
NHS Dumfries & Galloway

Annual report to Members and the
Auditor General for Scotland

Year ended 31 March 2014

June 2014

PricewaterhouseCoopers
LLP
141 Bothwell Street
Glasgow
G2 7EQ

The Audit and Risk Committee
NHS Dumfries and Galloway
Crichton Hall
Dumfries
DG1 4TG

16 June 2014

Ladies and Gentlemen

We are pleased to enclose our report to the Audit and Risk Committee in respect of our audit for the year ended 31 March 2014. The primary purpose of this report is to communicate the significant findings arising from our audit that we believe are relevant to those charged with governance.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit Committee in February 2014. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate. The procedures we have performed in response to our assessment of significant audit risks are detailed in Section 2.

We have completed our audit work and are able to issue an unqualified audit opinion on the financial statements on 24 June 2014.

We look forward to discussing our report with you on 16 June. Attending the meeting from PwC will be Lindsey Paterson.

Yours faithfully

PricewaterhouseCoopers LLP

Contents

<i>Section 1. Executive summary</i>	2
<i>Section 2: Significant audit and accounting matters</i>	4
<i>Section 3. Financial performance</i>	8
<i>Section 4. Governance and internal control</i>	12
<i>Section 5. Fraud</i>	16
<i>Section 6. Future Developments</i>	18
<i>Section 7. Independence</i>	19
<i>Appendix 1: Adding Value</i>	

Section 1. Executive summary

Financial Statements

We set out in this report our significant findings from our audit of NHS Dumfries & Galloway (“the Board”) for 2013/14, together with those matters which auditing standards require us to report to you as “those charged with governance” of the Board.

Management responsibility

It is the responsibility of the Body and the Chief Executive, as Accountable Officer, to prepare the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made there under. This means:

- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements timeously which give a true and fair view of the financial position of the Body and its expenditure and income for the year ending 31 March 2014; and
- preparing a Directors’ Report, an Operating and Financial Review, a Governance Statement and a Remuneration Report.

Auditors’ responsibilities

Our responsibilities in accordance with the Code of Audit Practice are to provide you with an audit report stating whether, in our opinion the financial statements and the part of the Remuneration Report to be audited and give an opinion on:

- whether they give a true and fair view of the financial position of the Body and its expenditure and income for the year;
- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
- whether the information which comprises the annual report included with the financial statements is consistent with the financial statements; and
- whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).

We are also required to review and report as necessary on other information published with the financial statements, including the directors’ report, annual governance statement, statement on internal control or statement on internal financial control and the remuneration report.

Summary of the Audit

We carried out our audit work in line with our 2013/14 audit plan that we presented to you on 10 February 2014. Our audit is not designed to identify all matters that may be relevant to you. Accordingly, the audit does not identify all such matters.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 16 June 2014.

As a result of our work, we have not proposed any audit adjustments to the draft financial statements.

Financial performance

In 2013/14 the Board achieved an underspend of £3.043m (2012/13 £4.003m) against its Core Revenue Resource Limit of £279.851m (£269.734m – 2012/13). The Board achieved a breakeven position achieved delivered against the Core Capital Resource Limit of £5.653m (£10.007m – 2012/13). The Board agreed with the Scottish Government Health and Social Care Directorate (SGHSCD) that £2m of capital funding could be moved into future years to support Board developments and property strategy.

As required by the Efficient Government Initiative, the Board delivered savings of £7.77m from a range of initiatives (approximately 3% of the Board's baseline funding allocation) over the financial year 2013/14, thus achieving the national target of 3% per annum set for the period.

In September 2013, the Scottish Government put forward a draft 2014/15 resource budget for NHS Dumfries & Galloway of £259.7m. This represents a £6.4m (2.5%) uplift against the 2013/14 resource budget of £253.3m. The Board is anticipating further allocations of £28m and a Core Revenue Resource Limit of £288.091m for 2014/15. This represents an increase of £8.2m (3%) from the 2013/14 Core Revenue Resource Limit.

Other Matters

Clinical and medical negligence provision

As in prior years, the Board has recognised a provision for potential payouts in relation to clinical and medical negligence claims. For 2013/14 management has changed to level of provision provided in respect of these claim to that recommended by the Accounts Manual. We agree that this change is reasonable. Further details of this provision and our work in this area are included in section 2 of this report.

Circulation and Acknowledgements

Please note that copies of this report will be sent to the Audit Scotland in accordance with their requirements.

We thank the management and staff of the Board for their co-operation and assistance during the course of our work.

Section 2: Significant audit and accounting matters

We have set out in this section the significant matters arising from our audit.

Matters identified in our audit plan

Set out below is a summary of our response to matters identified in our audit plan:

Matter arising	Audit response
<p><i>Fraud and management override of controls</i> ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p>In any organisation, management may be in a position to override the financial controls that you have in place. The current economic conditions may also increase fraud risk.</p>	<p>To address this risk, we performed procedures to:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries with a focus on those of a higher risk nature; • review accounting estimates for bias and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; and • bring an element of ‘unpredictability’ into our work. • review management’s calculations over key areas of judgement such as the Clinical and Medical Negligence Provision, accruals and PFI <p>We did not identify any issues to report to you as a result of our work.</p>

Matter arising	Audit response
<p><i>Recognition of income and expenditure</i></p> <p>Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. There is a risk that the Board could adopt accounting policies or treat income transactions in such a way as to lead to material misstatement in the reported revenue position.</p> <p>Due to the majority of revenue being received directly from Scottish Government we extend this presumption to the recognition of expenditure in the NHS.</p>	<p>In response to this risk we undertook a number of procedures as follows:</p> <p>We obtained an understanding of key revenue and expenditure controls.</p> <p>We evaluated and tested the accounting policy for income and expenditure recognition to ensure that it is consistent with the requirements of the International Financial Reporting Standards (IFRSs), as adopted by the European Union, and as interpreted and adapted by the 2013/14 Government Financial Reporting Manual (FRM).</p> <p>We reviewed intra NHS confirmations of balances and disputed amounts to consider the implications on our audit.</p> <p>We performed detailed testing of revenue and expenditure transactions, focussing on the areas of greatest risk.</p> <p>We reviewed significant accounting estimates and judgements for indicators of management bias. We performed detailed testing over constructive obligation accruals to ensure all expenditure recognised was legitimate.</p> <p>We did not identify any issues to report to you as a result of our work.</p>

Matter arising	Audit response
<p><i>Classification of expenditure</i></p> <p>The Board has a number of targets to meet including:</p> <ul style="list-style-type: none"> -Revenue Resource Limit -Capital Resource Limit - Cash Requirement <p>There is a risk that expenditure could be manipulated so that it is classified incorrectly so as to meet the Capital Resource Limit target.</p>	<p>We have performed detailed testing of expenditure transactions to determine whether they have been classified appropriately in line with the requirements of the Financial Reporting Manual (FRM) and the Board’s accounting policies.</p> <p>We have also performed detailed testing over repairs and maintenance expenditure and capital additions to determine whether transactions have been appropriately expensed or capitalised during the year.</p> <p>We did not identify any issues to report to you as a result of our work.</p>
<p><i>First year consolidation of endowments</i></p> <p>NHS Scotland Directors of Finance were informed on 1 August 2013 that following a meeting between Health Finance, Central Finance at Scottish Government and Audit Scotland, that NHS Endowments will require to be consolidated into Host Board accounts with effect from 2013-14.</p> <p>For NHS Dumfries and Galloway this results in a consolidated set of financial statements being required for the first time for the year ending 31 March 2014.</p>	<p>We have coordinated with the auditors of the endowment fund to ensure that their reporting timetable was appropriate for our consolidation purposes and that the appropriate procedures were undertaken, particularly in respect of investments and opening balances.</p>

Other matters

Clinical and Medical Negligence Provision

The clinical and medical negligence provision is calculated on the basis of information received from the Central Legal Office (CLO) regarding outstanding claims. The CLO gives an indication of the likelihood of each claim crystallising and the potential payout and provides a risk rating between 1 and 3 for each claim.

The NHS Accounts Manual expects boards to provide in full for all category 3 claims, provide for 50% for all category 2 claims and disclose the remainder of category 2 along with category 1 claims as a contingent liability. Boards are responsible for meeting these costs up to a threshold of £25k per claim and costs above that are reimbursed from a central fund held as part of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). This related reimbursement will be disclosed as a debtor in the financial statements.

In prior years we identified that the Board did not follow the NHS Accounts Manual guidance on provision percentages. The Board provided for 75% of all category 2 claims rather than 50% as advised within the NHS Accounts Manual. For the purposes of the 2013/14 provision, the Board has adjusted its accounting estimate to bring the amounts provided for in line with the NHS Accounts Manual guidance.

Misstatements and significant audit adjustments

We report to you all misstatements that we have found during the course of our audit, other than those of a trivial nature, which have not been corrected by management in the financial statements. We have no adjusted or unadjusted misstatements to bring to your attention.

Qualitative aspects of accounting practices

Financial statement disclosures

As part of our audit work we have reviewed, and tested, the material disclosures in the financial statements. We identified no significant issues as part of this work.

Annual Governance Statement

You are required to produce an Annual Governance Statement (“AGS”) for inclusion in the Annual Report and Accounts. The aim of the AGS is to give a sense of how successfully the Board has coped with the challenges it faces and of how vulnerable the organisation’s performance is, or might be, drawing on evidence on governance, risk management and controls.

We reviewed the AGS and considered whether it complied with relevant guidance and whether it was misleading or inconsistent with what we know about the Board. We found no areas of concern to report in this context.

Section 3. Financial performance

Financial targets

The Board's performance against its three financial targets for financial year 2013/14 is set out below:

Table 1: Financial targets summary 2013/14

	Limit as agreed by SGHSCD £ million	Actual Outturn £ million	Underspend/ (Overspend) £ million
Core Revenue Resource Limit (RRL)	£279.851	£276.808	£3.043
Non-Core Revenue Resource Limit (RRL)	£5.418	£5.413	£0.005
Capital Resource Limit (CRL)	£5.653	£5.653	(£0.000)
Cash Requirement	£302.000	£301.021	£0.979

The underspend of £3.048m against the Board's Revenue Resource Limit was agreed in advance with the Scottish Government and will be used to fund the future double running costs associated with the Acute Services Redevelopment Project. The Board does not intend to call down this balance until 2017/18 at the earliest when double running costs will begin. The Acute Services Redevelopment Project is considered in detail in section 6 of this report.

The majority of the Board's capital resource has been utilised in 2013/14 on GP premises in Dalbeattie and Dunscore which are being replaced as part of the ongoing Primary Care Modernisation. Combined spend for these schemes for 2013/14 totalled £2.821m. Both projects are currently forecast to be delivered on budget.

The enabling works in relation to the Acute Services Redevelopment Project which will see the replacement of the main acute hospital for the region also started this year. Other capital expenditure has included hospital, community and IT equipment and expenditure on a number of smaller properties.

Efficiency savings

The Board has achieved £7.77m of efficiency savings in 2013/14 against a target of £7.5m per the NHS Scotland Efficient Government efficiency savings target. The sources through which the Board has achieved these efficiencies are set out below:

Table 2: Efficiency savings 2013/14

Source	Savings £ million	% of total
MMR Categories		

1. Service Productivity	£3.198	41%
2. Workforce	£0.568	7%
3. Drugs & Prescribing	£2.063	27%
4. Procurement	£1.041	13%
5. Support Services (Non Clinical)	£0.107	1%
6. Estates & Facilities	£0.800	10%
Total reported	£7.777	

Financial sustainability

The Financial Plan for 2014/15 identifies the following key areas of income and expenditure, recurring and non-recurring:

Table 3: 2014/15 Financial Plan

Name of Board	2013/14 Actual	2014/15 Projected
	£ million	£ million
Recurring income	£288.068	£293.496
Recurring expenditure	£295.124	£301.226
Recurring savings	£7.294	£7.790
Underlying recurring (deficit)/surplus	£0.238	£0.000
Non-recurring income	£9.480	£39.677
Non-recurring expenditure	£7.153	£39.677
Non-recurring savings	£0.483	£0.000
Non-recurring (deficit)/surplus	£2.810	£0.000
Financial (deficit)/surplus	£3.048	£0.000
Recurring deficit as percentage of recurring income	8.27%	0%

Underlying recurring (deficit)/surplus

The financial plan shows recurring funding increasing from £288.068m to £293.496m and an increase in non-recurring income from £9.480m to £39.677m.

The Board has not planned any underspends, with a break even position forecast for the next 3 years. The Board will carry forward the current year underspend of £3.048m to help support the future double running costs associated with the Acute Services Redevelopment Project.

Future Efficiency Savings

The Board's financial plan identifies the requirement to deliver cash releasing efficiency savings (CRES) of £7.5m in 2014/15 to support the delivery of a balanced financial plan. However, to meet the Scottish Government 3% efficiency target a total savings figure of £7.79m is required, with the difference consisting of non-cash releasing productivity savings. The development of efficiency plans for 2014/15 has been progressing through a series of workshops and meetings. Additional further cross system savings have also been identified which has reduced the impact on directorates. However, an element of the savings identified is non-recurrent (£0.6m) leaving a recurring gap of £0.8m with the plan to reduce this recurring gap in year, ensuring the Board remains in recurring financial balance.

Health and social care integration

The Public Bodies (Joint Working) (Scotland) Bill was passed on 25th February 2014, and will be followed by secondary legislation to further support the integration of health and social care. The bill provides two options through which the integration of health and social care may be delivered. Local Authorities and Health Boards should decide which is most suitable based on local needs. The two options are:

- Delivery of integrated care through a newly established Integration Joint Board, which would assume ultimate responsibility for planning, resourcing and delivery of the new model; or
- Either the Local Authority or Health Board assume full responsibility for the provision of health and social care, and the associated responsibilities.

Whilst these developments have provided greater clarity on what the delivery model may look like, there remains significant uncertainty in relation to the funding arrangements for the Board. The Board has considered the impact of health and social care integration in its future financial plans.

The Community Health and Social Care Partnership Board (CHSCP) was set up in 2008. This is a partnership across the Dumfries and Galloway NHS Board and Dumfries and Galloway Council and acts as a Sub Committee of Social Work for the Council and an NHS Board Committee. The purpose of the CHSCP is to set the direction for the delivery of high quality outcomes for people that use our services and to support joint working across adult care. The Partnership Board has met quarterly since its establishment in 2008 and now has an agreed development programme of work to be put in place over the course of 2013/14 which will support it as it develops its role under Adult Health and Social Care Integration. Membership of the Board consists of Council Elected Members and both Executive and non-Executive NHS Directors. In attendance at each meeting are the Director of Social Work and the NHS Director of Planning/ Head of Joint Strategic Planning and Commissioning. The CHSCP is now established as a formal Sub-Committee of Social Work Committee in the Council with delegated decision making powers commensurate with the Partnership Agreement.

With the development of plans under Health and Social Care Integration, the CHSCP agreed in 2013 to act as a shadow Health and Care Partnership until the implementation of integration in Dumfries and Galloway.

A workshop of the CHSCP/B in February 2014 agreed in principle the model for integration in D&G. This was ratified at the formal Partnership Board in May 2014 with a requirement that it is approved by the Health Board and full Council over the summer.

Integration of Health and Social Care

An Integration Programme Board has been formed and plans to integrate health and social care by April 2015 are being developed. The Integration Programme Board reports directly to the CHSCP/B/ Shadow HSCP. A detailed integrated Organisational Development plan, seeking to develop capacity to implement integration plans, has been approved by the Scottish Government.

Best Value Audit

During the 2013/14 financial year it was agreed with the Audit and Risk Committee that we would undertake a Best Value Audit in the area of procurement through application of the Audit Scotland Best Value Toolkit. The outcome of this work noted two areas for development in order to achieve advanced practice. The findings arising from this will be reported in a separate letter to management.

Section 4. Governance and internal control

Governance structure

As part of the annual Governance Statement process, the Board has completed the Diagnostic Toolkit developed by NHS Scotland as a best practice tool to demonstrate compliance with the UK Corporate Governance Code. The completed questionnaire was agreed at a meeting of the Chairs of the Boards relevant Governance Committees in collaboration with the Chairman and the Chief Executive and presented to the March 2014 Audit and Risk Committee.

From 10 June 2010 to 31 December 2013 the Board participated as a Pilot Health Board where 10 of the 16 Non Executives were elected by the public of Dumfries and Galloway. The Scottish Government ended this pilot scheme on 31 December 2013. The ending of the pilot resulted in the Board and governance committees operating with a reduced non-executive cohort for the period from 1 January to 31 March 2014. Where required the Board has reviewed the Standing Orders of Committees to reflect reduced membership. In addition, consideration of certain matters of strategic importance to the Board's future have been deferred until such time as a full Board is in place. The new Non Executive members and Chairman were appointed from beginning June 2014.

The Board has reviewed and updated the Scheme of Delegation and Standing Financial Instructions during 2013/14. The Scheme of Delegation was updated to reflect the governance arrangements of the Acute Services Development Project Board.

During 2013/14, the Boards' Capital Investment Group continued its work around managing and prioritising capital expenditure and shaping the Property Asset Management Strategy (PAMS). This is of significant importance with the revised Capital Allocations from the Scottish Government and the approval of the Outlined Business Case for a new build Dumfries & Galloway Infirmary. The Acute Services Development Project Board continues to provide the governance and direction for the new build throughout the procurement process. This Project Board reports to Performance Committee in order to ensure appropriate scrutiny and governance.

Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Annual Governance Statement.

We consider that appropriate governance arrangements and reporting are in place.

Systems of internal control

The Chief Executive Officer in conjunction with management is responsible for developing and implementing systems of internal financial control and having in place proper arrangements to monitor their adequacy and effectiveness in practice. The Audit Committee is responsible for overseeing these systems.

We review these arrangements for the purposes of our audit of the financial statements and for our review of the annual governance statement and report to you any significant deficiencies in internal control that we find during our audit.

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist.

Based on audit work performed we consider the systems of internal control in place appropriate for the needs of the Board.

Performance management

The Scottish Government Health and Social Care Directorates requires NHS Boards to prepare Local Delivery Plans (LDPs), which set targets for specified indicators of performance. These are known as the HEAT targets, and cover Health improvement, Efficiency, Access and Treatment.

NHS Dumfries and Galloway has developed a performance management framework to monitor performance against all key HEAT targets and standards. This framework is reviewed regularly throughout the year by the Board's Performance Committee which considers a Performance Report at each meeting.

Performance against key performance indicators as at May 2014 are summarised in the table below:

Target	Status	Source
Health Improvement		
H3.1 Healthy weight of children	Trajectory target achieved to Q3, 2013/14	Local management information
H6.1 Smoking Cessation, most deprived	Trajectory target achieved to Q3, 2013/14	HEAT system management information
H9.1 60% of 3 and 4 year olds receiving Fluoride Varnish Applications	Off trajectory target at Q3, 2013/14	HEAT system management information
H11.1 Early Access to Antenatal Services	Trajectory target achieved to Q3, 2012/13	Local management information
Efficiency and Governance Improvements		
E5.1 Financial Performance	Trajectory target achieved to Q3, 2013/14	HEAT system management information
E8.1 Reduce CO2 emissions	Trajectory target achieved to Q4, 2012/13	Health Facilities Scotland
E8.2 Reduce Energy Consumption	Trajectory target achieved to Q4, 2012/13	Health Facilities Scotland
Access to Service		
A12.1 Faster access to Mental Health Services (CAMHS)	Trajectory target achieved to Q3, 2013/14	HEAT system management information
A12.2 Faster access to Psychological Therapies	Off trajectory target at Q3, 2013/14	HEAT system management information
A14.1 4 Hour A&E Target	Trajectory target achieved to Q4, 2013/14	EDIS/Qlikview
Treatment Appropriate to Individuals		
T10.1 Rate of attendance at A&E	Off trajectory target at Q4 2013/14	EDIS/Qlikview
T11.1 MRSA/MSSA Bacteraemias	Off trajectory target at Q4 2013/14	Local management information
T11.2 C. Diff infections in ages 65+	Off trajectory target at Q4 2013/14	Local management information
T12.1 Reduction in emergency bed-days for patients aged 75+	Off trajectory at the end of November 2013	HEAT system management information
T15.1 14 Days Delayed Discharge	Off trajectory at the January 2014 census point.	HEAT system management information

Risk management

The Board is subject to the requirements of the Scottish Public Finance Manual (SPFM) and must operate a risk management strategy in accordance with relevant guidance issued by Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM. The Audit and Risk Committee meets on a quarterly basis and considers risk management and general and financial corporate governance.

Risks that threaten the achievement of corporate objectives are included in a corporate risk register which is reviewed quarterly by the Audit and Risk Committee and Board Management Team. Each committee reviews relevant sections of the Risk Register periodically. A formal system of risk identification and evaluation is embedded throughout the organisation. Each department maintains its own departmental risk register with risk management being monitored in departmental performance reviews. Board papers, business cases and project plans are also required to have a risk assessment to ensure relevant issues are identified and appropriately managed.

Internal Audit

We have reviewed the key reports from the Board's internal audit function and have used these to understand and evaluate the control environment of the Board and to focus our audit on areas of particular risk. This includes the work undertaken in respect of information governance, key financial controls, risk management and critical incident management and reporting.

Based on audit work performed we consider the Internal Audit function within the Board to be appropriate for the need of the Board.

Waiting Times

In December 2013, Audit Scotland published results of an audit update performed following their February 2013 report 'Management of patients on NHS waiting lists' on behalf of the Auditor General for Scotland. The update involved review of the progress made by the NHS in improving audit trails and monitoring how they manage waiting lists.

The Board was required by the Scottish Government Health and Social Care Directorate (SGHSCD) to undertake a detailed internal audit of waiting times during 2012/13. The request was as a result of specific control weaknesses identified in another Board area. The audit provided assurance as to the management of waiting times within Dumfries and Galloway. This work was concluded in 2013/14 with the bringing together and implementing of the recommendations from a range of audit work and reports on this subject including: Audit Scotland Report – Management of patients on NHS waiting lists; Audit Scotland's Self Assessment Checklist; Public Audit Committee – Report on the management of patients on NHS waiting lists; and NHS Dumfries and Galloway's Internal Audit Report. The report by Internal Audit provided significant assurance with no high or very high risk recommendations being raised by internal audit.

During 2013/14, the Board has made progress in achieving its targets for waiting times. Performance against the 4 hour emergency care waiting times guarantee over the year 2013-14 has improved with full year to date performance of 95.1%, compared to 93.9% for 2012/13. The Board over the year 2013-14 has exceeded its 95% target in relation to waiting times for cancer patients, with 100% of all patients diagnosed with cancer beginning treatment within 31 days of decision to treat and 100% of patients referred urgently with a suspicion of cancer beginning treatment within 62 days of referral, with the exception of March 2014 (89.7%).

Local response to National Performance Reports

On a periodic basis, Audit Scotland publishes National Performance Audit Reports on subject areas of relevance to Scottish Health Boards. We have a duty to follow up with Boards on the extent to which they have considered and responded to relevant reports. Whilst some recommendations have a national application, there are many which can be implemented at a Board level.

As part of our 2013/14 audit procedures we have reviewed the Board's response to the following reports:

- Health inequalities in Scotland (December 2012); and
- Prescribing in general practice in Scotland (January 2013).

The 'Prescribing in general practice' report was considered by the Area Drug and Therapeutics Committee in February 2013 and an action plan produced to address recommendations. The report supported the Board in developing prescribing support in primary care and highlighted actions to improve cost effectiveness. The Board's prescribing cost per weighted patient relative to other Boards has continued to improve.

The 'Health inequalities in Scotland' report was considered at the Public Health Committee in June 2013. The Board has established a joint Health and Wellbeing Unit with responsibility for the practical aspects of reducing health inequalities. Health inequality assessments are also performed when new services are designed or existing services are redesigned.

Section 5. Fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors’ responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management’s responsibility

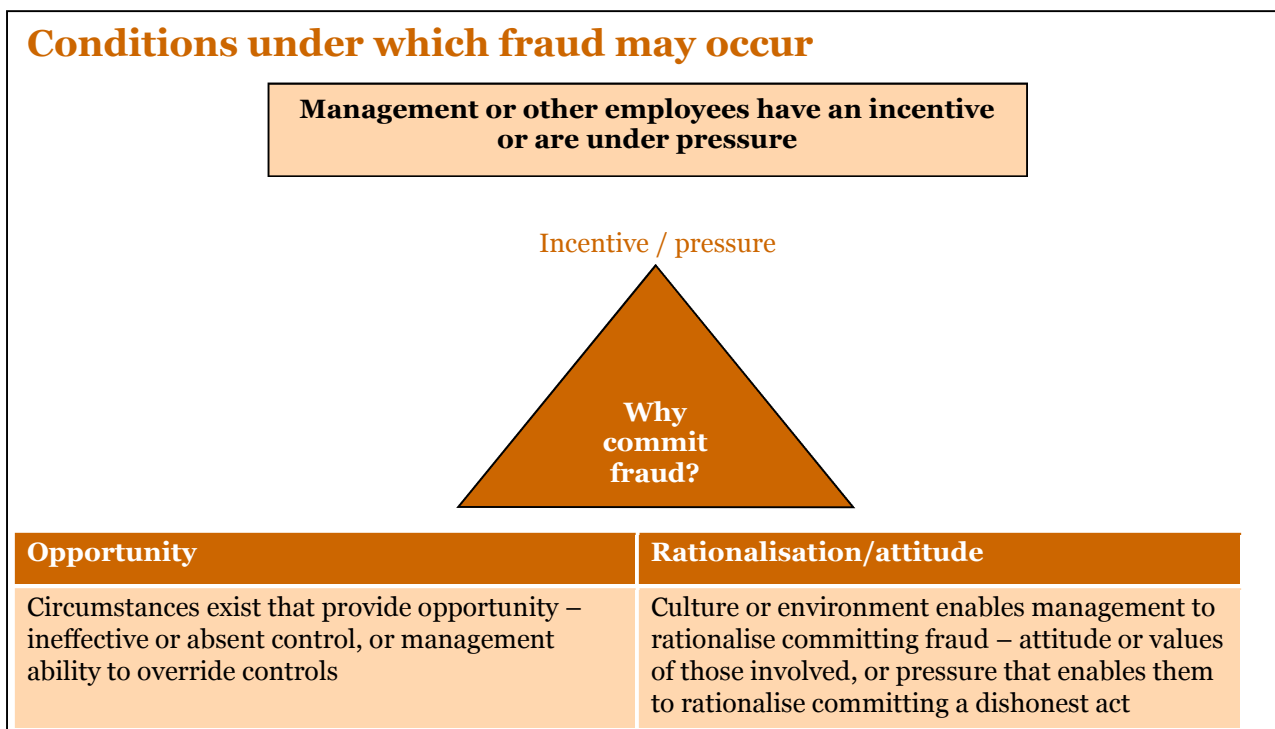
Management’s responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity’s culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

- to evaluate management’s identification of fraud risk, implementation of anti-fraud measures and creation of appropriate “tone at the top”; and
- to investigate any alleged or suspected instances of fraud brought to your attention.



Your views on fraud

In our audit plan presented to the Audit Committee on 10 February 2014 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

During the course of our audit, we have been made aware of a number of low level suspected frauds involving inappropriate use of patient funds. These matters are being investigated by internal audit. Our audit procedures have not identified any further indications of fraud, however, we have noted some internal control weaknesses which could increase the likelihood of fraud occurring. We ask that the Audit and Risk Committee considers these questions again and lets us know if there is anything that has come to attention since the presentation of our audit plan of which we should be aware.

Prevention and detection of fraud and corruption

Based on audit work performed we consider controls in place to prevent and detect fraud or corruption to be suitable for the operations of the Board. The Board has in place an appropriate code of conduct and whistleblowing policy.

The Board has participated in the 2013/14 National Fraud Initiative program and has taken action to follow up identified matches on a timely basis.

Section 6. Future Developments

Acute Services Redevelopment Project

The Outline Business Case for the £200m Acute Services Redevelopment project was approved in June 2013 by Scottish Government Health and Social Care Directorate. This is one of five health schemes in Scotland being procured under the Non Profit Distributing (NPD) model.

The procurement process is now underway after a pre qualification process. Competitive dialogue commenced in October 2013 and the Board has been working with the two remaining consortia, Balfour Beatty Investments and the Highwood Health Consortium. The Board is currently preparing to close Competitive Dialogue and, subject to Scottish Futures Trust and Board agreement, will receive the final tender submissions from the two consortia in July 2014.

It is anticipated that, following evaluation, a preferred bidder will be selected in autumn 2014 and construction completed in late 2017 with patients being admitted in early 2018.

In addition separately procured enabling works are at different stages of completion. These works include provision of utilities to the site, alterations and upgrade of road infrastructure, site clearance works and works to create a new site compound. All contracts currently let have been awarded to local construction companies pursuant to the Board's desire to maximise community benefits where possible. The Acute Services Development Project Board continues to provide the governance and direction for the new build throughout the procurement process. This Project Board reports to Performance Committee in order to ensure appropriate scrutiny, governance and best value.

Section 7. Independence

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters.

There are no matters which we perceive may impact our independence and objectivity of the audit team.

Other services provided to the Board

The Firm has not undertaken any additional services for the Board in 2013/14. The fees for non-audit services disclosed within the financial statements relate to non-audit work performed in 2012/13.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Board, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Appendix 1: Adding Value

Adding value through the audit process

As your external auditors we want to ensure that you derive the maximum benefit from our experience. That experience includes our knowledge of the Health Board drawn from our work as your external auditors, our knowledge of the NHS sector in Scotland and the wider UK and our experience of providing financial services to a number of clients across the commercial sector.

We have identified a number of areas where we have provided valuable insight during the 2013/14 audit process.

Area of Focus	Added Value from PwC
Audit Committee Reporting	<p>During the year we participated in update meetings with the Chair of the Audit Committee in advance of all Audit Committee meetings. Areas discussed included:</p> <ul style="list-style-type: none"> · Performance of Finance function; and · Relationship between risk management and the Audit Committee <p>We also provided you with our thought leadership documents such as "The evolving role of NHS audit committees" to help you benchmark the effectiveness of your committee compared to other NHS bodies.</p>
Best Value Work	<p>Through discussions with management we identified where we could provide the most insight into the effectiveness of value for money arrangements. We performed a review into the controls and processes surrounding the procurement of building works below £5,000, recognising that those over £5,000 are subject to quotation and tender procedures and compliance for this has been assessed by internal audit. Our findings in this area will be reported separately in a letter to management.</p>
Early discussions for accounting treatment of the new hospital	<p>We have held a number of discussions with management to agree the accounting treatment of the new hospital and the impairment recognition for the old hospital. This does not impact the current year financial statements; however we have held these discussions in advance to ensure that there is common agreement and to minimise audit adjustments in the 2014/15 accounts.</p>
Internal Financial Control	<p>We have tested certain of the key financial controls in those systems relevant to our audit. This included, accounts payable, payroll and information technology general controls (ITGCs).</p>

In the event that, pursuant to a request which Dumfries and Galloway NHS Board has received under the Freedom of Information Scotland Act 2002, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Dumfries and Galloway NHS Board agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Dumfries and Galloway NHS Board shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Dumfries and Galloway NHS Board discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

©2014 PricewaterhouseCoopers LLP. All rights reserved. PricewaterhouseCoopers refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.