

# NHS Dumfries and Galloway

External Audit Annual Report to the Board and  
the Auditor General for Scotland

2016/17 Financial Year

19 June 2017



# Contents

	<b>Page</b>
Key Messages	3
Financial Statements Audit	4
Financial management	10
Financial sustainability	14
Governance and transparency	19
Value for money	23
 <b>Appendices</b>	
Audit Adjustments	28
Follow up on prior year recommendations	29
Action Plan for 2016/17	31
Reminder of Responsibilities	33

## Summary of our audit plan:

Materiality has been updated based on draft financial statements to £3.674 million (1% of gross 2016/17 expenditure adjusted for Integrated Joint Board expenditure)

Performance materiality is set at £2.388 million and we have reported to management everything identified over £36,740 (1% of materiality)

Financial statement significant audit risks were: management override of controls; risk of fraud in revenue recognition; financial accounting for the new DGRI; and an other risk of fraud in operating expenditure.

We also identified 3 wider scope risks in relation to: future financial sustainability; workforce in particular locums; and Creswell business case.

We can confirm we are independent of NHS Dumfries and Galloway and our objectivity is not compromised in accordance with International standards on Auditing (UK & Ireland) and APB ethical standards for Auditors. No non-audit services have been provided to NHS Dumfries and Galloway in 2016/17. Our audit fee was set out in our plan and remains unchanged.

# Key Messages

We have issued an unqualified opinion on:

- True and fair view of the financial statements
- Regularity
- Other prescribed matters

This report is a summary of our findings from our external audit work for the financial year ended March 2017. Our work has been undertaken in accordance with International Standards on Auditing (UK & Ireland) and the Code of Audit Practice (2016).

Our report is addressed to the Board (in their role as those charged with governance) and the Auditor General for Scotland. This report will be published on the Audit Scotland website at: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

This report has been discussed and agreed with management, and presented to the Audit Committee on 19 June 2017. We would like to thank management and staff for their co-operation and assistance throughout our audit work.

## Our work included:

- An audit of the 2016/17 Annual report and accounts
- A review of the Performance Report and Accountability Report (including governance statement and remuneration report)
- Completion of the 'Role of Board's' return submitted to Audit Scotland to inform a future performance publication
- The annual NHS Minimum dataset return
- Completion of the National Fraud Initiative (NFI) return and review of data matching progress

We received good quality accounts (numbers) which had been reviewed by Management on the first day of our audit and our audit was completed to the timetable agreed. We received the performance and accountability reports slightly later than planned but these sections were well written and had been through review.

Overall the audit process was effective and we have started to build good working relationships with the finance team. Given the unexpected staff absences in the finance team at year-end we were impressed how quickly our audit queries were answered and how audit activity was prioritised.

This report reflects our broader reporting obligations under the Code of Audit Practice. We have provided commentary against our specific wider scope risks as well as certain aspects of NHS Dumfries and Galloway's arrangements as they relate to: financial management; financial sustainability; governance and transparency and value for money.

Looking forward 2017/18 will be a challenging year for NHS Dumfries and Galloway with the opening of the new Dumfries and Galloway Royal Infirmary and as planned the dual running costs associated with this in year. Given the period of change, the savings targets are extremely stretching although Management has plans in place to look to achieve financial balance in year, and the Board are well informed of the challenges; savings plans and associated risks in delivery these savings.

NHS Dumfries and Galloway also continue to focus on the achievement of its performance targets against a backdrop of an aging population; workforce challenges and the financial pressures they are facing.

For and behalf of Grant Thornton UK LLP

19 June 2017.



# The Financial Statements Audit



Our audit plan was presented to the Audit Committee on 19 December 2016. We have not altered our planned audit approach as set out in the plan. However, we have updated our final materiality figures based on the draft 2016/17 accounts. Our planned materiality was £3.410 million. Recognising the Integrated Joint Board income is received into NHS Dumfries and Galloway; recognised as expenditure to the IJB; and then further operational expenditure in year we have adjusted our materiality to £3.674 million.

Our audit work commenced onsite on 2 May and we had a complete set of the accounts (numbers) with good supporting working papers. Management and staff were quick to respond to our queries. We received the annual report (front end) on 19 May which was slightly later than planned. However, this was of a good quality and been subject to detailed review.

In line with triviality we have reported all potential audit adjustments identified above £36,740 to management; along with identified disclosure enhancements.

A summary of corrected and uncorrected adjustments are set out in Appendix 1.

### Internal Control Environment

During the year we have sought to understand NHS Dumfries and Galloway’s overall control environment as related to the annual report and accounts. In particular we have:

- Considered the design of procedures and controls around related parties, journal entries and other key entity level controls
- Performed procedures around IT general controls
- Performed walkthrough procedures on key controls around identified risk areas.

No material weaknesses in the accounting and internal control systems were identified during the audit which could have an adverse impact on NHS Dumfries and Galloway’s ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Under ISA’s we are required to report to those charged with governance the main issues arising from our audit of the Annual Accounts and Report.

This report discharges our obligations under the relevant ISA’s.

### Internal Audit

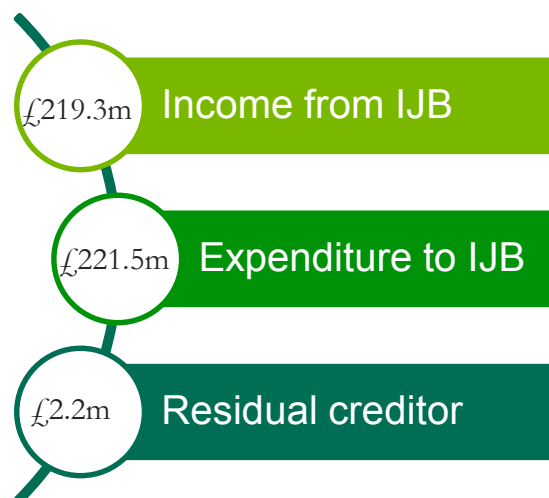
As set out in our plan we have not placed formal reliance on the work of the in-house Internal Audit function during 2016/17. We have reviewed the internal audit plan, the 4 internal reports considered relevant to our external audit: around financial controls, debtors, CNORIS & legal claims and information assurance.

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

The findings do not disagree with our knowledge and understanding of NHS Dumfries and Galloway as an organisation and its risk profile. During the year NHS Dumfries and Galloway commissioned an external review of its compliance with Public Sector Internal Audit Standards (PSIAS). This work was completed by KPMG and reported to the March 2017 Audit Committee. Overall this concluded that the internal audit team fully complies with PSIAS.

### Accounting for Dumfries and Galloway IJB

2016/17 represented a full operational year of the Integrated Joint Board (IJB). We are satisfied that NHS Dumfries and Galloway has accounted for the IJB in accordance with the NHS Manual for Accounts and income and expenditure has been consolidated correctly.



# Our identified audit risks

Our audit plan identified a number of significant and other audit risks and our planned approach. We have set out below a summary of the work undertaken over these risks and our conclusions.

Audit plan identified risk and work completed	Our conclusion
<p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is a risk of management override of controls which is present in all entities (fraud risk).</p> <p><b>Work undertaken:</b></p> <p>Completed a walkthrough of the controls and procedures in place around journal entries</p> <p>Reviewed the key accounting estimates, judgements and decisions made by management in particular property valuation, injury benefit provision, bad debt provision and PPE depreciation policies</p> <p>Tested journal entries with a focus on large and/or unusual values; posting sources; timing as identified using our IDEA data analysis software</p> <p>Reviewed unusual and/or significant transactions.</p>	<p><b>Key accounting estimates:</b> We did not identify any significant areas of bias in key judgements by management and judgements were consistent with prior years.</p> <p>Provisions in year were £37.1 million, compared with £15.8 million in 2015/16. The most significant provision is related to clinical and other claims. We have validated this to independent information received from the Central Legal Office and considered the categorisation of claims. This provision has increased by £16.7 million this as a result of the addition of a new case, the re-assessment of a existing claim and a significant movement in the discount rate applied as notified by Treasury. There has also been a £4.3 million increase in the CNORIS provision allocated by Scottish Government.</p> <p><b>Journals:</b> We made inquires of those members of staff who can post and authorise journals related to inappropriate or unusual activity with no concerns noted. We confirmed completeness of journals, identifying 80,168 journals during the year. We targeted large and/or unusual journals and noted no issues from our testing.</p> <p>Through our substantive audit testing we did not identify any significant transactions out with the normal course of business for NHS Dumfries and Galloway.</p>
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA 240 (UK&amp;I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. NHS Dumfries and Galloway income is composed of £231.2 million hospital and community income, £2.2 million of family health service income and £21.3 million of other income.</p> <p><b>Work undertaken:</b></p> <p>Completing a walkthrough of the controls and procedures in place around sales invoicing and sales ledger</p> <p>Agreed recognised revenue to underlying SFR 30 confirmations and investigated any material differences</p> <p>Agreed other revenue to cash receipts in the year / post period end to gain comfort over validity of these transactions</p> <p>Performed cut off testing to gain comfort around the completeness and accuracy of recognised income</p> <p>Considered the recoverability of any outstanding balances at year end.</p>	<p>We have assessed completeness of income through agreement of balances to signed third party confirmations required as part of SFR 30 (Balances with other NHS Scotland bodies).</p> <p>We have also performed our year-end cut-off procedures and assessed recoverability of outstanding amounts at year-end.</p> <p>Specifically in relation to Hospital and Community Income; Family Health Service Income and other Income we completed detailed procedures on all material income streams.</p> <p>No issues noted from our review of the treatment of income in the year, which has been accounted for in line with the NHS Manual for Accounts.</p> <p>We rebutted the risk of fraud related to the income steam from the Scottish Government given the nature of the funding received. For Scottish Government income we agreed this to the final allocation letter and income receipted to bank.</p>

Audit plan identified risk and work completed	Our conclusion
<p><b>Accounting for the new DGRI</b></p> <p>Construction of the new acute hospital is underway with an estimated completion date of 11 September 2017. The valuation of this work is based on contractual milestones and there is a risk that the asset recognition criteria have not been fully met.</p> <p>There is therefore a risk that this balance is materially misstated as at 31 March 2017.</p> <p><b>Work undertaken:</b></p> <p>Obtained valuation certificates for all work completed in the 2016/17 financial year</p> <p>Ensured that disclosure of the asset under construction is adequate, complete and correctly allocated.</p>	<p>To date construction costs of £186.1 million have been recognised as an asset under construction, correctly in accordance with the NHS Capital Accounting Manual.</p> <p>NHS Dumfries and Galloway’s independent valuer is GVA and we confirmed their suitability and qualifications through independent third party confirmation.</p> <p>For the in-year additions of £104.5 millions we substantively verified the completeness and accuracy of this balance through agreeing to the valuations report, invoices and payments made.</p> <p>We can confirm DGRI is appropriately recognised in the 2016/17 annual report and accounts.</p>
<p><b>Completeness of operating expenditure</b></p> <p>Operating expenses are understated or not recorded in the right period. This risk also relates to Practice Note 10 (revised) in respect of public sector entities which outlines that auditors should also consider the risk that misstatement may occur by the manipulation of expenditure recognition (Fraud risk).</p> <p><b>Work undertaken:</b></p> <p>Completed walkthrough of the controls and procedures in place around purchase ordering, procurement and general payment and recording of expenditure.</p> <p>Reconciled creditors ledger to the general ledger and financial statements</p> <p>Performed cut-off testing on pre-year end and post year end transactions to gain comfort around the completeness and accuracy of recognised expenditure</p> <p>Gained comfort around the regularity of expenditure and the application of public funds in accordance with the FReM and Scottish Public Finance Manual (SPFM)</p>	<p>We have concluded through the performance of our year end procedures that the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and the expenditure is valid and correctly classified between revenue and capital.</p> <p>We confirm that NHS Dumfries and Galloway has performed within the limits set by the Scottish Government Health and Social Care Directorate (SGHSCD) and therefore in compliance with the financial targets in the year (Revenue Resource Limit/Cash Limit/Capital Resource Limit)</p> <p>Through our pre and post year end cut of testing we did not identify any expenditure that was incorrectly accounted for.</p> <p>Larger areas of expenditure were substantively tested. In particular we considered the prescribing accrual of £6.9 million, agreeing this to Practitioner Services Division data and placing reliance on the work of the service auditor – Scott Moncrieff.</p>

# The narrative elements of your annual report and accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding of NHS Dumfries and Galloway and the financial information set out in the accounts. In addition we have considered the Audit Scotland good practice note published in May 2017. We have set out our observations below.

## Performance report

- The report outlines performance analysis and highlights the key issues and risks facing the Board.
- All required disclosures included in line with financial reporting manual
- Financial performance analysis included is in line with our understanding and work performed. Helpful analysis of performance against efficiency savings targets given appropriate prominence
- Key issues and risks in line with our understanding and expectations
- LDP performance is currently set out in one table – it would be helpful to split performance into those which are split into red, amber and green performance, with explanations and proposed remedial action for those scoring red. See **Action Point 1**.

## Annual Governance Statement

- All key required elements included within the corporate governance statement.
- Each executive director has signed off to the Chief Executive to provide assurances to allow him to provide overall assurance in the governance statement. In addition, the Standing Committees have also provided an assurance statement. No matters of note raised in any of the statements
- This approach is in line with recommended practice and provides a clear paper trail behind the annual governance process.

## Remuneration report

- The remuneration report has been completed in line with guidelines and the NHS Manual of Accounts
- We have audited the financial information included in the remuneration report (marked audited information). We have no matters we wish to bring to your attention.





# Judgements and estimates

We consider other aspects of your annual report and accounts, in particular key areas of judgement. We have summarised below our observations in these key areas:

## Accounting Policies

- Accounting policies are in accordance with the NHS Manual of Accounts and we consider these to be appropriate to NHS Dumfries and Galloway.

## Accounting estimates and judgements

- We have identified and gained comfort over the following key estimates and judgements:
- Property valuation including impairment risk
- Injury benefit provision estimates as informed by third party information
- Plant, Property and Equipment (PPE) depreciation policies are in line with prior year and the manual

## Going Concern

- NHS Dumfries and Galloway has an agreed budget for 2017/18 and continues to discuss future funding with Scottish Government.
- Given the nature of NHS Dumfries and Galloway activities delivering services to a community within a fixed geographical location, as set out in various legislation, we do not have reason to consider that NHS Dumfries and Galloway will not continuing to operate over the next 12 months from the account signing date.

## Timing of transactions and period in which they are recorded (Cut off assertion)

- Through our substantive audit testing we did not identify any concerns over timing of transactions or the period in which they were recorded.

## Impact on the financial statements of any uncertainties

- No uncertainties have been identified which have an impact on the final annual report and accounts.

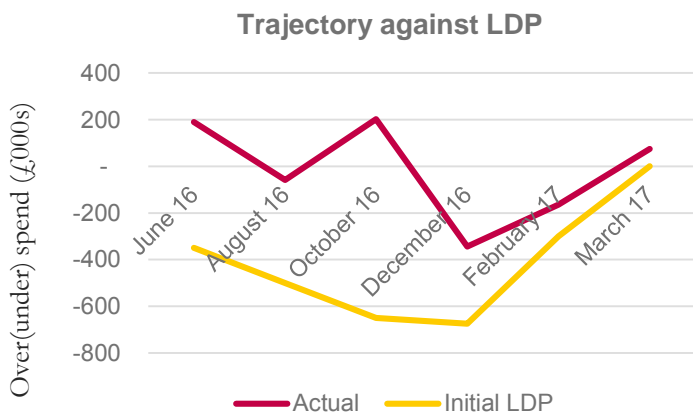
# Financial management



NHS Dumfries and Galloway met all financial targets in year:

	Target £m	Actual £m	(Over)/ Under £m
Core Revenue Resource Limit (RRL)	311.205	311.128	0.077
Non-core Revenue Resource Limit	11.398	11.398	0
Capital Resource Limit (CRL)	109.651	109.628	0.023
Cash requirement	327.712	327.712	0

During the year financial performance to date was reported to the Board alongside specific actions to address fluctuations from planned budget. Net performance tracked consistently ahead of LDP targets as shown below:



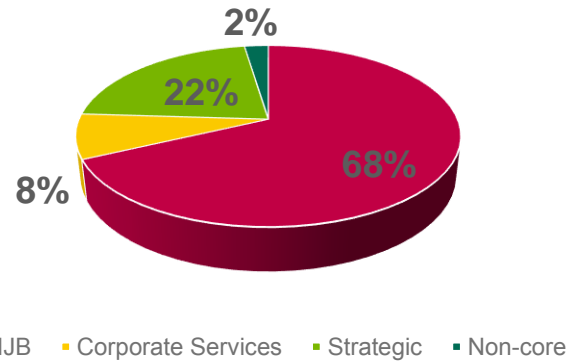
Areas of overspend (compared to budget) have primarily arisen in areas which NHS Dumfries and Galloway have limited control for example service level agreements with other NHS Health Boards for patients being treated out with the area. Compared to budget, non-pay overspends were £3.0 million which was off-set in year by underspends on pay and income ahead of trajectory of £3.1m

Planned savings of £12.7 million at the start of the year were delivered of which 57% were savings of a recurring nature. £4.8 million of non-recurring savings relate to medical locum reserve fund.

## Financial performance against budget

The budget was set by directorate, with IJB delegated services forming the largest portion of all services delivered. For the Dumfries and Galloway IJB the entire Acute budget rests with the IJB, which differs from other IJB arrangements.

Split of 2016/17 budget by directorate



IJB performance in the year tracked closely to budget, with significant underspends on staff costs due to vacancies (£2.3 million) offset by overspends on prescribing and under delivery of cash releasing efficiency savings (CRES).

Corporate services performance tracked consistently ahead of budget, with vacancies again the key driver but offset to an extent by under delivery of CRES of £0.14 million.

Strategic expenditure tracked behind trajectory for the majority of the period, primarily driven by overspends on SLA's with other health boards for patients treated elsewhere £0.9 million; higher spends on locum and agency of £0.5 million and increases in prescribing costs of £0.6 million.

## Reporting financial performance

Financial performance reports are provided bi monthly to the Board from June through to year end, and in alternate months to the Performance Committee. They track performance against budget, and sub-divide core financial performance into income; pay; non-pay and by business (IJB, Strategic, Support directorates and non core). Balance sheet and capital performance are not specifically set out. Explanations are provided for all significant movements. Comment is also included on trajectory and expected future position. Performance by sector is red/amber/green rated so easier to identify higher risks/areas of concern during the year.

The reporting provides the quality of information that we would expect on a routine basis compared to budget. Reporting is direct to the Board which is in line with our expectations given the importance of achieving the statutory limits set by the Scottish Government. The inclusion of a balance sheet would strengthen the quality of analysis. See **Action Point 2.**

## Capital programme

Capital expenditure is a standing item at Board and Performance Committee meetings. There were no significant changes to the capital plan in the year, and the key area of capital expenditure remains the new DGRI hospital:

2016/17 Capital Budget	Budget £000	Expenditure £000	Under (over) £000
NPD additions -ASRP	104,510	104,510	-
Equipment - ASRP	2,000	2,315	315
Cresswell / DGRI - ASRP	260	355	95
Replacement programme	1,772	2,266	494
Developments	685	200	(485)
Energy initiatives	205	-	(205)
Ehealth allocation	244	-	(244)
HFS equipping	307	334	27
<b>Capital expenditure</b>	<b>109,983</b>	<b>109,980</b>	<b>3</b>
Income - NBV	(332)	(352)	20
<b>Net capital expenditure</b>	<b>109,651</b>	<b>109,628</b>	<b>23</b>

The key variances noted were due to timing factors and late allocations received in the year for example £0.4 million of approved 2016/17 expenditure deferred until 2017/18.

## Capacity and Capability of Financial Leadership

The finance team is structured between management accounts and financial accounting functions, overseen by two Deputy Directors of Finance. At the time of our audit we noted a number of finance vacancies; with one post being covered on a temporary basis but with plans in place to appoint permanent cover in the summer of 2017. These appointments will further strengthen the finance function and help create additional resilience.

Overall we note that the finance team is of an appropriate size for the nature and complexity of the organisation. We note that due to a number of different events, which could not have been anticipated, within the finance team around year end, the full capacity of the finance team was required to provide cover to produce the annual report and accounts and support the audit processes. The delivery of the annual accounts to broadly the timetable agreed is testament to the flexibility of the team. This demonstrates that where organisations have a smaller team, individuals are sufficiently knowledgeable and experienced to pick up other work areas. However, it does have the potential to impact on normal day to day activities and we feel the planned recruitment will provide the team with additional flexibility and resilience.

There is a clear and concise timeline for month end close which is in line with our expectations. Similarly, there was a clear timetable in place for year end close and the finance team meet all the deadlines as set. Based on our walkthrough of key financial controls we noted these operated as intended and consistently during the year for example bank reconciliations; suspense accounts reconciliations; follow up of outstanding debt.

## Tracking planned savings during the year

Throughout the year, the directorates meet with the finance team to discuss emerging pressures. All identified pressures are captured on the cost pressures list, and are discussed in directorate performance meetings.

Where the identified pressure relates to IJB services, it is considered via IJB performance reporting arrangements. Where a pressure cannot be mitigated within the existing cost structure, it is escalated to the Executive team. They then exercise challenge around the cost pressure, options and risks of not complying. A situation background assessment and review (SBAR) report is then produced and taken to the weekly executive meeting for agreement of follow up actions.

CRES plans are a key element of the budget process, with the impact of significant cost pressures being the need to consistently deliver higher level of recurring cash savings. Areas for savings are noted and directorates are tasked with identifying these savings and reporting back on individual savings programmes, whether they are of a recurring or non recurring nature and the level of risk around delivery.

This process leads to an ongoing cycle of challenge and review, allowing flexibility around key emerging areas and building a bank of evidence for cost pressures which can be fed into the budget process.

The budget is then drafted for initial consultation in late autumn and the initial LDP submitted annually in March to the Scottish Government Health and Social Care Directorate.

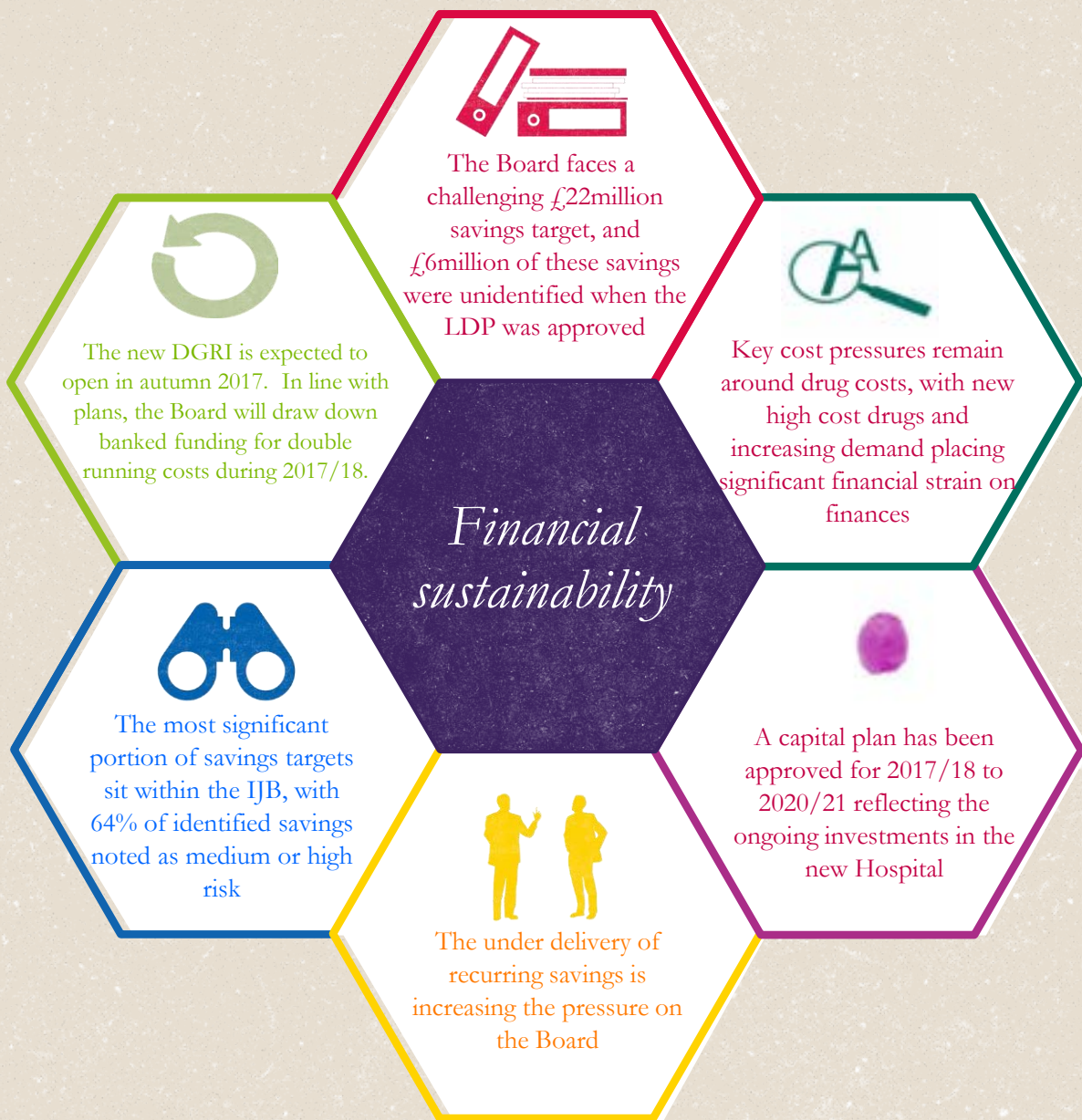
Thereafter, the budget and particularly savings plans are subject to a budget scrutiny workshop and final amendments are made for reporting to the June Board meeting and subsequent completion and submission of the final draft of the LDP.

## NHS overview report

The NHS Overview report produced in October 2016 set out a number of challenges for NHS Boards. We have summarised below the key findings and impact on NHS Dumfries and Galloway:

Financial and Service Performance Area	Impact
Financial challenge, struggle for financial balance and stretching savings targets	These areas represent a significant challenge for the Board, with financial balance achieved but falling behind savings targets (especially recurring), adding to the future financial challenges. The future financial sustainability of operations is a key concern for the Board.
Difficulties achieving financial balance	No brokerage received in 2016/17. Total of £7million of funding banked against dual running costs of new hospital and service redesign. These funds will be drawn down as planned during 2017/18 and 2018/19
Recruiting and retaining staff, and levels of temporary staffing.	The Board has significant challenges primarily in recruiting senior specialist clinical staff and filling vacancies. This continues to lead to significant financial pressure seen through locum and temporary staffing costs.
Drug costs representing a significant pressure	Drug costs were a key challenge in 2016/17, and resulted in overspends in several areas of acute services. They also remain a key pressure for the future. Total spend circa 13% of expenditure in 2016/17 related to drug costs.

# Financial Sustainability



Risk of financial sustainability in 2017/18 and beyond (Financial sustainability wider scope risk)	Conclusion
<p>Like all NHS Boards, NHS Dumfries and Galloway face significant financial challenge in 2017-18 in delivering against its statutory targets and beyond, with continued cost pressures around agency staff and drug costs.</p> <p><b>Work undertaken:</b></p> <p>During the year we have had a number of discussions with the Director of Finance and the Chief Executive related to financial and service sustainability</p> <p>We have reviewed the various 2017/18 budget setting papers and supporting savings plans that have been to the Performance Committee and the Board</p> <p>We have considered NHS Dumfries and Galloway's previous record of delivering against saving plans in prior years</p> <p>We have considered the draft Local Delivery Plan and subsequent letter from the SGHSCD around the LDP</p> <p>We have considered the nature of the savings delivered to date, in particular the balance of recurring/non – recurring savings.</p>	<p>Overall for 2017/18 NHS Dumfries and Galloway need to deliver savings of £22.5 million in order to achieve financial balance and deliver against its statutory targets. This is against a backdrop of delivering £7.3 million of recurring savings in 2016/17 (against a forecasted savings plan of £12.8 million)</p> <p>The budget set for 2017/18 reflects the need for further recurring savings, reflective of those recurring savings which were planned in prior year but not delivered. Looking at the budget for 2017/18 this represents the need to save 6.7% of total expenditure, and a reduction of 8% compared with the baseline allocation for 2016/17.</p> <p>Budget savings will need to be delivered in a context of delivering continued improvement against Scottish Government's suite of performance targets including those related to waiting times; improved patient outcomes and transferring patient care out of a traditionally acute setting; an aging population and rising costs including those related to drugs and locum/agency spend.</p> <p>Key savings planned for 2017/18 include:</p> <ul style="list-style-type: none"> <li>- Prescribing (£4.4 million)</li> <li>- Clinical efficiency (£1.5 million)</li> <li>- Property (£1.0 million)</li> </ul> <p>NHS Dumfries and Galloway recognise a number of risks associated with these savings including a £5.3 million balance of unidentified IJB savings, and 64% of high and medium risk savings identified to date.</p> <p>Work is ongoing through the IJB to develop a business transformation plan to progress the work to the service redesign required to deliver the savings requirement. A future LDP submission is required to Scottish Government by September 2017. In addition, we note that the Board will work with it's regional partners to develop a regional local delivery plan, focused on closer regional working and collaboration. For Dumfries and Galloway this is working with NHS Boards in the West under the leadership Chief Executive of NHS Ayrshire and Arran.</p> <p>Recognising 2017/18 will be a year of dual running costs as the new hospital opens, the financial position for NHS Dumfries and Galloway looks challenging. The Chief Executive and Senior Management team have been honest around the financial challenges facing NHS Dumfries and Galloway and the Board are well sighted on the challenges, the future organisational priorities and the key risks associated with delivery. Management are committed to trying to achieve financial balance and have a series of arrangements to oversee delivery of the financial plans including an ongoing dialogue with other NHS Boards and the Scottish Government Health and Social Care Directorate.</p>

## Budget 2017/18

A balanced budget has been set for 2017/18, which includes £6million of unidentified savings to achieve financial balance (as at June 2017). A paper was taken to the April Board summarising the 2017/18 position and providing indicative figures for 2018/19 and 2019/20. These identify what is noted by the Board as an ‘unprecedented’ level of risk around achieving financial balance and a very high CRES target including the brought forward recurring deficit position in relation to CRES. This represents an indicative level of £22.5million in 2017/18, £15.2million in 2018/19 and £15.6 million in 2019/20.

	IJB delegated		Non delegated		Total	
	Rec £000	Non- rec £000	Rec £000	Non-rec £000	Rec £000	Non- rec £000
<b>Sources</b>						
Baseline uplift	-	-	4,200	-	4,200	-
Transfer to social care	-	-	-3,020	-	-3,020	-
New medicine fund	-	-	-	1,050	-	1,050
Banked funding released	-	-	-	4,000	-	4,000
Anticipated core allocations	-	-	-	2,520	-	2,520
Anticipated non-core allocations	-	-	-	22,008	-	22,008
<b>Total sources</b>	-	-	<b>1,180</b>	<b>29,578</b>	<b>1,180</b>	<b>29,578</b>
<b>Applications</b>						
Uplifts	6,572	-	918	-	7,490	-
Developments & existing commitments	1,889	10,067	2,424	2,033	4,313	12,100
Non recurring matched	-	-	-	24,528	-	24,528
<b>Total Applications</b>	<b>8,461</b>	<b>10,067</b>	<b>3,342</b>	<b>26,561</b>	<b>11,803</b>	<b>36,628</b>
Recurring deficit position b/f from 2016/17	4,323	-	481	-	4,804	-
CRES requirement for 2017/18	7,885	2,850	2,740	4,200	10,625	7,050
<b>Total CRES requirement</b>	<b>12,208</b>	<b>2,850</b>	<b>3,221</b>	<b>4,200</b>	<b>15,429</b>	<b>7,050</b>

A series of high risks have been noted, including:

- Allocation uplifts – key uncertainty due to one year funding cycles, with only 17/18 funding being confirmed.
- Prescribing costs – 2016/17 has noted significant pressures in this area and an under delivery of planned CRES savings.
- A combination of demand pressures and new drugs. This is a key area where CRES savings have been identified but this has been noted as high risk
- Workforce recruitment and locum costs continue to be a challenge for NHS Dumfries and Galloway
- Health and social care integration and sufficiency of resources to deliver
- Backlog maintenance at DGRI while still operational
- External SLA costs (both Scotland and UK)

## New DGRI

The new Dumfries and Galloway Royal Infirmary is expected to be handed over in September 2017 and is expected to open to patients in December 2017 after a period of commissioning. This has been a significant capital project for NHS Dumfries and Galloway with a total forecasted cost of £213 million (excluding equipment and NPD capital costs). The new Hospital is planned in the longer term to be cost neutral; albeit support more efficient working practices; achieve greater energy and carbon efficiency. In previous years NHS Dumfries and Galloway effectively “banked” surplus funds with the SGSCHD to fund the double running costs that will incur during 2017/18. A total of £7 million was banked, with a planned release of the income of £4 million in 2017/18 and the remaining £3 million in 2018/19.

The opening and dual running costs of the new hospital contribute to the increased challenge NHS Dumfries and Galloway face in 2017/18 in relation to financial delivery of planned savings.

## Expenditure

Key expenditure uplifts relate to cost inflation as outlined below reflecting a number of ongoing financial pressures which continue to impact of NHS Dumfries and Galloway’s financial position.

	2017/18 inflation rate
Medical pay award	1.0%
Other pay award	1.3%
Medical incremental drift	1.06%
Other incremental drift	0.99%
General inflation detail	1.0%
External contracts	0.4%
Drugs – secondary care	4.76%
Drugs –primary care	3.98%

The best estimate has been taken on drug costs, but there is recognition that there is a wide range of cost options here depending on demand and on what new and potentially expensive drugs are approved and/or expanded in the period. The pay awards are in line with known increases.

The majority of non-delegated expenditure increases are matched by ring-fenced income, but the residual cost pressures in excess of funding uplifts are leading to increased CRES targets in these areas (forecasted at £7.4 million)



## CRES targets

£22.5million of CRES is required for 2017/18, which includes £4.8million brought forward and £7.1million of non-recurring CRES which will need to be replaced in future years either by an additional non-recurrent means or preferably a recurring source of saving.

	Identified	Unidentified	Total
IJB	9,787	5,271	15,058
Procurement	0	200	200
Corporate	500	500	1,000
External contracts	0	1,000	1,000
Financial flexibility	6,132	-911	5,221
<b>Total</b>	<b>16,419</b>	<b>6,060</b>	<b>22,479</b>

These savings are split between IJB (£15.1m) and Non-Delegated Services (£7.4m):

### Non delegated services

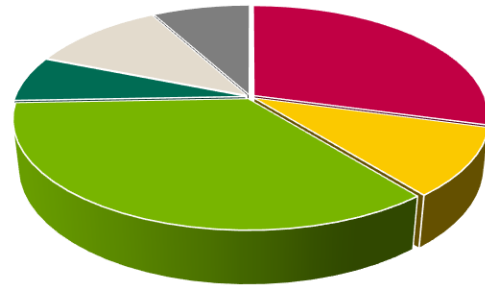
There remain significant savings to be identified in these areas, and the majority of savings are non-recurring and do not reduce the future financial challenges for example financial flexibility savings of £5.2 million. Management has grouped these savings as “low” or “medium” risk, associated with the achievement of the savings.

### Integration Joint Board

The IJB continues to account for the majority of future expenditure, and is the area most impacted by cost pressures. The 2017/18 budget has retained the current split of budget and responsibility, with NHS Dumfries and Galloway retaining responsibility for the identification and delivery of savings in the Health element of the partnership (the largest component), and taking a full share of any under / overspend. Looking forward; the IJB will need to be clear of what level of savings it needs to deliver in year and take the necessary actions to achieve those savings as realistically additional funding cannot be made available by NHS Dumfries and Galloway.

## IJB savings

The total savings target for the NHS element of the IJB is £15.1 million:



- Prescribing £4.4m
- Clinical efficiency £1.5m
- General recurring £5.3m
- Property £1.0m
- Medical Locum £1.65m
- General non-recurring £1.2m

The IJB budget was set at the end of March 2017, with £12.4million of savings identified at that date, with £8.0million being recurring saving. This leaves a £5.3million in year gap and a £6.8million recurring gap. We note that 23% of savings were identified as high risk, and a further 41% as medium risk. Performance against these will be closely tracked throughout the year.

There are three key risks arising to NHS Dumfries and Galloway around savings targets:

- £5.3m gap in IJB savings yet to be identified
- Greater proportion of non-recurring savings identified which provide much needed efficiencies in year but do not have a recurring impact and must be replaced in future years (this is a recurring issue for the board)
- 64% of total savings already identified noted as medium or high risk. While the proportion will naturally decrease during the year as plans are refined and amended, there remains a significant risk around the delivery against these savings.

---

## Capital plan – 2017/18 to 2021/22

The capital plan was taken to the April 2017 Board for approval and included in the LDP. The 2017/18 element is set out below:

### Income

- The agreed 2017/18 allocation of £3.475million was assumed to be the funding position for each year in the period, giving cumulative funding of £17.4million.
- 2016/17 slippage anticipated to be returned in 2017/18 (awaiting confirmation from SG).
- NPD acute funding in line with FBC submitted - timing and profile to be finalised
- NPD Cresswell funding in line with OBC submitted
- Clinical change programme funding – no agreements in place and expected to be on a project by project basis.

### Expenditure

- £28.5million final building costs for new DGRI completion in 2017/18
- £7.6million of funding for site services works on the existing site after the move.
- Acute Services Redevelopment Project – Cresswell Business Redevelopment Addendum submitted for consideration (approved June 2017) and FBC expected in early 2018
- Significant equipment costs (primarily in 2017/18) in relation to move to new hospital
- Replacements programme expected to be largely covered by equipment costs for new hospital – 2017/18 costs reflect 2016/17 slippage and some early approved projects in 2017/18

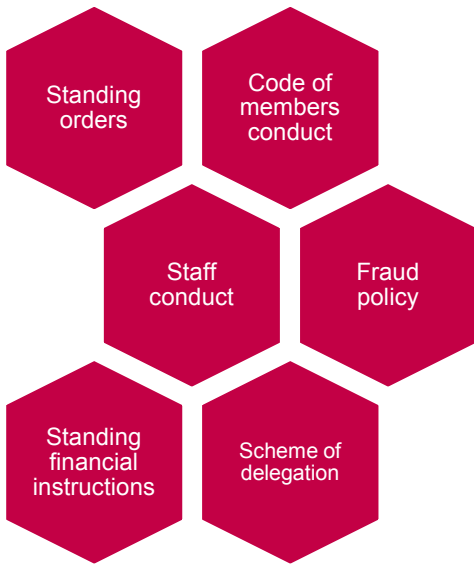
The capital plan is balanced, and has the required flexibility to be amended for any significant changes in capital projects depending on the timing and value of funding decisions in relation to key projects, with the exception of the new hospital as these planned costs are fixed.

# Governance and transparency



## Corporate governance policies

There is a corporate governance document in place. This is a comprehensive document covering a number of key elements of corporate governance and is updated every 3 years or in the event of significant changes. The scheme of delegation is updated biannually. The key elements included are:



We have reviewed each of the policies above, and note that they are in line with our expectations for an organisation of the size and complexity of NHS Dumfries and Galloway. The document and associated policies are all easy to find, and it is helpful to have in one place.

The standing financial instructions and scheme of delegation is reviewed annually and updated as required. The latest review was on-going at the time of our audit with no substantial amendments planned.

## Committee structures

NHS Dumfries and Galloway committee structure continues to operate as previously:

Committee	Remit
Board (bimonthly)	Oversight and strategic matters
Audit and risk committee (quarterly)	Risk, control and governance.
Staff governance (bimonthly)	Assurance to Board on all staff governance matters
Remuneration committee ( <i>sub committee of staff governance</i> ) (as required)	Pay and performance management for senior managers and executives
Performance committee (bimonthly, alternate to Board)	Time critical issues out with Board cycle  Financial balance and planning, performance against HEAT targets
Healthcare governance (bimonthly)	Consideration of clinical governance processes
Person centred Health and Care committee (bimonthly)	Assurance to Board on Implementation of national person centred health and care programme

The committee structure and reserved powers are in line with our expectations, and our experience of similar bodies and have operated as set out during the year.

## Integration Joint Board

The IJB became fully operational for the 2016/17 financial year. The voting membership is made up of 5 Councillors (Dumfries and Galloway Council) and 5 Non Executive Directors (NHS Dumfries and Galloway). In the event of any member being unable to attend, substitute members are also in place. A number of non-voting members, are members of the IJB and attend.

The Board was chaired by a Dumfries and Galloway Council representative for the shadow year and first full operational year, and has now reverted to an NHS chair from 1 April 2017 for two years. This rotation of chair every two years is intended to continue.

All meetings are public, with the option to make specific items private as required. Regular financial updates are provided to the IJB Board and the IJB Board is supported by a number of sub-committees.

The IJB Board meets bi-monthly, and papers are available for download to the general public. There is also an Audit Committee for the IJB, which has met three times during the 2016/17 financial year. However, the IJB Audit Committee has failed to be quorate during the year and this is recognised by IJB Management who are looking at increasing the IJB membership, and adding an additional member on to the Audit Committee, alongside a wider governance review that is taking place now the IJB has been in operation for the year.

## Non executive training programme

A clear training programme is in place for Non-Executive Directors, including risk, audit matters, endowment funds and a quality improvement masterclass led by NHS Scotland. The plan is flexible and is updated during the year as particularly needs or areas of focus are identified. Key areas covered in 2016/17 included:

These sessions were generally well attended. The 2017/18 plan is a rolling one and is currently being finalised with Non-Executives and will be flexible to emerging areas.

IJB	NHS Board
<ul style="list-style-type: none"> <li>• Performance management</li> <li>• Delayed discharges</li> <li>• Cultural diagnostic</li> </ul>	<ul style="list-style-type: none"> <li>• Risk</li> <li>• Quality improvement</li> <li>• Annual accounts</li> <li>• Endowment trustees</li> <li>• Clinical change / Cresswell / property strategy</li> </ul>

---

## Risk Management

NHS Dumfries and Galloway has continued to refine its approach to risk management during 2016/17. In particular focused on re-looking at the strategic risks reflected on the Corporate/NHS Dumfries and Galloway wide risk register; key areas of mitigation and actions required. The risk register is routinely included on the Audit and Risk Committee agenda, and included annually on the Board Agenda.

In addition to streamlining risks; significant work has taken place on agreeing a definition of NHS Dumfries and Galloway's approach to risk appetite. Board members have been fully engaged in this work. In addition, linked to this is an NHS Dumfries and Galloway wide controls/governance assurance mapping exercise designed to support the identification of under and/or over control, as related to service activities as well as risks.

Looking forward, Management should continue to look to align the respective control environments with the agreed risk appetite, recognising they do not have limited resources and people/time/finances need to be directed to those areas of significant risk, in particular patient delivery. See **Action Point 3**.

---

## Role of Boards

We submitted a return to Audit Scotland in June 2017 in relation to the Role of Boards as part of their wider follow up work in this area. It considered three key areas:

- are governance, decision making and scrutiny arrangements effective?
- To what extent do non-executives and staff demonstrate high standards of behaviour?
- To what extent do non-executives and staff receive sufficient training and development?

There are no areas in this return we want to bring to your attention.

---

## Fraud, regularity and whistleblowing arrangements

Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found that NHS Dumfries and Galloway's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

There is a fraud policy in place and fraud updates are regularly circulated to staff.

## National Fraud Initiative

The National Fraud Initiative (NFI) is a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the National Audit Office to identify fraud and error. We found NHS Dumfries and Galloway's arrangements for participation in the NFI were satisfactory. NFI updates are routinely provided to each Audit & Risk Committee.

For 2016/17 there was a delay in the receipt of payroll to creditor matches due to a Scotland wide issue impacting all Board's related to the uplift of payroll data.

As at June 2017, 183 recommended creditor matches have been identified, and work is ongoing in this area. A further 37 recommended payroll matches were not received until late May and have been initially reviewed ahead of detailed follow up work.

## Standards of Conduct

In our opinion the Board's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.

Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and for complying with national and local codes of conduct. We have also considered the controls in place to ensure compliance with the regulatory guidance that is produced by the Scottish Government Health and Social Care Directorate throughout the year for example guidance in respect of business conduct and gifts and hospitality.

# Value for money



Wider scope area of focus identified	Conclusion
<p><b>Acute Services Redevelopment Project – Cresswell Business Redevelopment Addendum (OBC) development and sign off</b></p> <p>There is currently work ongoing in relation to the Cresswell PFI contract, with the existing facilities requiring significant refurbishment.</p> <p>There has been an outline business case submitted to the Scottish Government Capital Investment Group, with a full business case to follow.</p> <p><b>Work undertaken:</b></p> <p>We have obtained and reviewed the Ernst Young options report, the subsequent commercial options appraisal performed by NHS Dumfries and Galloway and the final OBC addendum submitted in February 2017.</p> <p>We obtained and reviewed the Scottish Futures Trust paper on Cresswell options.</p> <p>We had discussions with the Deputy Director of Finance around the current status of the process.</p>	<p>The OBC addendum is the latest stage in a major ongoing project to consider the future of the facility. EY were commissioned to report on commercial options and reported back on these during Month 2. The OBC addendum was compiled in line with the HM Treasury green book principles.</p> <p>The OBC addendum for the Cresswell Redevelopment was submitted to Scottish Government in February 2017, setting out the shortlist of 3 options and the appraisal exercise that was undertaken to arise at the preferred option. The Board received notification of the approval of the OBC at the start of June (reflected in subsequent events).</p> <p>The latest timeline is that subject to Scottish Government approval, the full business case will be submitted in February 2018 with view to approval in March 2018. Prior to submission this will go through the capital investment group and the full Board for approval.</p> <p>Should this option not be approved then a revised exercise will be required to consider alternative courses of action including continuing with the current arrangements.</p>
<p><b>Workforce planning – locum spend</b></p> <p>Workforce planning in particular use of Locums continues to represent a significant financial challenge for NHS Dumfries and Galloway, with expenditure of £11.6 million in 2016/17 (prior year £11.2 million), representing a 130% increase over the last 4 years.</p> <p>This cost pressure is primarily driven by challenges attracting permanent medical staff to the area. However NHS Dumfries and Galloway continue to have a number of initiatives ongoing to look to re-address the workforce balance and reduce locum spend where practical.</p> <p><b>Work undertaken:</b></p> <p>We have obtained and reviewed the IJB workforce plan covering the period 2016-2019.</p> <p>We have obtained and reviewed the May 2017 Performance Committee update on medical staffing.</p> <p>We have reviewed financial performance around locum spend in the year.</p> <p>We had discussions with the Deputy Director of Finance around the current status of this work.</p>	<p>Significant difficulties continue to be noted in this area despite concerted efforts to attract qualified medical staff to the area. Consultant vacancies are currently running at 27%, and although this is a constantly evolving position, it places significant strain on existing staff and has significant financial impact through higher locum spend. Various avenues are being pursued including advertising in the British Medical Journal. The pressure on consulting numbers and the attractiveness of these roles is also detrimentally impacted by a relatively low compliment of middle grade doctors driving additional workload for existing consultants.</p> <p>The GP position is also strained, with a number of vacancies and a consistent reliance on locum cover in practices across NHS Dumfries and Galloway for example Stranraer and Lockerbie</p> <p>While a series of projects are underway to attract and retain medical staff in the area for example exploration of partnership agreements with overseas locations, this remains a critical area of concern for NHS Dumfries and Galloway and they continue to carefully monitor progress in this area.</p> <p>There has been a shortlife working group on Medical Recruitment created in spring 2017, chaired by the Deputy Medical Director. Two meetings have taken place to date to work through potential solutions to the current issues.</p> <p>The Deputy Director of Finance sits within the WoS Project group for Retinue as a Solution – Project Sponsor for NHS Dumfries and Galloway. The Board have implemented the new software and timesheet approval and are seeing reductions in cost as a result of this work</p> <p>Workforce planning remains a key challenge for the Board, and we will continue to closely monitor progress in this area.</p>



## Performance reporting

Performance reports are taken as a standing item to the Board on a quarterly basis (and in alternate months to the performance committee). These reports highlight the key trends in performance, explaining key movements and providing historical and/or national trends as a helpful means of comparison.

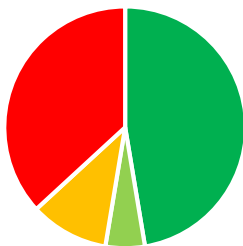
Following a request from Board Members, reporting has been amended in year to quarterly one page summary reporting, with this report being reviewed and approved by the IJB Board prior to issue. This is in line with expectations and allows Board Members to retain an overview of performance while responsibility for detailed scrutiny sits with the IJB board. A comparison of performance in the year is set out below.

### Performance targets

	2016/17	2015/16
<b>Met</b>	10	9
<b>Missed</b>	9	10
<b>No data</b>	1	1
<b>Total</b>	20	20

The C-Diff and Smoking Cessation targets were met in current year (missed in 2015/16) but the MRSA target was missed in 2016/17 having been met in 2015/16. Movements in performance have been tracked below:

### LDP performance comparison to 2015/16



- Target met - performance consistent or improved
- Target met - performance downturn
- Target missed - performance consistent or improved
- Target missed - performance downturn

It should be noted that those LDP targets which were missed in current year had a broad downward trend in performance, with significant deteriorations noted around 12 week treatment targets and alcohol interventions. This deterioration comes in a time of financial challenge, and consideration should be given to the impact of the continued funding challenges on financial performance.

There have been revisions in performance reporting in the year, in line with personnel changes. There is a more qualitative focus on reporting, with performance trend data and national benchmarks accompanied by supporting narrative and where required improvement actions. All papers clearly set out which of the nine Scottish Government national health and wellbeing outcomes and 10 Areas of Priority for Dumfries and Galloway from the Strategic Plan that the measure or indicator supports.

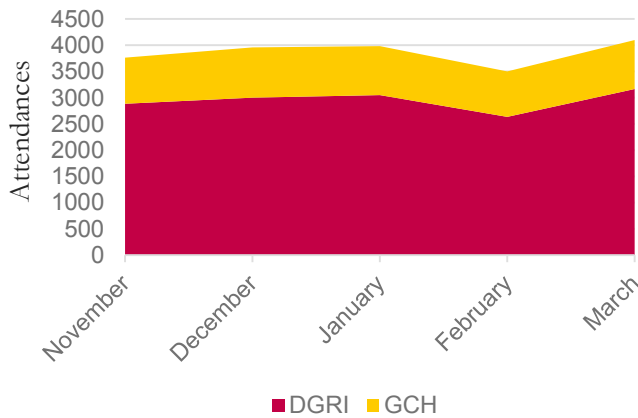
## Review of winter

Performance in winter is an area of focus for all NHS Boards, with significantly higher levels of patient flow and illness traditionally expected in this season, with significant associated pressures on the NHS Dumfries and Galloway workforce and on performance against key LDP performance targets. Note that for the purposes of analysis, NHS Dumfries and Galloway consider November – March to be the winter period.

A paper was taken to the May performance committee outlining the key matters arising during this period, with supporting analysis and trend data.

Patient flow was relatively consistent throughout the winter, as noted below. Overall emergency department admissions were up 1% on prior year, with an increase of 2% in the larger DGRI offset to an extent by a reduction in admissions of 4% in the Galloway Community Hospital.

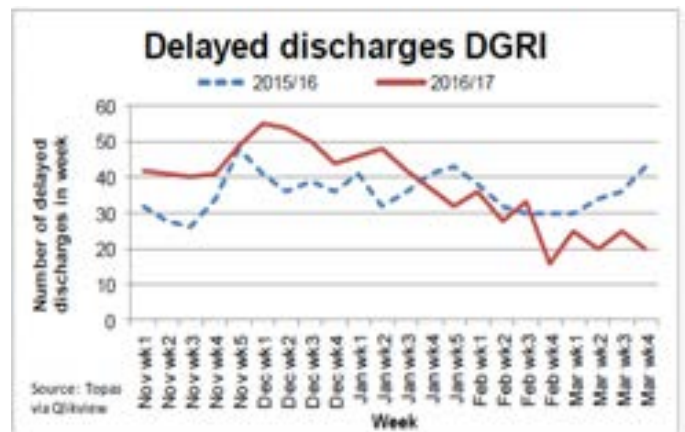
Emergency Department patient trends winter 2016/17



The increased volume was a key factor in the deterioration of performance against waiting time targets, with performance falling. There are a complex range of factors impacting performance against the emergency time targets, but the increase in patient flow and medical admissions from ED were key factors in the performance deterioration reported.

	Winter 2015/16	Winter 2016/17	% Movement
Patients- DGRI	14,413	14,732	2.2%
Patients - GCH	4,786	4,587	-4.2%
Waiting times - DGRI	94.8%	92.1%	-2.8%
Waiting times - GCH	96.8%	94.7%	-2.2%
Medical admissions from ED	3,088	3,958	28.2%
Surgical admissions from ED	2,300	1,877	-18.4%
Average beds occupied	289	277	-4.2%
Cancellation of operations	1.5%	1.1%	-26.7%
Delayed discharges per week	36	37	2.8%

The delayed discharge figures shows an overall marginal increase but within this there was a significant increase in the first half of winter due to increased pressures and demand on services. The challenges with recruiting and retaining care at home staff to ensure the availability of care packages across the region have been supported by the IJB implementing the living wage increases to care home staff pay from October 2016. Performance since January has significantly improved.



# Appendices

	Page
Audit adjustments	28
Follow up on prior year recommendations	29
Action plan for 2016/17	31
Reminder of responsibilities	33



# Audit adjustments

Set out below is a summary of uncorrected and corrected misstatements.

## Uncorrected misstatements

	SOCNE	SOFP	SOCTE
	£000	£000	£000
<b>Credit balances in prepayments</b>			
Dr Prepayments	-	133	-
Cr Creditors	-	(133)	-
<b>Debit balances in creditors</b>			
Dr Receivables	-	69	-
Cr Creditors	-	(69)	-
<b>SFR 30 differences to income note</b>			
Dr Other income	309	-	-
Cr NHS Board income	(309)	-	-

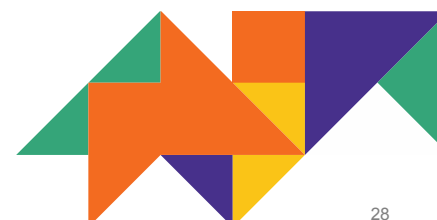
## Corrected misstatements

	SOCNE	SOFP	SOCTE
	£000	£000	£000
<b>Provision ageing adjustment</b>			
Dr Provisions > 1 year	-	450	-
Cr Provisions < 1 year	-	(450)	-
This was due to an error in the calculation			
<b>Classification of NHS Non Scottish Income</b>			
Dr Other HCH Income	1,329		
Cr NHS Non Scottish Income	(1,329)		
This was due to a mapping issue			

## Disclosure misstatements





In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow the Audit and Risk Committee to evaluate the impact of these matters on the financial statements. During the course of our audit process we identified some minor disclosure enhancements to the performance and accountability reports and the annual accounts. All recommended disclosure changes have been processed in the final audited annual report and accounts.




There were no material/significant disclosure misstatements identified we wish to bring to your attention.




# Follow up on prior year recommendations

We have undertaken a follow up of outstanding recommendations from prior years raised by the previous external auditors (PricewaterhouseCoopers LLP). The results of our work are outlined below:

Prior year finding	Action in 2016/17	
<p><b>Accounting treatment for revaluation of fixed assets - CAM</b></p> <p>It is recommended to investigate the fixed asset register (CARS system) and historic records to ensure that the requirements of the capital accounting manual are complied with.</p>	<p><b>Status: Implemented</b></p> <p>Significant work has been undertaken to identify the appropriate balance to be credited to the operating cost statement. Journal entries have been made in relation to this and we did not identify any errors in our testing.</p>	 <b>Green</b>
<p><b>Accounting treatment for revaluation of fixed assets - revaluations</b></p> <p>CARS should also be updated or a process implemented to assist in future calculations relating to revaluations and also for transfers to the general fund each year.</p>	<p><b>Status: Partially Implemented</b></p> <p>NHS Dumfries and Galloway management still need to consider how this will be addressed and are having difficulty identifying historical cost of assets, as many have been passed between bodies and through different systems. This point is still outstanding.</p> <p><b>Further Action:</b> The Board will agree with the auditors a suitable process for calculating a starting point for this piece of work.                      Timescale: December 2017                      Action Owner: Kelly McClure</p>	 <b>Amber</b>
<p><b>Enhancements during leave</b></p> <p>We recommend that the Board formalises a process to investigate historic EDL payments to staff and monitor future amounts for reasonableness and accuracy which are calculated by the line managers</p>	<p><b>Status: Implemented</b></p> <p>The Board set up a short term working group to formalise this process. In order to investigate historic EDL payments to staff a model has been calculated to estimate the amount owed to/from NHS Dumfries and Galloway. A new system has been implemented to mitigate the risk of this in the future.</p>	 <b>Green</b>
<p><b>Related parties process for identifying transactions during the year</b></p> <p>We recommend that the Board formalises a process to identify related parties in accordance with IAS 24 which is aligned with the required timescales for annual accounts.</p>	<p><b>Status: Implemented</b></p> <p>Management has implemented new procedures to identify related parties and a new return created for 2016/17 which directly relates to IAS 24. No issues were identified within our related party testing.</p>	 <b>Green</b>

-  Fully implemented (green)
-  Partially implemented (amber)
-  Not implemented (red)

<b>Prior year finding</b>	<b>Action in 2016/17</b>	
<p><b>Review of high risk journal entries</b></p> <p>We recommend that the Board formalises a process to review all journals over a certain monetary amount, or on a risk based basis.</p>	<p><b>Status: Not Implemented</b></p> <p>Management have not yet addressed this recommendation and we have agreed to support them during 2017/18 to identify a proportionate; risk based approach.</p> <p><b>Further Action:</b> The Board will work with the auditors to agree a risk based approach to the review and approval of journals.</p> <p>Timescale: August 2017</p> <p>Action Owner: Susan Thompson</p>	 <p><b>Red</b></p>

# Action Plan for 2016/17

During the course of our 2016/17 audit work we have identified the following actions for management:

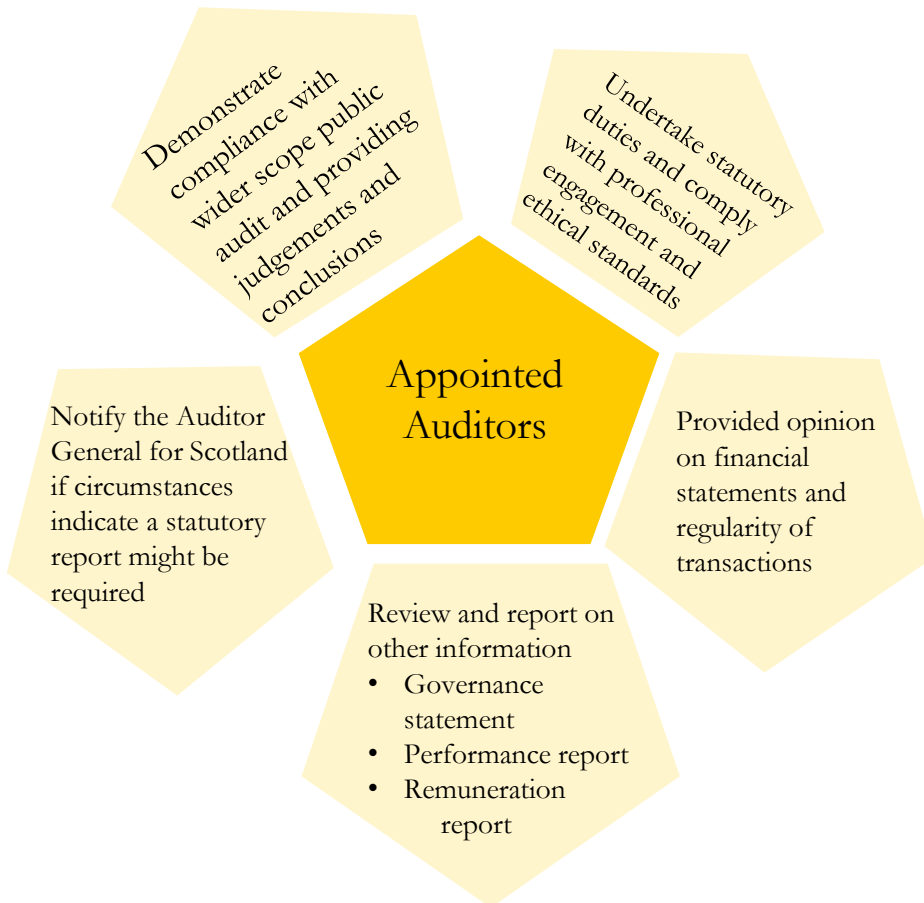
	Area	Issue and Risk	Priority	Recommendation
1	<b>Performance report – LDP performance</b>	LDP performance is currently set out in one table – it would be helpful to split performance into those which are split into red, amber and green performance, with explanations and proposed remedial action for those scoring red.	Medium	<p>We recommend that consideration is given to making these amendments to enhance the quality of reporting of LDP performance.</p> <p><b>Management response:</b> Noted, a review of the LDP performance report will be carried out for the 2017/18 annual report and accounts <b>Timescale:</b> May 2018 <b>Action Owner:</b> Deputy Director of Finance (Accounting)</p>
2	<b>Financial performance reporting</b>	Monthly performance reporting does not currently include a balance sheet. The inclusion of a balance sheet would strengthen the quality of analysis.	Low	<p>We recommend that consideration is given to including a balance sheet in financial reporting</p> <p><b>Management response:</b> Finance management team will consider the inclusion of a balance sheet in the monthly performance report <b>Timescale:</b> October 2017 <b>Action Owner:</b> Director of Finance</p>
3	<b>Risk appetite</b>	Significant work has taken place on agreeing a definition of NHS Dumfries and Galloway’s approach to risk appetite. Going forward, linked to the overall assurance mapping exercise management should continue to prioritise actions in line with appetite recognising there is limits to resources (people/financial/time) and the actions and controls in place need to align to key risks facing the organisation.	Medium	<p>We recommend that management should continue to look to align the respective control environments with the agreed risk appetite, recognising they do have limited resources and people/time/finances need to be directed to those areas of significant risk, in particular patient delivery.</p> <p><b>Management response:</b> The action required will be agreed through the Risk Exec Group to consider appropriate action within resources available.</p> <p><b>Timescale:</b> October 2017 <b>Action Owner:</b> Chief Executive</p>

	Area	Issue and Risk	Priority	Recommendation
4	Property, plant and equipment	<p>During our substantive audit testing we identified 4 assets that were shown in the Fixed Asset Register as having a nil NBV but had been disposed of, and the register not updated. We note through discussion with Finance that given the new hospital a large Programme of asset verification is underway and any such similar assets with a nil NBV that no longer exist will be captured and the register updated.</p> <p>There is a risk that the asset register reflects assets that are no longer in use and been disposed of by the organisation.</p>	Low	<p>The asset verification programme will be completed by Autumn 2017 and the asset register updated for all assets currently owned and in use by NHS Dumfries and Galloway.</p> <p><b>Management response:</b> Agreed <b>Timescale:</b> March 2018 <b>Action Owner:</b> Deputy Director of Finance</p>



# Reminder of Responsibilities

The Code of Audit Practice sets out responsibilities of the audited body (pages 10, 11 and 12) across: Corporate governance; financial statements and related reports; standards of conduct for prevention and detection of fraud and error; financial position; and value for money (as described in the Scottish Public Finance Manual). As appointed auditors our responsibilities are set out on page 13 and are summarised below.



*An audit of the financial statements is not designed identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with ISA's and the Code and may not be all that exist*

*Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control*





**Grant Thornton**

An instinct for growth™

© 2017 Grant Thornton UK LLP. All rights reserved | Draft

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

[granthornton.co.uk](http://granthornton.co.uk)