
NHS Dumfries and Galloway

Annual report to Those Charged with
Governance and the Auditor General
for Scotland

Year ended 31 March 2015

June 2015

PricewaterhouseCoopers LLP
141 Bothwell Street
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The Audit Committee
NHS Dumfries & Galloway
Crichton Hall
Dumfries
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22 June 2015

Ladies and Gentleman,

We are pleased to enclose our report to the Audit Committee in respect of our audit for the year ended 31 March 2015. 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 December 2014. We have subsequently reviewed our audit plan and have revised our audit approach to take account of the potential risk regarding the accounting treatment for the new DGRI contract. Please see Section 2 for further details.

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 22 June 2015. At the time of writing, the key outstanding matters, where our work has commenced but is not yet finalised, are:

- Substantive testing of HCH expenditure;
- Subsequent events review and completion procedures; and
- Approval and signing of the financial statements.

We will provide an oral update on these matters at the meeting on 22 June 2015.

We look forward to discussing our report with you on 22 June 2015. Attending the meeting from PwC will be Lindsey Paterson.

Yours faithfully

PricewaterhouseCoopers LLP

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Section 1. Executive summary

Introduction

We set out in this report our significant findings from our audit of NHS Dumfries & Galloway (“the Board”) for 2014/15, together with those matters which auditing standards require us to report to you as “those charged with governance” of the Board.

We carried out our audit work in line with our 2014/15 audit plan that we presented to you in December 2014, other than adding the accounting for the new DGRI contract as a significant risk. 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.

Framework for Our Audit

Our audit is conducted in accordance with Auditing Standards (International Standards on Auditing (‘ISAs’) (UK and Ireland)) and the Code of Audit Practice (‘the Code’).

The Code explains how external auditors should carry out their functions under the Public Finance and Accountability (Scotland) Act 2000. The audit of financial statements is covered by engagement and ethical standards issued by the UK Auditing Practices Board (APB), meaning the Code focuses more on the wider functions of public sector auditors. We have conducted our audit in accordance with the relevant requirements of the Code.

Respective Responsibilities of Management and Auditors

Management

It is the responsibility of the Board 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 thereunder. 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 Board and its expenditure and income for the year ended 31 March 2015; and
- preparing a Directors’ Report, a Strategic Report, 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 give a true and fair view of the financial position of the Board and its expenditure and income for the year;
- the financial statements were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
- the information which comprises the Directors’ Report and Strategic Report included with the financial statements is consistent with the financial statements; and
- 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, and the remuneration report.

Financial Statements

As a result of our work, we proposed a number of financial and disclosure audit adjustments to the draft financial statements. The following key adjustments were identified:

- Transfer of £7.185 million from the revaluation reserve to general fund as a result of the impairment of DGRI. See Section 2 for further details of the DGRI impairment.
- The Statement of Cash Flows originally accounted for the £27.6m asset under construction as a purchase of plant, property and equipment and a PFI creditor payment. As per the NHS Scotland Manual of Accounts, this transaction should not be included in the cash flow statement. Management has removed this transaction from the cash flow. See Section 2 for further details of the Acute Services Redevelopment Project.

The adjustments described above have been resolved and accepted by management.

Our financial adjustments have been summarised in Appendix 1.

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on 22 June 2015.

Financial performance

The Board's key financial performance for the year is as follows:

- In the year the Board achieved an underspend of £2.03m (2013/14: £3.04m) against its Core Revenue Resource Limit of £287.02m (2013/14: £279.85m). The underspend in the year will be utilised to fund the double running costs associated with the Acute Redevelopment Project, as agreed with Scottish Government.
- The Board achieved a breakeven position against its Core Capital Resource Limit of £4.32m (2013/14: £5.65m).
- The Board also identified the savings requirement of £7.79m on a recurrent basis during 2014/15. This was as a result of having met its Cash Releasing Efficiency Savings (CRES) target of £7.50m and £0.29m productivity savings. 91% of the Board's efficiency savings were made through recurring savings, with £0.67m (9%) identified through non-recurring sources.

Other Matters

We have discussed the following other matters within this report:

Acute Services Redevelopment Project

The project reached financial close on 11 March 2015. In the accounts for the year, the Board has recognised an asset under construction and equivalent creditor of £27.6m in relation to the project. We agree with the accounting treatment applied by management.

Impairment of existing DGRI site

As a result of reaching financial close in relation to the Acute Services Redevelopment Project, management undertook an exercise to assess the carrying value of the current Royal Infirmary site during the year. This resulted in an impairment of £18.852m being recognised in the accounts.

Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) Provision.

An additional CNORIS provision of £5.851m has been recognised in the 2014/15 accounts to recognise the liability for a future payment that is probable the Board will incur based on its share of the overall provision required for NHS Scotland. The value of this second provision for both 2014/15 and 2013/14 has been determined by Scottish Government and communicated as such to the Board.

Please see Section 2 below for details.

Action Plan

We have included at Appendix 2 an Action Plan covering the recommendations identified during the audit process.

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 the significant and elevated risks identified in our audit plan. However, in addition to these, we have added a new significant risk in relation to the accounting treatment of the new DGRI contract which reached financial close in March 2015.

Matter arising	Audit response
<p><i>Fraud and management override of controls – Significant Risk</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 are in place. In addition, the current economic conditions may also increase fraud risk.</p>	<ul style="list-style-type: none"> • We tested the appropriateness of journals with a focus on those of a higher risk nature; • We examined management’s accounting estimates for bias and in particular performed detailed testing over impairments, accruals and provisions; • We examined significant transactions to ensure we agreed with the accounting treatment applied by management, particularly in relation to the new DGRI project; • We performed unpredictability testing over a sample of immaterial board administration costs incurred in 2014/15 to ensure that costs had been incurred and recognised in the correct period. <p>Our work has not resulted in any identified uncorrected misstatements in the financial statements.</p>
<p><i>Recognition of income – Significant Risk</i> 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>Because of the fact that the focus for NHS bodies is on how funding is expended, we extend this presumption to the recognition of expenditure in the NHS (please see below).</p>	<ul style="list-style-type: none"> • We evaluated and tested the accounting policy for income 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 2014/15 Government Financial Reporting Manual (FRoM); • We performed substantive testing on a sample of transactions from each material category of revenue and confirmed with reference to supporting documentation that each was recorded at the correct value, in the correct accounting period and was posted correctly within the accounts; • We identified high risk manual journals posted to revenue accounts and identified the rationale for these transactions; and • We reviewed estimates for revenue to ensure that it was accounted for on an accurate basis and in the proper period, focussing on areas of greater risk such as deferred income. <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 expenditure – Significant Risk</i> We extend the above presumption of risk of fraud in revenue recognition to the recognition of expenditure in the NHS. In the current economic climate, all NHS Boards are required to deliver significant efficiency savings and also under scrutiny in relation to financial sustainability.</p>	<ul style="list-style-type: none"> • We evaluated and tested the accounting policy for expenditure 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 2014/15 Government Financial Reporting Manual (FRoM); • We performed substantive testing on a sample of transactions from each material category of expenditure and confirmed with reference to supporting documentation that each was recorded at the correct value, in the correct accounting period and was posted correctly within the accounts; • We identified high risk manual journals posted to expenditure accounts and identified the rationale for these transactions; and • We reviewed estimates for expenditure including impairment, accruals and provisions for example, to ensure that they were accounted for on an accurate basis and in the proper period. <p>We have discussed the impairment of the existing DGRI site and the CNORIS provision in Section 2 of this report. Our work has not resulted in any identified uncorrected misstatements in the financial statements.</p>
<p><i>Accounting for and Disclosure of new DGRI contract – Significant Risk</i> The Board reached financial close on the contract relating to the new DGRI in March 2015, meaning it fell within the 2014/15 financial year. The Board has recognised an asset under construction for £27.6 million as well as an equivalent creditor in relation to this creditor.</p> <p>There is a risk that the contract may not be accounted for or disclosed in line with accounting standards, particularly in relation to whether the asset recognition criteria have been met.</p>	<ul style="list-style-type: none"> • We have reviewed the project agreement and confirmed that the contract should be recognised on-balance sheet in line with IFRIC 12 and the FRoM; • We have confirmed that an asset under construction can be recognised and that the asset recognition criteria have been met, in accordance with the FRoM and the NHS Scotland Manual of Accounts; • We have agreed the £27.6m to supporting documentation, including the financial model agreed at the project’s financial close and that it is part of the overall capital cost of the project; • We have confirmed that Scottish Government has agreed funding for the full capital costs of the build (£213m) and that the Board has received non-core capital allocation of the £27.6m in 2014/15; and • We have agreed that the disclosure of the new DGRI contract is appropriate. <p>We have discussed the Acute Services Redevelopment Project in Section 2 of this report. Our work has not identified any misstatements in the financial statements.</p>
<p><i>Impairment adjustments may not be correctly recorded – elevated risk</i> With the Acute Services Redevelopment Project reaching financial close on 11 March 2015, this gave rise to an impairment indicator for the existing DGRI site.</p>	<ul style="list-style-type: none"> • We have confirmed that the impairment charge proposed by the Board has been calculated in line with the requirements of the FRoM and the NHS Scotland Capital Accounting Manual; • We have agreed the valuation of the DGRI site and dates for project completion to supporting documentation; • We have assessed the reasonableness of assumptions used in the impairment calculation, in particular the

Matter arising	Audit response
	<p>date at which additional space at the DGRI site will be vacated and the date at which the entire DGRI site will be vacated. We have also performed sensitivity analysis on the assumptions used by the Board to determine whether a change in assumptions could have a material impact upon the impairment charge recognised in 2015. This sensitivity analysis highlighted that the planned dates for vacating the DGRI site would have to be delayed by 8 years in order to cause a material misstatement and</p> <ul style="list-style-type: none"> • We have also confirmed the accounting treatment of the impairment posted in the 2014/15 accounts and that it was funded through Annually Managed Expenditure. <p>We have discussed the impairment in Section 2 of this report. Our work highlighted that the impact of the impairment had not been correctly recognised in the reserves figures. This has now been adjusted by management.</p>
<p>Expenditure misclassification – elevated risk The Board has a number of financial targets to meet including:</p> <ul style="list-style-type: none"> • revenue resource limit; • capital resource limit; and • cash. <p>There is a risk that expenditure could be misclassified so as to ensure that the targets above are achieved.</p>	<ul style="list-style-type: none"> • We have performed detailed testing over expenditure transactions to determine whether they have been classified appropriately in line with the Financial Reporting Manual (FRM) and the Board’s accounting policies; • We have performed detailed testing over repairs and maintenance expenditure and capital additions to determine whether transactions have been appropriately expensed or capitalised during the year; and • We have tested manual journals identified as journals between revenue and capital accounts to ensure classification remains appropriate. <p>We did not identify any issues to report to you as a result of our work.</p>

Materiality

We have conducted our work in accordance with the materiality levels detailed below. These figures have been based upon actual results for the year and therefore differ from those reported in our audit plan. We have applied a de-minimus level of £250,000, which was agreed with the Audit Committee upon submission of our annual audit plan and is the maximum allowable by Audit Scotland.

	£
Overall materiality – This is the amount we have applied in assessing the overall impact on the group financial statements of potential adjustments	6,926,000
Performance materiality - We have applied this to direct the amount of work performed over each financial statement line item – for example in calculating sample sizes	5,195,000
De-minimus posting level - Under ISA (UK & I) 450, we are required to report to the Audit Committee on all unadjusted misstatements in excess of a ‘de-minimus’ or ‘clearly trifling’ amount	250,000

Other Areas of Audit Focus

In addition to the significant and elevated risks described above, our audit focussed on the following areas and their accounting treatment:

Acute Services Redevelopment Project

The Acute Services Redevelopment Project will see the construction of a new District General Hospital in Dumfries. This is planned for completion in late 2017 with patients being admitted in early 2018.

The project has been approved through the Non Profit Distributing (NPD) programme which is managed by Scottish Futures Trust (SFT) for all Scottish public sector bodies (mainly health, education and transport bodies).

The project reached financial close on 11 March 2015 and this saw the Board enter into a contractual agreement with a special purpose vehicle, High Wood Health (Project Co) Limited. The terms of this agreement are based on the standard NPD agreement developed by SFT and tailored to the requirements of the project.

In November 2014 the Board received guidance from Scottish Government which indicated that NPD funded projects should be recognised in the Board's accounts as the build progresses rather than only on completion and handover (as also described in the FReM and NHS Scotland Capital Accounting Manual). In order to be recognised as a service concession contract and to be brought on balance sheet (as per IFRIC 12 and the FReM) the following conditions must be satisfied:

- The Board will control or regulate which services the operator must provide with the infrastructure, to whom it must provide them and at what cost; and
- The Board will control through ownership, beneficial entitlement or otherwise significant residual interest in the infrastructure at the end of the service agreement.

We have reviewed the project agreement for the Acute Services Redevelopment Project and are satisfied that this contract can be brought on balance sheet as at 31 March 2015.

The Board has recognised an asset under construction of £27.6m in its accounts for the year and also an equivalent creditor. This figure has been determined based on the bidder's financial model as at financial close. This treatment is in line with that outlined in the NHS Scotland Capital Accounting Manual and consistent with the FReM which states that an asset under construction should be recognised if the asset recognition criteria are met, the asset recognition criteria being:

- It is probable that future economic benefits will flow to the organisation; and
- The cost of the asset can be measured reliably.

We are satisfied that it is probable that there will be a future inflow of economic benefits to the Board in terms of having an asset that will generate future funding flows. We are also satisfied that the cost can be measured reliably as Scottish Government has confirmed funding for the total construction cost of £213m which in turn agrees to the financial model. The total construction costs figure is also materially in line with the breakdown of capital costs that were received as part of the initial bidder stage. An area of further consideration was the project timetable and whether the original timing of expenditure flows per the financial model remained appropriate. From discussions with management we understand that the timetable as at 31 March 2015 remained unchanged.

Going forward, the Board will continue to recognise an asset under construction and an equivalent creditor as the build progresses. On completion, the new District Hospital will be subject to a formal valuation and if necessary an impairment charge recognised.

We have concluded that the accounting treatment of the project is in line with relevant accounting standards and in line with Scottish Government guidance.

Impairment of Existing DGRI site

As a result of reaching financial close in relation to the Acute Services Redevelopment Project, management undertook an exercise to assess the carrying value of the current Royal Infirmery site during the year. This review concluded that an impairment adjustment of £18.852m should be recognised in the 2014/15 accounts in relation to the carrying value of the existing site.

In line with IAS 36 “*Impairment of Assets*” and the NHS Scotland Capital Accounting Manual, we have confirmed that the impairment loss of £18.852m is the difference between the expected depreciated replacement cost at the point at which the asset will cease to exist and the fair value at this point.

We have also confirmed that impairment of £18.852m has been charged gross to the Statement of Comprehensive Net Expenditure. However, we did identify that the impairment had not been correctly treated in relation to the need to transfer balances from the revaluation reserve to the general fund. An adjustment of £7.185 million has now been processed by management in this regard. We note that the Board has received resource through annual managed expenditure (AME) to cover this charge. In addition we have also confirmed that this treatment complies with the requirements of the Government Financial Reporting Manual (“FReM”) and the NHS Scotland Capital Accounting Manual.

We are in agreement with the accounting treatment now adopted by the Board and recognise that this impairment assessment should be reconsidered annually.

Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) Provision

The Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) has been in operation since 2000. Participation in the scheme is mandatory for all NHS Boards in Scotland. The scheme allows for risk pooling of legal claims in relation to clinical negligence and other risks and works in a similar manner to an insurance scheme. CNORIS has an agreed threshold of £25,000 and any claims with a value less than this are met directly from within Boards’ own budgets. Boards contribute to the CNORIS pool each financial year at a pre-agreed contribution rate based on the risks associated with their individual organisation. If a claim is settled the Health Board will be reimbursed by the scheme for the value of the settlement, less a £25,000 “excess” fee.

When a legal claim is made against an individual Health Board, the Central Legal Office (CLO) will make an assessment of the likelihood of the claim being successful and this dictates the level of provision required (either 0, 50% or 100%). Any remaining balance not provided for will be recognised as contingent liability. If a provision is required then the Health Board will also create an associated debtor to account for the amount to be reimbursed from the scheme if the legal claim settles.

In the current year, Scottish Government has advised that Health Boards should also recognise that they will be required to make contributions to the scheme in future years. Therefore a second provision that recognises the Health Boards’ share of the total CNORIS liability of NHS Scotland has been calculated by the Scottish Government and allocated to each Health Board for recognition within the annual accounts.

In relation to the first provision, as in prior years, the Board has recognised a CNORIS provision. The value of this provision as at 31 March 2015 was £6.0691m (2013/14: £5.805m). This figure is derived from details of outstanding claims as provided to the Board by the CL. We have confirmed that this provision is in agreement with the latest correspondence received from the CLO.

In relation to the second provision, Scottish Government guidance issued to the Board during 2014/15 indicated that the Board was required to recognise a provision of £5.851m as at 31 March 2015. In addition a restatement of prior year balances was also required in order to disclose the secondary provision as at 31 March 2014 of £5.714m and as at 31 March 2013 of £5.797m. We have confirmed these balances directly with the Scottish Government. Audit Scotland has also assessed Scottish Government’s method of allocating the overall provision between Boards and found no issues with this methodology. We are satisfied the Board has made the relevant prior year restatements and disclosures to account for this new provision.

We can confirm that our work did not identify any errors that required adjustment to the financial statements.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

It is a requirement of International Accounting Standard 24 that transactions with related parties are identified and disclosed in the financial statements. In the context of the Board, related parties would include Directors and Senior Management and their close family members.

NHS Dumfries and Galloway maintains a Register of Interests for all Board members. This was supplemented at year end by all Senior Managers completing a related parties declaration. This was used by the Board as the basis for identifying related parties.

As part of the audit process, we performed audit procedures to confirm that related party declarations were complete and that the related party disclosure within the accounts was also complete. As a result of this testing we identified that Dumfries and Galloway Council is a related party and that the Board had entered into material transactions with the Council during the year. Management has updated the disclosures within the annual accounts accordingly.

We are satisfied that the related party listing provided by the Board to the audit team is complete and that the related party transactions disclosure within the annual accounts is complete.

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. There are no such unadjusted misstatements to report. However, the following adjustments were identified and have been processed by management:

- The impact of the impairment of DGRI was not correctly reflected in the reserves balances in the first draft of the financial statements. A transfer of £7.185 million from the revaluation reserve to the general fund has now been processed.
- The Board's cash flow statement originally included the £27.6m asset under construction as a purchase of plant, property and equipment and an increase in the PFI creditor balance. However, per the NHS Scotland Manual of Accounts, this is not correct. Although having no overall impact on the net cash flow statement, the Board has removed this transaction from the cash flow.
- The Board had not originally disclosed transactions with Dumfries and Galloway Council in the related party transaction note. This has now been amended.

The adjustments described above have been resolved and accepted by management.

Qualitative aspects of accounting practices

Improving the quality of NHS annual report and accounts

In December 2014 Audit Scotland published the good practice note *'Improving the quality of NHS annual report and accounts'*. The overarching objective of the publication was to help all boards improve their accounts presentation. Audit Scotland identified the following main causes of poor presentation by NHS Boards:

- Over-reliance on the template provided by the Scottish Government;
- Inclusion of irrelevant disclosures; and
- A lack of attention to detail in preparation of the accounts.

As part of our audit work we have discussed the good practice checklist within the publication with management and have no matters to bring to your attention. The draft financial statements presented to us for audit were of a high standard and it was clear that management had expended effort to ensure that the draft accounts were of an appropriate quality.

Financial statement disclosures

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

Governance Statement

The Financial Reporting Manual requires Chief Executives to sign a Governance Statement which covers all aspect of control including financial, operational, compliance and risk. The Scottish Government Health and Social Care Directorate (SGHSCD) has issued *Guidance on Governance Statements 2014/15* to help Chief Executives prepare their Board's Governance Statements.

We reviewed the governance statement and considered the following:

- Compliance with the required elements of the proforma statement developed by SGHSCD; and
- Consistency with the remainder of information presented within the annual accounts and our overarching understanding of the entity.

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

Section 3. Financial performance

Financial targets

The Scottish Government Health and Social Care Directorates set three financial targets for the Board on an annual basis. These targets are:

- Revenue Resource Limit – a resource limit for ongoing operations;
- Capital Resource Limit – a resource budget for net capital investment; and
- Cash requirement – a financing requirement to fund the cash consequences of the ongoing operations and net capital investment.

The Board's performance against its three financial targets for financial year 2014/15 is set out below:

Table 1: Financial targets summary 2014/15

	Limit as agreed by SGHSCD £ million	Actual Outturn £ million	Underspend/ (Overspend) £ million
Revenue Resource Limit (RRL)			
Core	287.02	284.99	2.03
Non-core	24.95	24.95	-
TOTAL	311.97	309.94	2.03
Capital Resource Limit (CRL)			
Core	4.32	4.32	-
Non-core	27.60	27.60	-
TOTAL	31.92	31.92	-
Cash Requirement			
Cash Requirement	308.00	307.43	0.57

The Board has reported an underspend of £2.03m against its RRL for the year. This is consistent with the underspend agreed with Scottish Government and will be used to fund the double running costs associated with the Acute Services Redevelopment Project and implementation of the Clinical Service Change Programme (CSCP). Including the savings achieved in 2014/15, the Board has saved £9m in total to fund these costs with the expectation that this will be returned to the Board over the following timescales:

Table 2: Projected spend of funds saved

	2015/16 £ million	2016/17 £ million	2017/18 £ million	2018/19 £ million	TOTAL £ million
Return of banked funds required by the Board	2.0	Nil	4.0	3.0	9.0

This funding has been incorporated into the Board's financial plan for 2015/16 and beyond.

The Board's capital resource limit in 2014/15 has been utilised on a number of smaller capital investments. This includes the completion of modernisation works at Primary Care Centres in Dalbeattie and Dunscore (£0.89m), medical equipment (£1.24m) and e-Health projects (£0.77m). The non-core capital allocation relates entirely to the asset under construction recognised in relation to the Acute Services Redevelopment project discussed in Section 2 above.

Efficiency savings

The Board has achieved £7.79m of efficiency savings in 2014/15, meeting its target for the NHS Scotland Efficient Government savings target. This is split between £7.5m cash releasing efficiencies and £0.29m productivity savings. The sources through which the Board has achieved these efficiencies are set out below:

Table 3: Efficiency savings 2014/15

Source	Savings £ million	% of total
Service Productivity	3.201	41.1%
Drugs & Prescribing	2.500	32.1%
Procurement	1.329	17.1%
Workforce	0.485	6.2%
Other sources	0.275	3.5%
Total reported	7.79	100%

91% of the Board's efficiency savings were made through recurring savings, with £0.67m (9%) identified from non-recurring sources.

Financial sustainability

In recent years NHS Boards in Scotland have faced significant challenges in delivering healthcare services amidst continued financial pressures. Audit Scotland's publication '*NHS in Scotland 2013/14*' recognises the difficulties caused by the focus on meeting annual targets and the extent to which this focus can hinder the longer term financial planning process. The overarching recommendation for NHS Boards is in relation to a strengthened approach to long term financial planning, considering in detail the resources required to implement service changes.

In light of this, financial sustainability has become a key matter for consideration by Boards and it is vital that consideration of longer term financial plans has taken place.

2015/16 financial plan

NHS Dumfries and Galloway's Financial Plan for 2015/16 highlights the following key areas of income and expenditure, recurring and non-recurring:

Table 4: 2015/16 Financial Plan

NHS Dumfries & Galloway	2015/16 Projected £ million
Recurring income	300.56
Recurring expenditure	308.00
Recurring savings	7.96
Underlying recurring (deficit)/surplus	0.52
Non-recurring income	23.86
Non-recurring expenditure	24.90
Non-recurring savings	1.05
Non-recurring (deficit)/surplus	-
Overall Financial (deficit)/surplus	0.52
Recurring surplus as percentage of recurring income	0.17

A recurring sum of £3m and a non-recurring sum of £8.8m have been set aside for 2015/16 to cover the costs of future regional and national developments and anticipated cost pressures. The requirement for a significant amount of non-recurring resource arises from the increasing need to sustain medical staffing cover with locum and agency workers. In recognising this, the Board has reflected on the 2014/15 budget setting process where the financial risk around medical workforce costs was understated in the opening budget and required additional investment at both the quarter one and mid-year financial review process. As such, a non-recurring allocation of £4m, in excess of existing budgets and the locum reserve of £0.85m, has been assigned to cover the cost of medical workforce pressures in 2015/16.

The Board's 2015/16 plan also makes use of non-recurring resource to relieve other costs pressures, including achieving access targets, continued funding of roles across the organisation which are reliant on non-recurring funding and increasing activity in certain departments (most notably laboratories and theatres).

The CRES requirement for 2015-16 has been set at £7.5m in cash terms. Further non-cash productivity savings of £460,000 are required to ensure that the overall level of efficiencies achieved equates to 3% of the Revenue Resource Limit. The current position is that 78% of the £7.5m cash target has been identified, leaving a £1.65m shortfall in year. However as a proportion of the savings are non-recurring in nature, the recurring shortfall is in fact £2.39m. For each saving identified a risk must be assigned to it depending on the level of impact the efficiency scheme will have on protected groups, as outlined in the Equality Act. Of the identified savings the risk profile has been assessed as 34% high risk, 49% medium risk and 17% low risk. Schemes that are deemed high risk require a full equality impact assessment to be carried out.

2016/17 and beyond

The Board has developed a five year financial plan to 2019/20 (submitted as part of the LDP) which forecasts a break even position in each year. In setting its five year plan, the Board considers the following to be the areas of greatest financial uncertainty:

Table 5: Areas for financial uncertainty/risk

Risk	Impact
Allocation Uplift	Only the 2015/16 uplift has been confirmed by Scottish Government to date. The five year plan assumes the same % uplift (2.4%) over years 2-5 which cannot be assessed with certainty.
CRES delivery	Continued attainment of the 3% efficiency savings target will become increasingly challenging, particularly on a recurring basis.
Prescribing (General)	The on-going financial risk associated with new drugs and increasing growth (taking into account national indicators and local knowledge) remains a significant risk particularly in relation to new drugs that will be approved by the Scottish Medical Consortium.
Prescribing (new medicines fund)	An assessment has been undertaken within the plan to incorporate estimates of likely growth of drugs in this area. It is assumed that these will be matched with funding within the five year plan.
Workforce/Recruitment	20% of the Board's consultant workforce is filled by locum posts. Whilst £4m non-recurring funding has been provided in 2015/16, this is not a sustainable model over the medium/longer term.
Health and Social Care Integration	A significant level of system risk remains. This will only be resolved once the Integrated Joint Board is fully operational and the new management structure appointed.
DGRI Maintenance	The backlog maintenance at DGRI will continue to require expenditure over the period that the hospital remains operational. Funding for backlog maintenance is restricted and investment will require to be prioritised.
Externals	The Board has seen a substantial increase in the level of activity undertaken outwith Board boundaries. Whilst financial provision has been made in the plan, changes relating to service redesign in preparation for the new hospital opening, has increased costs significantly.

The Board's main capital commitment over the coming years will continue to be the Acute Services Redevelopment Project. As noted previously, the Board has included the requirement to draw down on the monies banked with Scottish Government in its five year plan to fund the expected double running costs across the new hospital and existing DGRI.

Financial planning and budgetary control

In order to support the balance between achieving targets in year and longer term financial planning it is vital that Board has in place a sound system of financial planning and budgetary control.

The annual budget setting process takes place in consultation with Directorates based on indicative allocations from the Scottish Government. The Board has assigned budget holders for all departments and prepares monthly budget reporting packs for each which are discussed at meetings between Finance and the Directorates. Progress against budget is reported as a standing item to the Board and the Performance Committee.

In relation to attainment of efficiency savings, opportunities are explored via the Efficiency Group which is chaired jointly by the Director of Finance and Chief Operating Officer and attended by General Managers and other key stakeholders, including partnership representation to explore new and innovative areas for efficient ways of working.

A number of efficiency and productivity workshops have also taken place throughout 2014-15 in order to ensure that efficiency remains a key priority across the Board. Achievement of efficiency plans is reported to the Performance Committee and Board as part of the financial performance report, which is a standing item at both meetings.

Section 4. Governance and internal control

Governance structure

There has been no change to the Board's governance structure in the year with the Board supported by the following standing committees:

- Healthcare Governance Committee;
- Person Centred Health and Care Committee;
- Audit and Risk Committee;
- Performance Committee; and
- Staff Governance Committee

The Board has completed the NHS Scotland Board Diagnostic (self-assessment) Diagnostic Toolkit to assess its compliance with the UK Corporate Governance Code. The completed questionnaire was agreed at a meeting of the Chairs of the Board's relevant Governance Committees in collaboration with the Chairman and the Chief Executive and the findings presented to the March 2015 Audit and Risk Committee. The results will be incorporated as part of the agreed framework for the joint executive and non-executive leadership development programme.

The Board has also made a number of changes in the year to strengthen its internal control framework, including:

- The terms of reference for Committees have all been reviewed during the year following the appointment of new Non-Executive Board members;
- The Board has approved the revised Standing Financial Instructions during 2014/15;
- The Audit and Risk Committee carried out a self-assessment and used the results to identify further areas of improvement for 2015/16. A gap which was highlighted was the knowledge base in relation to recent and relevant financial experience. This has been acknowledged and the Committee has recruited to a laymember with the relevant financial skills and experience;
- The Acute Services Development Project Board continued to provide the governance and direction for the new build throughout the procurement process resulting in delivery of financial close in March 2015; and
- During 2014 the Board confirmed its CORE values as Compassionate, Open, Respectful and Excellent. Work has now commenced of embedding these within the workforce through a range of initiatives.

In the year the Director of Public Health retired. This post is currently being filled by two interim Directors.

We consider that the governance arrangements in place are appropriate and appear to be operating effectively

System 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.

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.

Our interim management letter highlighted control weaknesses found in relation to the processing of payroll starters and leavers and processing of overtime payments. These control points were reported to the Audit and Risk Committee in March 2015. We have no further significant matters to bring to your attention in relation to the system of internal control.

Based on our work performed we consider the systems of internal control to be appropriate.

Risk management

During the year the Board has strengthened its risk management arrangements with the formation of the Risk Executive Group. The role of this group, is still to be formally agreed but is expected to include:

- Agreeing the Risk Management strategy of the Board;
- Overseeing and directing the Risk Management agenda;
- Overseeing and providing assurance to the Audit and Risk Committee of the effectiveness of risk management arrangements;
- Providing direction and guidance to the Risk Management Network, Management Boards and the General Managers Group;
- Ensuring that Risk Management is integral to all business decision making, planning, performance reporting and delivery processes;
- Setting a model for agreeing and monitoring risk appetite; and
- Responsibility for the review and monitoring of the Corporate Risk Register and any escalated/uncontrolled risks from Directorates.

All directorates within the Board maintain a risk register which is scrutinised at the relevant management team as well as being monitored in departmental performance reviews. Relevant sections of the risk register are reviewed periodically by each standing committee. The corporate risk register is a standing item of the Audit and Risk Committee agenda. Business cases, board papers, and project plans are also required to have a risk assessment to ensure relevant issues are identified and appropriately managed. Risk registers are held individually for each key development being progressed including the Acute Services Redevelopment Project, Service Change Programme and Cresswell Redevelopment Project. These are presented to Audit and Risk Committee for scrutiny.

Action Point #1: We have noted above that the role of this group has still to be formally set out and approved. We have recommended that the Board formalises the remit of the Group through a Terms of Reference in our Action Plan in Appendix 2 of this report.

Performance management

NHS Scotland has set a series of national HEAT targets and timescales which all Boards are expected to work towards. The HEAT targets are grouped into four priority areas:

- **Health Improvement for the people of Scotland** – improving life expectancy and health life expectancy
- **Efficiency and Governance Improvements** – continually improve the efficiency and effectiveness of the NHS
- **Access to Services** – recognising patients’ need for quicker and easier use of the NHS services
- **Treatment appropriate to Individuals** - ensure patients receive high quality services that meet their needs

NHS Dumfries & Galloway has a performance management framework in place to monitor performance against all key HEAT targets and standards, with a monthly performance report presented to the Board or Performance Committee. Performance reports have been modified during the year to provide further information against those targets of public scrutiny, in particular, Accident and Emergency waiting times and delayed discharges. Performance against these targets is shown below:

Accident and Emergency Waiting Times

NHS Scotland’s HEAT standard states that 98% of patients will wait less than 4 hours from arrival to admission, discharge or transfer for accident and emergency treatment. During the period April 2014 – March 2015, NHS Dumfries and Galloway has seen the percentage of patients seen within 4 hours of arrival fluctuate between 97.8% and 94.2%. As Figure 1 illustrates below, this is above the overall NHS Scotland position:

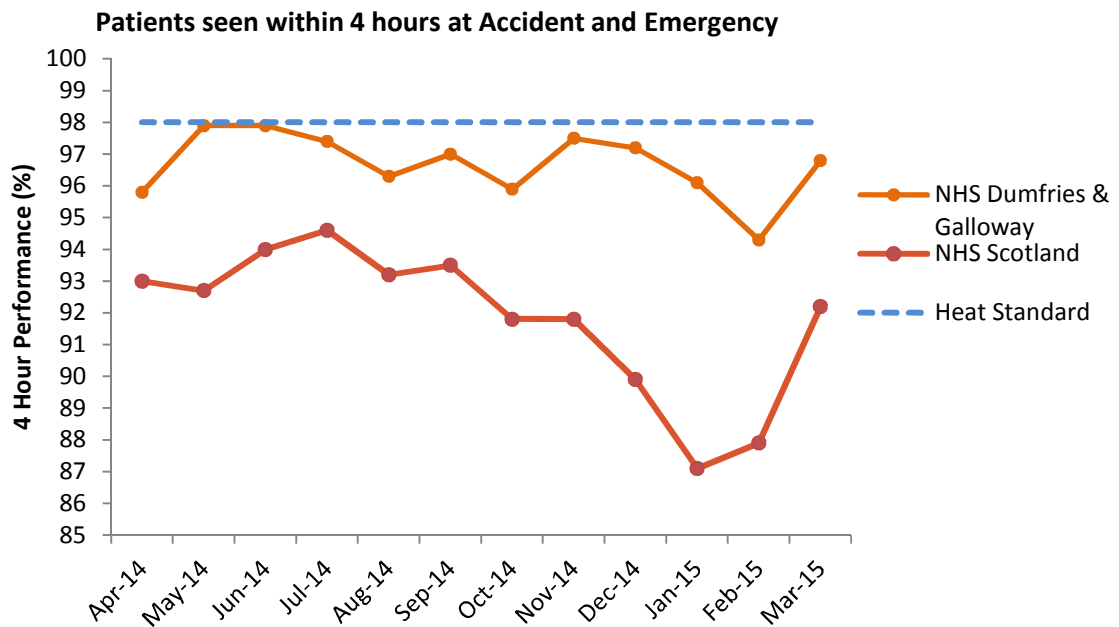


Figure 1 – A&E Waiting Times (Source: ISD)

The Board’s Local Unscheduled Care Action Plan (LUCAP) contains many key actions to support the achievement of the 4 hour target. These include:

- Developing the primary care and community response to prevent admission to/ attendance at A&E;
- Continued management of hospital inpatients and patient flow; and
- Providing safe and effective care at the front door of the hospital 24/7 (primarily through increasing the number of middle grade staff with the Emergency Department).

Delayed Discharges

From April 2013 onwards, no patient should wait more than 28 days to be discharged from hospital into a more appropriate care setting after being recognised as fit for discharge. This was reduced to a maximum of 14 days from April 2015. Table 6 below shows that in the past five quarters the NHS Dumfries & Galloway has failed to achieve the 28 day discharge target:

Table 6: Total number of delayed discharges (Source: ISD)

	Jan-14	Apr-14	Jul-14	Oct-14	Jan-15
Total Delays beyond 28 days (excluding Code 9s and delays between 1 and 3 days)	16	21	26	31	29

Delayed discharges are discussed on a monthly basis at the Primary and Community Care Management Board chaired by the Chief Operating Officer and attended by key stakeholders who influence delayed discharge performance. Key priority actions of this group include:

- Commencement of a weekly discharge meeting with senior social workers, nurse managers and locality managers to discuss individual delayed discharges;
- Work to improve patient flow in the DGRI and cottage hospitals including review of the admission, transfer and discharge policy, trialling 7 day discharges, promoting criteria led discharge and through the introduction of patient flow coordinators; and
- Escalation of capacity issues in relation to care packages on a weekly basis.

Performance against a Heat targets as at May 2015 are summarised in the table below:

Table 7: Summary of Heat target performance

HEAT Target	Detail	Period	Actual in 2014/15	Status	Actual in 2013/14	Trend
HEALTH IMPROVEMENT						
H6.2 Smoking Cessation, most deprived	The Board target for is for 353 successful quits in most deprived areas in 2014-15.	Q2 2014-15	37	Off target	N/A – target has changed in year.	N/A
H10.1 Detect Cancer Early	To increase the proportion of people diagnosed and treated in the first stage of breast, colorectal and lung cancer by 25%, by 2014/15.	Data unavailable	Data unavailable	-	Data Unavailable	N/A
H11.1 Early Access to Antenatal Services	Across Scotland, at least 80% of pregnant women in each SIMD quintile will have booked for antenatal care by the 12th week of gestation by March 2015 so as to ensure improvements in breast feeding rates and other important health behaviours. The target for NHS Dumfries and Galloway is 83.5%.	Q4 2014-15	80.5%	Off target	87.7% (Q4 2013-14)	↓
EFFICIENCY & GOVERNANCE IMPROVEMENTS						
E5.1 Financial Performance	This target relates to achievement of financial performance (break even, or agreed carry forward).	Q4 2014-15	£2m carry forward (as agreed with SG)	On target	£2m carry forward (as agreed with SG)	↔
E8.1 Reduce CO2 emissions	The Board target is to reduce CO2 emissions from hospital sites for oil, gas, butane and propane usage annually by 3% to 2014/15	Q3 2014-15	6.36% positive variance to target	On target	4.69% positive variance to target (Q4 2013-14)	↑
E8.2 Reduce Energy Consumption	The Board Target is to continue to reduce energy consumption annually by 1% to 2014/15.	Q3 2014-15	3.05% negative variance to target	Off target	1.87% negative variance to target (Q4 2013-14)	↓

ACCESS TO SERVICE						
A12.1 Faster access to Mental Health Services (CAMHS)	Deliver faster access to mental health services by delivering 26 weeks referral to treatment for specialist Child and Adolescent Mental Health Services (CAMHS) services from March 2013; reducing to 18 weeks from December 2014	Q3 2014-15	100%	On target	100% (Q4 2013-14)	
A12.2 Faster access to Psychological Therapies	Deliver faster access to mental health services by delivering 18 weeks referral to treatment for Psychological Therapies from December 2014.	Q3 2014-15	69.5%	Off target	71.5% (Q4 2013-14)	
A13.1 IVF Treatment Waiting Times	Eligible patients will commence IVF treatment within 12 months by 31 March 2015.	Q3 2014-15	100%	On target	N/A – no prior year data available.	N/A
A14.1 4 Hour A&E Target	95% of patients will wait less than 4 hours from arrival to admission, discharge or transfer for accident and emergency treatment by year ending September 2014.	Q2 2014-15	96.8%	On target	95.3% (Q4 2013-14)	
TREATMENT APPROPRIATE TO INDIVIDUALS						
T11.1 MRSA/MSSA Bacteraemias	Further reduce healthcare associated infections so that by March 2015 NHS Boards' staphylococcus aureus bacteraemia (including MRSA) cases are 0.24 or less per 1,000 acute occupied bed days.	Q4 2014-15	0.29	Off target	0.42 (Q4 2013-14)	
T11.2 C. Diff infections in ages 65+	Further reduce healthcare associated infections so that by March 2015 NHS Boards' rate of Clostridium difficile infections in patients aged 15 and over is 0.32 cases or less per 1000 total occupied bed days.	Q4 2014-15	0.40	Off target	0.42 (Q4 2013-14)	
T12.1 Reduction in emergency bed-days for patients aged 75+	The Board exit target for 2014-15 is for no more than 4,274 occupied bed days per 1,000 population (75+) (rolling 12 month average).	Nov 2014, 2014-15	4,703	Off target	4,898 (Mar 2014)	
T15.1 14 Days Delayed Discharge	No-one will wait more than 28 days to be discharged from hospital into a more appropriate care setting, once treatment is complete from April 2013; followed by a 14 day maximum wait from April 2015.	Jan 2015, 2014-15 (Source: HEAT System)	25	Off target	9 (April 2014)	
T16.1 Dementia Post-diagnostic Support	To deliver expected rates of dementia diagnosis and by 2015/16, all people newly diagnosed with dementia will have a minimum of a year's worth of post-diagnostic support coordinated by a link worker, including the building of a person-centred support plan.	Data unavailable	Data unavailable	-	Data unavailable	N/A

Internal Audit

We have reviewed the work of the Board's internal audit function and have used it to understand and evaluate the control environment of the Board and to focus our audit on particular areas of risk. In particular, we have placed reliance upon the work undertaken in relation to governance statement compliance and income identification and cost recovery.

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

Health and social care integration

The Public Bodies (Joint Working) (Scotland) Act 2014 was passed in April 2014 as part of the Scottish Government's agenda to drive improvement in the provision of health and social care services. The Act details the integration models available to Health Boards and Local Authorities in developing their integration strategy as well as required documentation and timescales for delivery of integration schemes.

Dumfries & Galloway Council, on the 26 June 2014, and NHS Dumfries & Galloway, on the 4 August 2014, agreed to adopt the body corporate model allowed by the legislation and, therefore, to establish an interim Integrated Joint Board (IJB). At the same meetings of the Full Council and NHS Board, it was agreed that the existing Community Health and Social Care Partnership Board (CHSCP) would act as the interim IJB. The CHSCP had been set up in 2008 to strengthen strategic planning and the delivery of health and social care services to adults across Dumfries and Galloway.

Membership of the interim IJB (formerly the CHSCP) includes:

- Chief Executives of Dumfries & Galloway Council and NHS Dumfries & Galloway;
- Directors of Finance from both Dumfries & Galloway Council and NHS Dumfries & Galloway;
- the Chief Operating Officer of NHS Dumfries & Galloway;
- the Director of Nursing from NHS Dumfries and Galloway;
- Elected Councilors and NHS Board Members; and
- the Chief Social Work Officer and Head of Adult Services from Dumfries & Galloway Council.

The establishment of the IJB has been subject to appropriate approval within the two organisations.

Delegated Functions

Functions that are required to be transferred to the IJB by NHS Dumfries & Galloway are set out in The Public Bodies (Joint Working) (Prescribed Health Board Functions) (Scotland) Regulations 2014. In addition to the prescribed functions, NHS Dumfries & Galloway has also opted to include the entirety of its Acute Services. Our understanding is that the Dumfries & Galloway IJB is unique in adopting this approach which was agreed jointly to allow flexibility, full accountability and joint planning across the entire health service functions, and also take advantage of the coterminous boundaries of the two organisations.

The following services will therefore be transferred from NHS Dumfries & Galloway:

- Acute and Diagnostic
- Primary Care and Community
- Mental Health
- Women and Children
- Estates and Facilities

Budget Setting

The IJB will have an initial budget of £276m for 2015/16, the vast majority of which (£224m) will be delegated from NHS Dumfries & Galloway.

The integrated budget for 2015/16 was submitted and approved by the NHS Board on 25 March 2015. The papers submitted highlighted a number of areas that remain to be resolved and accordingly, the pooled budget is subject to change. In particular, £22m from NHS Dumfries & Galloway's budget requires further discussion to determine the extent of funding required to support specific services contracted externally with other Health Boards and Providers.

In conjunction with the Council, the Board commissioned PwC to undertake a review of the way in which the IJB and its budget was established. This review was in response to Scottish Government requirements in this area. The outcome of this review was a joint report to both the Board and the Council. This report remains in draft form at the date of this report.

Other matters

Compensation and Confidentiality Agreements

In the year, the Board entered into a commitment to pay 4 exit packages with a total value of £204,000 (2013/14: £204,000). Three of these cases related to redundancy costs which were in line with Section 16 of Agenda for Change Terms and Conditions. The fourth case was agreed through a settlement agreement. We reviewed this agreement and confirmed that it did not contain a confidentiality clause.

We are satisfied that the Board has followed the Scottish Government guidance and Agenda for Change Terms and Conditions in determining the exit packages of the individuals disclosed in the 2014/15 financial statements.

Medical workforce

Medical workforce shortages across the Health sector in Scotland are leading to an increased use of medical locums which is having a significant impact on the costs associated with staffing certain specialties. In addition locum staff are able to charge increasingly higher hourly rates which has impacted on the cost for Boards. During 2014/15 NHS Dumfries and Galloway has had vacancies across a number of specialties in DGRI, the Galloway Community Hospital and the GP Out of Hours service. Gross expenditure of £10.165 m on the use of medical locums was incurred, with the greatest spend across the following five specialties:

Table 9: Areas of medical locum spend

Specialty	2014/15 Spend
General Medicine	910,000
Ophthalmology	819,000
Radiography	694,000
Cardiology	661,000
ENT	392,000

Spending on medical locums has increased over the past five years by 170%, as illustrated in Table 10:

Table 10: Medical Locum Spend over the past 5 years

	2010/11 £ million	2011/12 £ million	2012/13 £ million	2013/14 £ million	2014/15 £ million
Locum Spend (£ million)	3.772	4.929	6.003	7.112	10.165

In response to the increased reliance on medical locums the Board has undertaken the following key actions:

- Holding collaborative talks with NHS Ayrshire & Arran and NHS Lanarkshire to explore the ways in which the Boards can work together to make services sustainable or more attractive to potential candidates (for example, consultants spending 1-2 sessions a week doing specialised work in larger centres);
- Developing proposals for shared posts e.g. a Consultant Community Care of the Elderly post to work across both the Galloway Community Hospital, and Girvan Hospital, with costs and support being shared between NHS Dumfries & Galloway and NHS Ayrshire & Arran.
- Development of a medical recruitment website which promotes the Board and local area with the aim of attracting consultants who prefer a smaller hospital and who like the challenges of more generalist work along with an opportunity to develop a special area of interest;
- Advertising through the British Medical Journal; and
- Dedicating resource to oversee medical recruitment and provision of a tailored recruitment service for potential candidates including early engagement with candidates, offering of hospital walk rounds and the opportunity to meet senior management and assistance to candidate's spouses in sourcing employment in the local area.

The Board also has recruitment problems within General Practice. This relates to a national shortfall in the number of younger doctors wanting to go into General Practice, and, within the Board, a large cohort of doctors who are approaching retirement age.

Across the Board, there are 122 GPs in post, and 11 vacancies. In addition there are a further 14 GPs who propose retiring before December 2017, meaning that there is a requirement to fill 18% of the total posts (25 doctors) within the next 18 months. As described above, the Board has continued to explore ways in which more GPs can be recruited into the area.

Inspection Reports

In November 2014, Health Improvement Scotland (HIS) carried out an unannounced inspection of the Galloway Community Hospital.

This inspection raised concerns about patient care and safety, with issues identified in relation to:

- Documentation had not been completed or had not been completed correctly;
- Concerns with leadership and management that had led to a disconnect between senior management and ward staff.; and
- Concerns around the lack of willingness of medical staff to ensure that patients have the capacity to consent to treatment.

An unannounced follow up inspection was carried out in January 2015 which failed to identify significant improvement within the hospital. As a result, Scottish Government was informed. In February 2015 the Board was provided with a detailed report which contained 26 areas for improvement. A further inspection was carried out in March 2015, which found that seven of the areas of improvement had been met and three would be carried forward into future inspections. An action plan based on the remaining 16 points was prepared by the Board and signed by the Chief Executive and Chair on 23 April 2015.

We have found that the progress of the inspections and associated action plan has been reported as a standing item to Healthcare Governance Committee, Audit & Risk Committee and the Board.

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 and management 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.

National Fraud Initiative (NFI)

The Board participates in the National Fraud Initiative (NFI). The Board has identified 203 recommended matches and 4,293 other matches for the 2014/15 year. These continue to be investigated by management, with those reports with the greatest number of recommended matches (those with most significant fraud risk) considered a priority. In accordance with our responsibilities as your appointed auditor, we are in the process of gathering evidence required to complete the NFI questionnaire and note the following key findings to date:

- There is clear ownership for collating NFI data and updating the NFI system via the Chief Internal Auditor;
- There is sufficient reporting of the NFI process and outcomes to the Audit and Risk committee; and
- The Board has not identified any fraudulent or irregular transactions to date from the investigation of matches.

Prevention and detection of fraud and corruption

The Chief Internal Auditor of the Board is also the designated Fraud Liaison Officer. Discussions with her indicated that there were no reported frauds in the year. Our audit work did not identify any frauds.

The Board has in place a Fraud policy and action plan which has been implemented in the year. This has focussed on raising awareness with staff through:

- Running staff awareness sessions on those areas of greatest fraud risk (e.g. procurement);
- Completion of a staff fraud survey to understand current levels of fraud awareness;
- Raising awareness among finance staff through fraud development sessions; and
- Publicising links to the fraud and whistleblowing policy.

Fraud reports are routinely presented to the Audit and Risk Committee. This includes progress against the fraud action plan as well as any national developments released by Counter Fraud Services.

Based on audit work performed we consider that the controls in place to prevent and detect fraud or corruption to be suitable for the operations of the Board.

Section 6. Independence

Independence and objectivity

We have made enquiries to determine any other services being provided to you by PwC.

Other services provided to the Board

In addition to our audit under the Code of Audit Practice, PwC has undertaken other work for you as follows. During the year, PwC was engaged by both NHS Dumfries & Galloway and Dumfries & Galloway Council to review the governance arrangements in place in relation to Health and Social Care Integration. The fee associated was £9,000 for 2014/15. At the time of agreeing to this additional work, we assessed the potential threats to our independence (please see details below) and concluded that no such threat was posed by the work. In addition we received approval from Audit Scotland to proceed and deliver this additional service.

Service provided by PwC	Value	Threats to independence and safeguards in place
Review of governance arrangements in place in relation to Health and Social Care Integration – NHS Dumfries and Galloway and Dumfries and Galloway Council.	£9,000	<p>Self Review - The advice does not involve the preparation of information subject to audit by PwC.</p> <p>Self Interest - The total fee level is not deemed to be material to NHS Dumfries and Galloway or PwC.</p> <p>Management - The work does not involve making any decisions on behalf of management.</p> <p>Advocacy - Our discussions and correspondence will be conducted and documented using behaviour and language which reflect our advisory role and the client's decision-making role.</p> <p>Familiarity - Work is not deemed to give rise to a familiarity threat in that a separate team from audit team is used.</p> <p>Intimidation - The nature of the work does not give rise to any intimidation threat.</p>

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: Identified misstatements

We are required to report to you any misstatements which have been corrected by management of which we believe the Audit Committee should be aware to fulfil its responsibilities. We identified the following misstatements all of which **have been corrected by management**.

No	Description of misstatement (factual, judgemental, projected)		Income statement		Balance sheet		Cash flow	
			Dr £m	Cr £m	Dr £m	Cr £m	Inflow £m	Outflow £m
1	Dr Revaluation Reserve Cr General Fund Being an adjustment to transfer the remaining revaluation balances for impaired DGRI assets to the General Fund.	F			7.185	7.185		
2	Remove from cash flow: Purchase of property, plant and equipment Capital element of payments in respect of finance leases and on-balance sheet PFI Being an adjustment to remove the new DGRI asset under construction from the cash flow statement as per the requirements of the NHS Manual of Accounts.	F					27.6	27.6
Total uncorrected misstatements			-	-	7.185	7.185	27.6	27.6

Appendix 2: Action plan

Finding

During the year the Board strengthened its risk management arrangements with the formation of the Risk Executive Group. Whilst there has been discussion of the proposed remit of the Group, a formal terms of reference has yet to be developed.

Management response

Noted, this will be added to a future agenda to be formalised. Expected completion of this action is 31st October 2015.

We recommend that the Board formalises the remit of the Group through a Terms of Reference.

In the event that, pursuant to a request which NHS Dumfries & Galloway 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. NHS Dumfries & Galloway agrees to pay due regard to any representations which PwC may make in connection with such disclosure and NHS Dumfries & Galloway shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, NHS Dumfries & Galloway 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.

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