloway is a strongly-performing board with a clear commitment to the NIS audit programme"*. Areas for development were reported.

A focused cyber attack on the board's IT systems took place in late February 2024. Hackers accessed and subsequently published a significant amount of data including patient and staff information. The board is working with others to prevent further successful attacks and to support patients and staff in how they can best protect themselves from the impact of the release of the information. The attack has had no impact on the provision of healthcare to patients

90. On 15 March 2024 the board explained on its website that it had been the target of focused and ongoing cyber attack which commenced in late February

2024. The board describes its response in line with its established protocols, working with partner agencies including Police Scotland, the National Cyber Security Centre and the Scottish Government. The board worked with cyber security agencies to investigate what patient and staff data had been accessed. It was identified that the hackers had accessed a significant amount of data including patient and staff information.

91. On 27 March 2024 the board updated its website to announce that it had been made aware that clinical data relating to a small number of patients has been published by a recognised ransomware group. The board's statement highlighted that it was continuing to work with Police Scotland, the National Cyber Security Centre, the Scottish Government, and other agencies in response to this developing situation.

92. Subsequently the ransomware group published more data with the board confirming that patient-facing services continue to function effectively as normal.

93. An initial Board briefing took place on the 8 April 2024 with further briefings throughout April, May and into June as well as updates through the Audit and Risk Committee. The Information Assurance Quarterly Update Report presented to the Audit and Risk Committee meeting in April 2024 provided an update on the cyber attack, including the background, lessons learned and work underway. In addition, the Board Chair and Vice Chair were briefed informally on a regular basis from the beginning.

94. As part of its ongoing response, the board is engaging with the Information Commissioner's Office to ensure compliance with legislation and discuss appropriate notification pathways for contacting patients and staff whose data has been stolen. A leaflet was issued to all households in Dumfries and Galloway during the week commencing 17 June 2024 supported by various targeted communications with specific vulnerable patient groups.

95. Recognising that this is a live criminal matter, the board continues to work with and follow the guidance being provided by national law enforcement agencies. The board is also in regular contact with the Information Commissioner's Office and the NHS's Central Legal Office on the issue.

96. The board is working with others and taking action to prevent further successful attacks. It is also taking action to support patients and staff in how they can best protect themselves from the impact of the release of the information. The financial systems producing the board's accounts were not compromised by the attack. The 2023/24 Governance Statement includes appropriate reference to the issue. We will continue to monitor the board's response to the cyber attack and report an update next year.

The board has appropriate arrangements in place for prevention and detection of fraud and error

97. The board has a range of established procedures in place designed to maintain standards of conduct, prevent and detect bribery and corruption and prevent and detect of fraud and error.

98. An online training module on fraud awareness is included in the corporate induction programme for all staff. The fraud policy and action plan is available to

all staff via the board's intranet and on the board's website. There are codes of conduct for members and staff which are also available on the board's website. The board has implemented and publicised the National Whistleblowing Standards as established by the Independent Whistleblowing Officer. The whistleblowing homepage is available to all staff via the intranet. Whistleblowing updates are presented to meetings of to the Board on a quarterly basis and the annual report for 2022/23 was presented to the meeting of the Board held on 4 December 2023. Quarterly fraud reports are presented to Audit and Risk Committee. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

99. We have concluded that the board has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

The board is proactive in investigating matches and reporting the outcomes of National Fraud Initiative (NFI) activity

100. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

101. NFI data matches were issued to the board in January 2023 as part of the NFI exercise for 2022/23. All data matches (payroll and creditors) have been investigated by officers and have been closed with no issues identified.

102. The results of NFI activity are reported regularly to the Audit and Risk Committee by the Chief Internal Auditor and Financial Governance Manager. We concluded that the board is proactive in investigating matches and reporting the outcomes of NFI activity.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Main judgements

Service performance against national waiting time standards is behind target as pressures are felt from increased demand and the ongoing impact of the pandemic.

The board's Medium Term Plan and 2023/24 Annual Delivery Plan set out the challenges facing the board and actions proposed to help the board improve performance levels.

The board continues to develop its performance management framework to support continuous improvement.

Officers regularly report to members on the arrangements in place to secure Best Value. The board's 2023/24 Best Value self-assessment showed no questions were assessed as red and out of the sixty-two questions assessed, nine were given an amber rating with actions planned for each.

NHS Dumfries and Galloway's 2023-26 Medium Term Plan and 2023/24 Annual Delivery Plan were approved by the Board in June 2023

103. NHS boards are required to develop three-year integrated plans (Medium Term Plans), setting out a more strategic approach to planning and support programmes of service transformation, aligned with the NHS Recovery Plan and the Care and Wellbeing Portfolio. These three-year plans are underpinned by NHS boards Annual Delivery Plan (ADPs) and should be aligned to Financial Plans.

104. The board's 2023/24 Annual Delivery Plan (ADP) and 2023-26 Medium Term Plan (MTP) were approved by the Board on 12 June 2023 before being submitted to the Scottish Government. The board's draft 2024/25 ADP was presented to the Board meeting held on 8 April 2024.

The board has recently developed its performance management framework to support continuous improvement. It will be updated further during 2024

105. We highlighted in our 2022/23 Annual Audit Report that an updated version of the board's performance management framework (PMF) 2022-25 was presented to the PRC in March 2023 for approval for implementation in April 2023. It tasked officers with developing Key Performance Indicators (KPIs) and an interactive dashboard to highlight performance measures and outcomes to support the delivery of the PMF.

106. The report to the PRC in March 2023 highlighted that:

- in the Dumfries and Galloway integration model, the majority of health services are delegated to the IJB. Therefore, historically the board had worked to the IJB PMF. A new IJB PMF was agreed in March 2022, which focuses more on population health outcomes
- as a result of Internal Audit recommendations, a board specific PMF had been developed which will sit separately to the IJB's PMF and will focus more specifically on the running and operational delivery of health care services
- a proposal had been sent to the board's Modernising Our Business Intelligence (MOBI) group for support in developing a dashboard to support reporting against the PMF. There was a 16 week development cycle, which started mid-March 2023
- KPIs will be agreed that will support the delivery of the PMF. Key topic areas are set out in the PMF and these will be developed into a new 4 quadrant summary performance report.

107. NHS boards are required to provide quarterly progress updates on the delivery of ADPs to the Scottish Government, these are also presented to the Performance and Resources Committee detailing the achievements and challenges faced in relation to the delivery of the ADP and the progress against each deliverable. At the meeting of the Performance and Resources Committee held in May 2024, a new summary performance report for April 2024 was presented which lays out the agreed basket of local and national performance indicators for 2024/25 and gives an overview of operational performance for key measures relating to the board's priorities for the year ahead.

108. A virtual consultation on the final list of proposed indicators for 2024-25 was undertaken with members of the Performance and Resources Committee and the NHS Board Management Team during March 2024. These are based on a selection of indicators across all domains of the organisation. The 2024/25 indicators reflect many of the national indicators that are of interest to the Scottish Government and the public and also the board's local priorities.

Service performance against national waiting time standards is publicly reported

109. The Board is kept informed of performance across all areas and Board papers are publicly available. The detailed review and scrutiny of performance has been delegated to the PRC which meets quarterly. Summary service performance reports are presented to meetings of both the PRC and Board and provides an overview of operational performance for key local and national performance indicators relating to the board's priorities in the ADP, as set by the Scottish Government. These include waiting times for accessing treatment such as the proportion of patients that were seen within 12 weeks, otherwise known as the Treatment Time Guarantee. The board has committed through its ADP that it would maintain March 2024 activity as it is aware that funding is not available to deliver more than that. The board is working with the Scottish Government in respect of ringfenced funding to protect planned care and will continue to do so throughout the year. The board recognises that the gap is not just funding but also physical space and workforce.

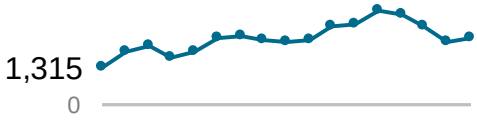
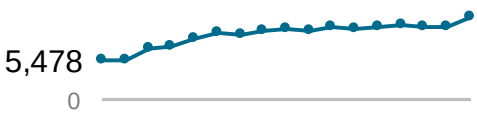
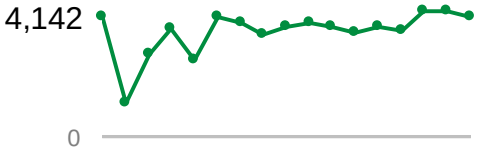
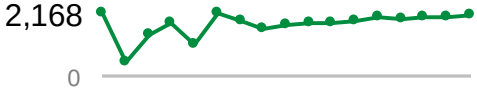
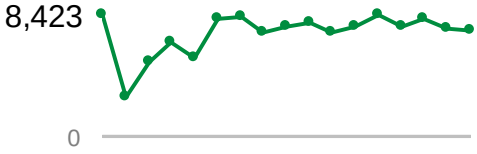
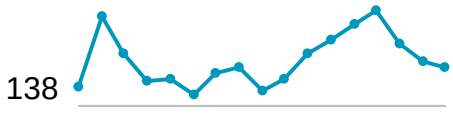
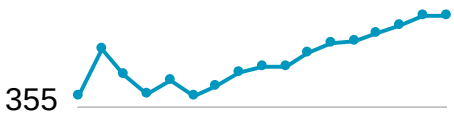
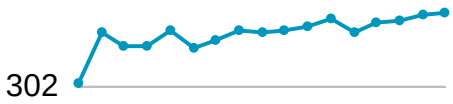
Service performance against national waiting time standards is behind target as pressures are felt from increased demand and the ongoing impact of the pandemic

110. The 2023/24 annual report and accounts reports on the board's performance against its national waiting time standards. While these are not currently the board's primary focus for performance monitoring, they provide context for the current challenge for the delivery of health services. Exhibit 5 (on page 36) demonstrates how activity and waiting times for acute services have continued to be impacted by Covid-19. Exhibit 6 (on page 37) provides a comparison of current waiting times compared to prior years.

111. The largest increases in Exhibit 5 are in relation to waiting times, with the most significant being the number of patients waiting longer than 12 weeks for a new outpatient appointment which has increased by 1,578 per cent from March 2020 to March 2024. The impact of increases in waiting times is also reflected in Exhibit 6 which shows the percentage of inpatients or day cases that were seen within 12 weeks has reduced.

112. Summary service performance reports are presented regularly to the PRC and Board which are prepared by the board's Chief Operating Officer who is also the Chief Officer of the IJB. The reports provide an update on performance against local and national targets (national targets are shown in Exhibit 6) set by the Scottish Government and include waiting times for accessing treatment.

Exhibit 5
Trends in demand and activity for acute services

Demand	Quarterly trend Mar 2020 to Mar 2024	Change (%)
Ongoing waits for diagnostic tests		74.1%
Ongoing waits for an inpatient or day case admission		119.0%
Ongoing waits for a new outpatient appointment		108.8%
Activity	**Quarterly trend Mar 2020 to Mar 2024**	**Change (%)**
Number of scheduled elective operations in theatre system		-1.0%
Number of inpatient and day case admissions		-2.5%
Number of new outpatient appointments		-13.4%
Length of waits	**Quarterly trend Mar 2020 to Mar 2024**	**Change (%)**
Ongoing waits longer than 6 weeks for diagnostic tests		92.8%
Ongoing waits longer than 12 weeks for an inpatient or day case admission		797.2%
Ongoing waits longer than 12 weeks for a new outpatient appointment		1577.5%

Source: Public Health Scotland

Exhibit 6
National waiting time standards

Target/standard	Performance at March 2021	Performance at March 2022	Performance at March 2023	Performance at March 2024[1]
Cancer 62 Days RTT Proportion of patients that started treatment within 62 days of referral	87.7%	76.9%	80.7%	79.2%
18 Weeks RTT Proportion of patients that started treatment within 18 weeks of referral	79.8%	74.6%	69.8%	59.8%
Patient Treatment Time Guarantee (TTG) Proportion of inpatients or day cases that were seen within 12 weeks	70.9%	54.2%	55.4%	51.9%
Outpatients waiting less than 12 weeks Proportion of patients on the waiting list at month end who have been waiting less than 12 weeks since referral	71.3%	63.6%	59.9%	67.7%
A & E attendees Proportion of A & E attendees who were admitted, transferred or discharged within 4 hours	89.9%	81.0%	79.8%	77.4%
Cancer 31 Days RTT Proportion of patients who started treatment within 31 days of decision to treat	98.2%	97.5%	98.8%	98.6%
Drug and Alcohol 21 Days Proportion of drug and alcohol patients that started treatment within 21 days	95.4%	99.4%	91.9%	99%
CAMHS Waiting Times Proportion of patients seen within 18 weeks of referral	87.8%	91%	99.1%	56.3%

Psychological Therapies Waiting Times Proportion of patients that started treatment within 18 weeks of referral	74.3%	74.6%	62.1%	64.0%

Note. 1: Where March 2024 data is not yet available, the most recent validated data is used. Data for Cancer, Drug and Alcohol, CAMHS and Psychological Waiting Times is at December 2023.

Source: Public Health Scotland

Officers regularly report to members on the arrangements in place to secure Best Value

113. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) set out the accountable officer's duty to ensure that arrangements are in place to secure Best Value. The guidance sets out the key themes of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

114. In our 2022/23 Annual Audit Report we noted that the 2022/23 self-assessment of Best Value was reviewed and agreed at the Board Management Team (BMT) meeting on 14 June 2023 and included as an appendix to the Governance Statement presented to the ARC meeting on 26 June 2023.

115. In January 2024 we attended a Board Workshop to discuss the board's approach to demonstrating Best Value which was attended Board members and officers. Following presentations by Internal Audit and External Audit, there was robust discussion on the board's current approach in order to further develop these arrangements.

116. We advised the workshop that we were satisfied with the 2022/23 Chief Executive Self-Assessment of Best Value, noting that this included all the Best Value themes included in Scottish Government guidance, evidenced how the board was meeting these duties and identified improvement actions. In addition, we are of the view that the self-assessment is clearly laid out and transparent, and this format could continue to be used going forward. We highlighted that it was good practice to consider how these actions will be monitored and reported and suggested that the self-assessment be reported on an annual basis in line with governance reviews.

117. The annual 2023/24 Best Value Self-Assessment was presented to the meeting of the Audit and Risk Committee on 17 June 2024 following formal review and approval by the BMT. The self-assessment shows each question assessed is reported in a red, amber and green format and includes columns detailing the evidence/outcome and actions planned for those questions with an amber or red status. No questions were assessed as red and out of the sixty-two questions assessed, nine were given an amber rating with actions planned for each.

This board has adequate arrangements to secure Best Value in relation to equalities, although the EQIS monitoring process could be improved

118. As highlighted in our 2023/24 Annual Audit Plan, as part our Best Value work, we carried out a review of the Best Value characteristic "fairness and equality" set out in the SPFM within NHS Dumfries and Galloway.

119. The board demonstrates a commitment to securing Best Value in relation to equalities through areas such as the creation of four staff equality networks, community and staff engagement, extensive Equality Impact Assessment (EQIA) support and guidance and a range of formal equality and diversity learning opportunities available to staff. It is important that the board continues to promote and encourage staff engagement in EQIAs to ensure equality impacts are appropriately considered. Upon completion of EQIAs there is currently no formal follow-up process in place to ensure that actions identified are appropriately considered and addressed. The leads for activity are responsible for ensuring that EQIAs are completed and we recommend that local leads ensure a formal monitoring process is in place.

Recommendation 4

It is recommended that local leads introduce a formal EQIA monitoring process to ensure equality impacts identified are being addressed.

120. A short life working group has been established to oversee the partnership approach to tackling inequalities and maximising the board's status as an "anchor institution". This encourages public bodies to seek ways in which to encourage working with communities. The working group meets on a regular basis and has undertaken work to map current activity across the partnership in relation to inequalities against the Joseph Rowntree Foundation Progressive Anchor Organisation Framework, with senior directors across the partnership allocated to gaps identified to ensure that ownership is taken for a range of activities and actions, including equality outcomes, and to agree reporting and governance mechanisms to support activity.

121. The board publishes an Equalities Mainstreaming Report every two years in line with the Equality Act 2010. This is reported to and approved by the NHS Board. The mainstreaming report provides a detailed overview of equalities activities during the period and demonstrates the Board is meeting its reporting duties under the Equality Act 2010 (Specific Duties). The report includes case studies demonstrating achievement against some of the equalities outcomes, however, this could be expanded going forward through inclusion of case studies for all outcomes identified.

122. We have concluded that the board has adequate arrangements to secure Best Value in relation to equalities.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Enhanced Depreciated Replacement Cost Asset Impairments The Financial Reporting Manual (FReM) and NHS Capital Accounting Manual require that any Depreciated Replacement Cost Asset addition/enhancement that is valued lower than the initial cost should be treated as an impairment loss and charged to operating costs/SOCNE, with the impairment loss being recognised within the cumulative depreciation section of the Property, Plant and Expenditure note. The current treatment does not comply with this approach. Impairment losses are netted against the revaluation figures and taken to the revaluation reserve as a downward revaluation. *Risk: future accounts are materially misstated.*	The board should consider improvements to their current methods of componentisation, recognition and valuation of enhancements/Assets Under Construction (AUC), including: • Recognising or tracking components in a way that allows the value of the old component to be identified and derecognised as required by IAS 16 when replacement of key components or aspects of the building occurs • Ensuring that, where enhancements occur, assets are grouped together and recognised in a way that most accurately reflects the type of assets and their useful lives. Exhibit 2	If there are significant enhancements to any building, advice will be sought from an independent valuer to identify any impairment in the enhancement. Financial Accountant March 2025
2. Dilapidations The board holds right of use asset and liabilities for Lockerbie Health Centre and Castle Douglas Medical Group (2023/24 annual lease charges of £0.234m). Both lease agreement terms note	The board should consider the inclusion and reflection of a dilapidation provision for both of these leases. Exhibit 2	Noted, will be reviewed by Finance to determine if provision for dilapidations should be created. Financial Accountant March 2025

Issue/risk	Recommendation	Agreed management action/timing
an expectation of dilapidations required at the end of the lease. However, no dilapidation provisions have been included in the 2023/24 accounts. *Risk: future accounts are materially misstated.*		
3. The predicted 2024/25 financial gap is £10.9 million higher than the Scottish Government support cap for 2024/25 Planned efficiency savings are not enough to close the predicted financial gap in 2024/25 and financial recovery in the medium to longer term will require radical reform of health services. There is currently no clear plan to develop further measures to reduce the board's residual financial gap towards the brokerage cap set. *Risk: the board does not meet its financial targets in 2024/25.*	The board's future financial plans must demonstrate how its services will be delivered within the funding it will receive. The board must monitor and challenge progress. Paragraph 57.	Regular reporting through FRB, Performance and Resources Committee and NHS Board. Director of Finance April 2025
4. Equalities Upon completion of EQIAs there is currently no formal follow-up process in place to ensure that actions identified are appropriately considered and addressed. The leads for activity are responsible for ensuring that EQIAs are completed. *Risk: the board is not aware of actions not being progressed.*	It is recommended that local leads introduce a formal EQIA monitoring process to ensure equality impacts identified are being addressed. Paragraph 119.	A refreshed EQIA toolkit went to BMT June 2024 that now includes a separate summary sheet where EQIA leads will have to pull out any identified negative impacts, any mitigations and a lead identified for ensuring that any mitigations are followed up and actioned. We will include content and highlight within the EQIA training that supports this approach. Equality Lead June 2024

Issue/risk	Recommendation	Agreed management action/timing
5. Accounting treatment for revaluation of land and buildings In our 2022/23 Annual Audit Report we identified that the board's annual accounts did not disclose the transfer from the revaluation reserve to the general fund to account for the realised element of the revaluation reserve, i.e. an amount equal to the excess of the actual depreciation over depreciation based on historical cost. During 2023/24 officers completed an exercise to estimate the transfer of the realised element of the revaluation reserve from the estimated initial cost to the 31 March 2024 valuation. The overall approach, methodology and inputs have been reviewed and have been concluded as reasonable. However, using the CARS system to perform the work going forward could help the board reduce manual time from officers and potential errors. *Risk: future accounts are materially misstated.*	The board should continue to consider how the CARS system could be used going forward to support this recognition, reducing manual time and potential errors. See follow up of prior year recommendations table below b/f 2	The Board will continue to review this annually using a method outwith CARS. Divisional Finance Manager Closed

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
b/f 1. Untaken holiday liability Our review of the board's approach to the calculation of the untaken holiday liability, identified that it was not fully in accordance with the relevant guidance. Changes	The board should carry out a detailed review of its approach to the calculation of the untaken holiday liability for the 2023/24 annual report and accounts with reference to the relevant guidance.	**Complete** The method used to calculate the untaken holiday liability had been reviewed by officers who populated a model. We reviewed this as part of our annual accounts audit and are satisfied that

Issue/risk	Recommendation	Agreed management action/timing
were made but the board needs to ensure the untaken holiday liability is accurately disclosed in the board's financial statements.	Original Management Response: Noted, this will be actioned. Action owner: Deputy Director of Finance Timescale for implementation: March 2024	the board's approach is in line with the relevant guidance.
b/f 2. Accounting treatment for revaluation of land and buildings The board's annual accounts did not disclose the transfer from the revaluation reserve to the general fund to account for the realised element of the revaluation reserve, i.e. an amount equal to the excess of the actual depreciation over depreciation based on historical cost. There is a risk that the board is unable to reduce the balance of the revaluation reserve accurately.	The fixed asset register (CARS) should be updated or a process implemented to assist in future calculations relating to revaluations and also for transfers to the general fund each year. Original Management Response: Noted, consideration will be given to how this can be calculated and a process implemented. Action owner: Deputy Director of Finance Timescale for implementation: March 2024	**Complete** Officers completed an exercise to estimate the transfer of the realised element of the revaluation reserve from the estimated initial cost to the 31 March 2024 valuation. This included identification of an estimated historic cost of each asset, re-allocation of revised opening revaluation reserve balances and calculation of the realised element adjustment. The overall approach, methodology and inputs have been reviewed and have been concluded as reasonable. However, we recommend that the board continue to consider how the CARS system could be used going forward to support this recognition, reducing manual time and potential errors. See 2023/24 Action Plan Point 5 above
b/f 3. Impairment review of equipment We identified that the board does not carry out a formal impairment assessment at 31 March each year in relation to equipment as set out in IAS36 – Impairment of Assets. Currently, an impairment is only recognised if the relevant service department within the board	The board should introduce a process in relation to equipment to obtain positive confirmation from services as to the functionality of equipment at the year-end to allow officers to assess for any indication of impairment. Original Management Response: Noted, it will be unlikely given the volume of fixed assets the	**Ongoing** Our annual accounts audit work identified that some progress has been made in implementing an equipment year-end impairment assessment process. However, this has not been fully implemented / carried out this year. The year-end impairment review included 1,460

Issue/risk	Recommendation	Agreed management action/timing
contacts the repairs team to inform them there is an issue with equipment. There is a risk that the value of equipment disclosed in the board's annual accounts is misstated.	board manages that this will be done on an individual asset by asset basis, this will be built into the rolling programme of asset verification. Action owner: Deputy Director of Finance Timescale for implementation: March 2024	equipment assets. However, responses were only received for 40 per cent. Officers advised that there was a delay in commencing the impairment review. As a result, equipment with a net book value (NBV) of £0.198 million was noted as damaged/not in use. Of these assets, 5 with total NBV of £0.140 million were reviewed for impairment and considered not impaired. The remaining 10, with NBV of £0.058 million were not reviewed for impairment. Further audit work was carried out to extrapolate the findings of the equipment impairment exercise. The value of the potential impairment was calculated by audit as £0.503 million which is significantly below our materiality. The error and extrapolated error are below materiality and there is no risk that the accounts are materially misstated in this regard. The Financial Accountant has confirmed that an impairment review will be undertaken six monthly from September 2024.
b/f 4. Assets under construction We identified that, due to the cut-off date applied by officers for recognising when assets become operational (early February each year), a number of assets should have been transferred from the Assets Under Construction column to the relevant asset category	The board should introduce a process to ensure that Assets Under Construction becoming operational are correctly classified in the board's accounts in future. Original Management Response: Noted, this will be considered as part of the overall review	**Complete** Action was taken by officers in response to our recommendation during 2023/24 and a review of all AUC was undertaken. Audit testing identified 3 completed assets with a value of £1.713 million that were operational/completed during 2022/23 but were not moved from AUC until 2023/24. The

Issue/risk	Recommendation	Agreed management action/timing
column of the Property, Plant and Equipment note. There is a risk that the value of Assets Under Construction (AUC) and other categories of assets disclosed in the board's annual accounts are misstated.	of capital expenditure within the finance department. Action owner: Deputy Director of Finance Timescale for implementation: March 2024	total value of confirmed 2022/23 completions is £4.788 million. The presence of 2022/23 completions within the 2023/24 accounts was within audit expectations as a result of our prior year recommendation. Therefore, we have not requested the board to adjust the 2022/23 comparative figures in the 2023/24 accounts. The total value of the 2022/23 completions is below materiality and there is no risk that the accounts are materially misstated in this regard.
b/f 5. Budget monitoring reports Budget monitoring reports presented to the Performance and Resources Committee during 2022/23 only provided a high-level focus on reporting against the financial plan and managing the projected deficit. As a result of this focus and capacity issues, regular budget monitoring reports outlining directorate performance outturns against budgets have not been reported to the Performance and Resources Committee. There is a risk that the opportunity for more thorough scrutiny and challenge is missed.	The board should enhance budget monitoring reports presented to the Performance and Resources Committee to include: • more detailed explanations for variances against directorate budgets • remedial actions being taken to address variances • a forecast of year end outturns against directorate budgets • reference to performance information to demonstrate the link between the budget position and performance. This would allow for more challenge and scrutiny of the action to be taken to address variances against budget. Original Management Response: Reporting arrangements will be reviewed in 2023/24 with a view to providing further detail.	**Ongoing** Officers have been working with the Board Chair and Chair of Performance and Resources Committee to review reporting and implemented some changes during 2023/24. It has been agreed that financial reporting to the Board should remain strategic and financial reporting to committee would be more detailed. Officers are continuing to work during 2024/25 to align reporting from the Financial Recovery Board work and enhance detail and relevance of information. This work isn't concluded and is a work in progress. See Paragraph 41.

Issue/risk	Recommendation	Agreed management action/timing
	Action owner: Deputy Director of Finance Timescale for implementation: September 2023	
b/f 6. Business continuity planning IT business continuity and disaster recovery arrangements in the case of a major disaster are dealt with within the scope of the BCP action cards (which currently outline key role and communication protocols). However, these action cards do not provide detail on what is to be done in the case of a natural or human-induced disaster that results in lack of access or damage to premises/key IT infrastructure assets, or for instance lack of IT staff capacity. There is a risk that the board's disaster recovery plans are inadequate as they do not provide guidance on the action to be taken in the event of all known disasters.	The board should expand BCP action cards to include consideration of natural or human-induced disaster that results in lack of access or damage to premises/key IT infrastructure assets or lack of IT staff capacity. Original Management Response: This recommendation is fully accepted. The process of building the new BCP database and engaging the organisation to this new recording solution is taking time due to operational priorities. The current aim is for the previous General Manager to lead the creation of the new database and its initial completion across all Corporate and Operational Departments. Action owner: General Manager, ICT Timescale for implementation: End of August 2023	**Ongoing** The Financial Reporting Quarterly Update presented to the Audit and Risk Committee in April 2024, which includes an update on progress in implementing external audit recommendations, highlighted that directorates were still in the process of moving their BCPs to the new system. As part of the recent cyber incident, all General Managers and Directors were asked to review their BCPs and updates will be progressed through BMT. See paragraph 90.

NHS Dumfries and Galloway

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
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