

NHS Dumfries & Galloway

Financial year ending 31 March 2021

External Audit Plan

Audit and Risk Committee

March 2021



**Your key Grant Thornton
team members are:**

Jo Brown

Audit Partner

T 0141 223 0848

E joanne.e.brown@uk.gt.com

Claire Connor

Manager

T 0141 223 0814

E claire.e.connor@uk.gt.com

Victoria Stirling

Audit In-Charge

T 0141 223 0872

E victoria.j.stirling@uk.gt.com

Contents

Section	Page
Plan overview	03
Introduction	04
Audit approach	05
Materiality	06
Significant audit risks	07
Wider scope risks identified in planning	10
Other matters	12
Audit timeline	14
Quality and adding value through the audit	15
Audit Fees	16
Independence	18
Appendices	
Responsibilities	20
Communication	21
Fraud responsibilities	22
Auditing Accounting Estimates and Related Disclosures (ISA 540 revised)	23

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the organisation or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Plan overview

The audit plan for the financial year ended 31 March 2021 sets out our risk based audit approach. This plan is reported to those charged with governance (Audit and Risk Committee on behalf of the Board). Planning is a continuous process and we will continue to review our risk assessment and planned approach throughout the year.

03

Wider Scope Audit

In accordance with the Code we have identified wider scope risks, at the planning stage and will conclude on these during the audit.

Risks have been identified in relation to the following areas:

- Financial sustainability;
- Governance and transparency; and
- Value for money.

01

Materiality

We have calculated Group planning materiality using budgeted gross expenditure less IJB contributions for 2020-21 resulting in the following:

- £7.91 million planning materiality (Board only - £7.91 million). Performance materiality of £5.54 million is based on 70% of planning materiality (Board only - £5.53 million) and trivial is capped at £250,000 for both Group and Board.
- Lower materiality of £5,000 will be used on our audit of the Remuneration and Staff Report.
- We will revisit our materiality throughout our audit including updating to reflect the unaudited financial statements.

04

Other audit matters

We summarise other audit matters for the Audit and Risk Committee's awareness. This includes:

- The revised ISA 540 standard relating to accounting estimates and the additional considerations required at planning in relation to this standard. For NHS Dumfries and Galloway we anticipate this to relate to depreciation, valuation of property, plant and equipment, the provision for clinical and medical negligence costs and participation in CNORIS and accruals (prescribing costs).
- In accordance with the Code and planning guidance we also complete and submit a number of deliverables in year including sharing intelligence with Audit Scotland, Audit Scotland data sets and opinion to support the consolidation at a Scottish Government level.
- Consideration of going concern in accordance with Practice Note 10.

02

Financial statement audit risks

At planning, in accordance with the ISAs (UK) and FRC Practice Note 10 we have identified the following significant audit risks:

- Management override of controls (ISA UK 240);
- Risk of fraud in revenue recognition (cut-off);
- Risk of fraud in expenditure (cut-off) (FRC PN10); and
- Valuation of property, plant and equipment (land and buildings).

05

Our Audit Fee

Audit fees were shared by Audit Scotland with NHS Dumfries and Galloway in December 2020.

- Our fee agreed with the Director of Finance is £140,225. This fee includes £13,180 of pooled costs and a contribution of £6,040 to Audit Scotland costs.
- Audit fees are paid to Audit Scotland who in turn pay Grant Thornton.
- We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Introduction

Purpose

This document provides an overview of the planned scope and timing of the external audit of NHS Dumfries and Galloway (“the Board”) for those charged with governance.

We are appointed by the Auditor General as the external auditors of the Board for the 6 year period (2016/17 until 2021/22).

Respective responsibilities

Audit Scotland has issued a document entitled Code of Audit Practice (“the Code”) dated 2016 covering this audit appointment period. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of the Board are summarised in Appendix 1 of this plan. We draw your attention to this and the Code.

Scope of our audit

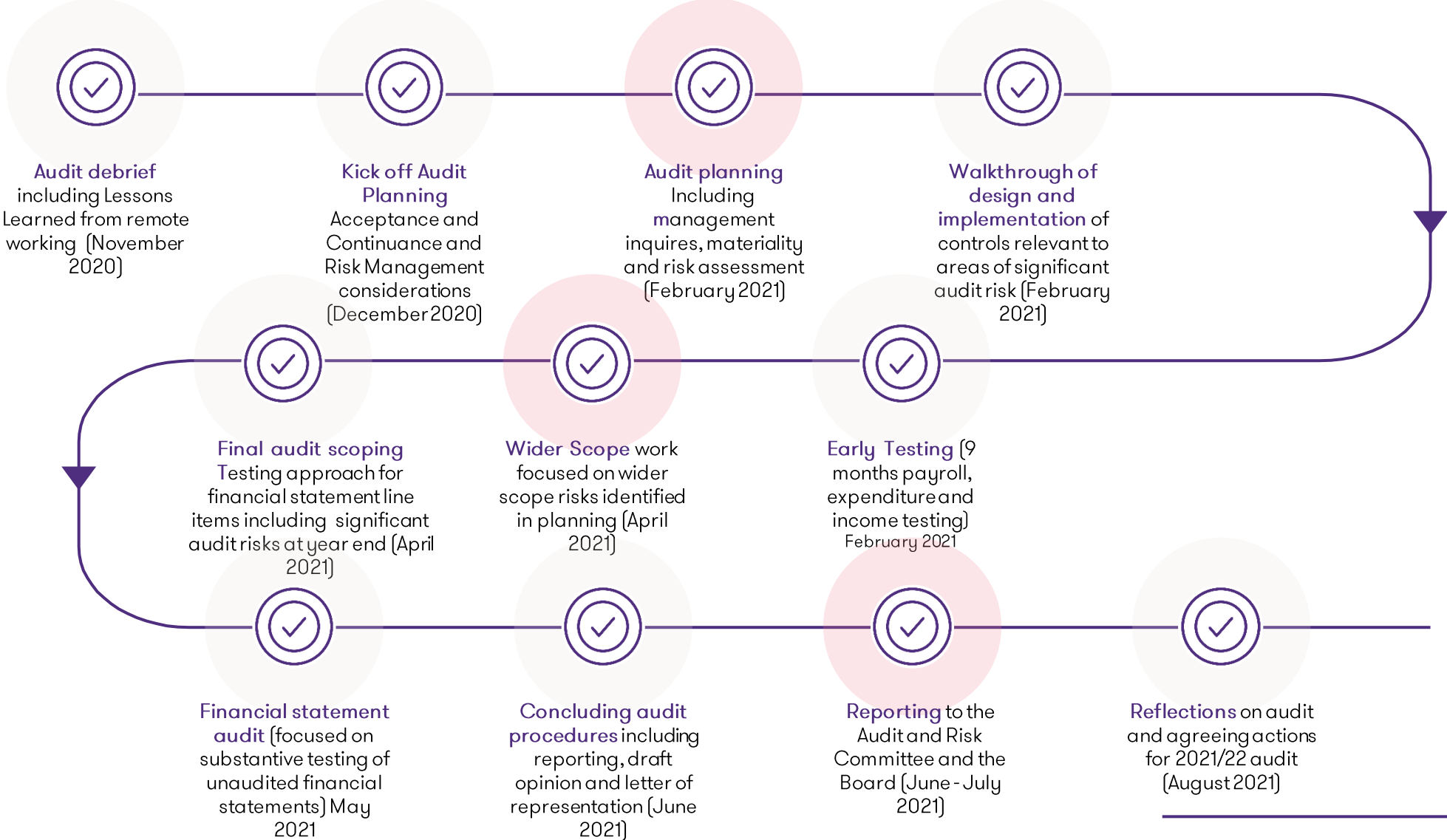
The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Board’s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Risk Committee).

The audit of the financial statements does not relieve management or the Audit and Risk Committee of your responsibilities. It is the responsibility of the Board to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We will consider how the Board is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of NHS Dumfries and Galloway and is risk based.

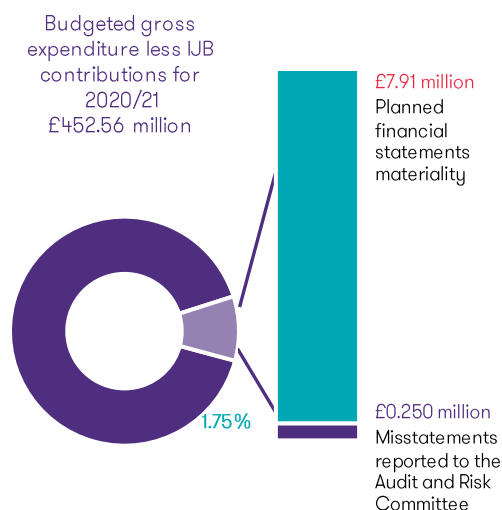


Audit approach



Materiality

Financial statement materiality is determined based on a proportion of gross expenditure less Integration Joint Board (IJB) contributions. We have determined **planning materiality** to be £7.91 million for Group and £7.91 million for the Board, which equates to approximately 1.75% of budgeted gross expenditure less IJB contributions for 2020/21.



Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. We use this to determine our testing approach to the financial statements. We have set this at 70% of planning materiality (£5.54 million for Group, £5.53 million for Board only).

Our planning materiality rate of 1.75% is a decrease on the prior year rate of 2% and our performance materiality rate of 70% is a decrease on the prior year rate of 75%. This is based on our understanding of NHS Dumfries and Galloway, having no material adjusted or unadjusted errors in the prior year but reflecting the perceived increased risk of material misstatement due to error within the financial statements as a result of COVID-19 and its impact on NHS Dumfries and Galloway.

Materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

On this basis we apply a separate **lower materiality level** (£5,000) to the Remuneration and Staff Report. This is set at a lower level in order to ensure greater precision in this area of the financial statements.

Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are '**clearly trivial**' to those charged with governance. We have determined this threshold to be £250,000 being the maximum threshold prescribed by Audit Scotland.

We will update our materiality based on the unaudited 2020/21 financial statements when received in late April 2021. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

Significant audit risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Management Override of Controls (as required within Auditing Standards – ISA 240)

Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override NHS Dumfries and Galloway's internal controls, related to individual transactions.

Our work focuses on critical estimates and judgements as set out within the financial statements, including accounting policies. In addition, we specifically consider cut-off (of expenditure and income journals) and the use of manual journals during the year and in creating the financial statements where controls may be overridden by management.

Risk of Fraud in Revenue (as required within Auditing Standards – ISA 240)

As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue in all entities.

The risk of management manipulation and fraud is deemed to be low in relation to income received via Revenue Resource Allocations direct from Scottish Government. Similarly funding from services commissioned from the IJB and revenue from other Scottish Boards is well forecast and is agreed to funding letters/inter-Board funding agreements, reducing the opportunity for manipulation and the inherent risk of material misstatement in revenue recognition. As such, we rebut the risk of fraud in revenue in relation to these income streams.

However, in 2020/21 Health Boards are not facing significant external pressure to restrain budget overspends as a result of continued financial support being provided to Health Boards by Scottish Government due to the ongoing COVID-19 pandemic. We have therefore not deemed it appropriate to rebut the presumed significant risk for material streams of "Other Income" received by NHS Dumfries and Galloway (being income not received in the ways described above). Our testing includes a specific focus on year end cut-off arrangements, where it may be advantageous for management to recognise Other Income in the next financial year, when financial support from Scottish Government may be less than that provided to NHS Dumfries and Galloway in the current year. We will agree, on a sample basis, income and year end receivables from Other Income to invoice and subsequent cash receipt or other supporting evidence.

Significant audit risks (continued)

Risk of Fraud in Expenditure (as recommended in FRC Practice Note 10 for Public Sector entities)

NHS Dumfries and Galloway's expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems. As such we believe there is less opportunity for a material misstatement as the result of fraud to occur in this area.

NHS Dumfries and Galloway's non-pay expenditure includes IJB contributions. As IJB contributions are agreed to third party confirmations at year end there is limited opportunity for manipulation of this expenditure and there is therefore no perceived risk of material misstatement due to fraud in this area.

We therefore focus our risk on the following non-payroll expenditure streams: independent primary care services, drugs and medical supplies and other healthcare expenditure (excluding IJB contributions). Our testing includes a specific focus on year end cut-off arrangements, where it may be advantageous for management to recognise more expenditure in the current financial year due to receiving continued additional financial support from Scottish Government as a result of the COVID-19 pandemic, which may not be made available to NHS Dumfries and Galloway in the next financial year.

Valuation of property, plant and equipment (land and buildings)

In accordance with the NHS Accounting Manual and the HM Treasury Financial Reporting Manual (FReM), subsequent to initial recognition, the Board is required to hold property, plant and equipment on a valuation basis. The exact valuation basis depends on the nature and use of the assets. Specialised NHS land, buildings, equipment, installations and fittings are held at depreciated replacement costs, as a proxy for fair value. Non-specialised land and buildings, such as offices, are held at fair value. There are further modifications to values depending on the nature and use of assets to ensure PPE is approximately stated. As at 31 March 2020, NHS Dumfries and Galloway held PPE of £312.8 million including Land and Buildings (including Dwellings) of £294.8 million. Given the value of PPE held by the Board and the level of complexity and judgement in the estimation valuations, there is an inherent risk of material misstatement in the valuation of land and buildings. The risk is less prevalent in non land and buildings assets as these are generally held at depreciated historic costs, as a proxy of fair value and therefore less likely to be misstated. NHS Dumfries and Galloway appoint Avison Young to undertake a rolling programme of valuations across the assets base, valuing land and buildings at a minimum of once every five years.

Significant audit risks (continued)

We have considered the overall **Impact of Covid-19 on the Financial Statements**, in particular whether there is a financial statement level significant risk, whether there is a significant risk relevant to specific balances or line items e.g. valuation of PPE and trade and other receivables, whether any risk factors should be considered when determining the audit strategy and designing audit tests and whether there are any audit risks due to the impact of the pandemic on the financial statements. We have concluded that there is no additional significant risk, in addition to those already captured, in relation to the impact of COVID-19 on the financial statement as a result of our consideration.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Annual Report to those Charged with Governance and the Auditor General in concluding our audit in July 2021.

Wider scope risks identified in planning

As set out in the Code we are required to consider significant wider scope risks that impact on NHS Dumfries and Galloway. Where we identify risks, similar to financial statement audit risks, we are required to devise a suitable programme of testing to allow us to conclude on NHS Dumfries and Galloway's arrangements. There are four wider scope dimensions we consider: Financial management, financial sustainability, governance and transparency and value for money. Wider scope risks are a matter of auditor judgement, and what we judge to be significant, considered on a risk basis. In addition to wider scope risks there may be other areas that Audit Scotland require us to consider. These requirements are set out in the planning guidance (2020/21). Where relevant we refer to them here, or within our wider audit plan.

Our previous Annual Reports have highlighted a number of challenges impacting on NHS Dumfries and Galloway including achieving financial sustainability through continued focus on achieving savings, capacity and capability within NHS Dumfries and Galloway to address the financial challenges faced and increasing agency/locum costs. Our wider knowledge and experience of NHS Dumfries and Galloway has shaped our assessment of risk, as related to our 2020/21 external audit.

Financial Sustainability

Consideration of the medium to long term financial sustainability of NHS Dumfries and Galloway. We will consider how Covid-19 has impacted on NHS Dumfries and Galloway's financial strategy and understand particular areas of cost pressures identified during the year. We will review the extent to which savings delivered during 2020/21 represent sustainable recurring savings. We will review the progress made by NHS Dumfries and Galloway in relation to its Sustainability and Modernisation ("SAM") programme during 2020/21 as well as the financial and operation plans in place to support remobilisation of services.

We will focus on in-year financial performance and medium term financial plans agreed with Scottish Government.

Wider scope risks identified in planning (continued)

Governance and transparency

Risk Management continues to be a key area of focus for NHS Dumfries and Galloway. We will review the progress made in relation to NHS Dumfries and Galloway's review of Risk Management Strategy, including strategic, tactical and operational risk management arrangements. The review began in early 2020 but was however delayed as a result of COVID-19.

We will, as set out in the planning guidance, consider how NHS Dumfries and Galloway has maintained **good governance** throughout the year, focused on any new governance arrangements introduced, the openness and transparency of decision making and how governance has evolved during the Covid-19 pandemic.

Value for money – Agency Costs

NHS Dumfries and Galloway continue to face cost pressures in relation to medical locum staff, with costs amounting to £10.7 million in 2019/20. Initiatives are in place to reduce the cost of medical locums however due to the complexity of the medical agency market this represents a substantial risk in achieving the level of reductions anticipated. NHS Dumfries and Galloway are developing workforce plans in line with the national NHS Scotland Workforce Planning guidance. We will review the progress made in relation to this matter.

Other matters

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and planning guidance:

- We audit parts of your Remuneration and Staff Report in your Annual Report and check whether these sections of your Annual Report have been properly prepared (opinion)
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion)
- We carry out work to satisfy ourselves that disclosures made in your annual Governance Statement are in line with requirements set out in FReM (opinion)
- We issue a separate "consistency with" opinion on your summarisation schedules which confirm whether the schedules are consistent with the audited financial statements. This is submitted to Scottish Government Health and Social Care Directorate.
- We consider our other duties under the Code and planning guidance (2020/21), as and when required, including:
 - Supporting Audit Scotland in Section 22 reporting.
 - Attending the Shared Intelligence Group
 - Participating in the Audit Scotland NHS Sector group
 - Completing a data set provided by Audit Scotland to support NHS Overview reporting.
 - Review of NHS Technical guidance prior to issue by Audit Scotland.

Internal control environment

Throughout our audit planning and fieldwork we will continue to develop our understanding of the overall control environment (design) as related to the financial statements. In particular we will:

- Consider procedures and controls around related parties, journal entries and other key entity level controls.
- Perform walkthrough procedures on key controls around identified risk areas including RRL notifications, material sources of income, payroll expenditure, expenditure including IJB expenditure, journal entries and material areas of management estimate and judgement
- Our focus is design and implementation of controls only. We do not place reliance on controls when it comes to our year end financial statement audit work.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the significant risks identified in this report.

Other matters (continued)

Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important.

In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. In considering going concern we will refer to Audit Scotland's Going Concern publication (December 2020).

Within our wider scope work we will conclude on NHS Dumfries and Galloway's arrangements to ensure financial sustainability.

Accounting estimates

Under ISA (UK) 540 auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

To ensure compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit. Based on our knowledge of NHS Dumfries and Galloway we have identified the following material estimates for which this is likely to apply; depreciation, valuation of property, plant and equipment, the provision for clinical and medical negligence costs and participation in CNORIS and accruals (prescribing costs).

Further detail is set out in Appendix 4.

Audit timeline



Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the annual Governance Statement;
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you;
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing;
- ensure that all appropriate staff are available (or as otherwise agreed) over the planned period of the audit; and
- respond promptly and adequately to audit queries.

Quality and adding value through the audit

Our overall approach for the audit is clear and upfront communication, founded on our public sector credentials and a methodology to ensure delivery of a quality audit.

The diagram opposite summarises our key approach to adding value to you throughout our audit.

Our methodology is risk based. We comply with Auditing standards and as a Firm we are regulated by the FRC. We take findings on audit quality seriously and continue to invest as a Firm through our audit investment plan. The audit investment plan is supported by a specific national Public Sector audit plan.

We comply with Audit Scotland's quality arrangements including submitting an annual quality report over our Audit Scotland portfolio. As part of Audit Scotland's quality arrangements, ICAS review our work on a rotational basis. Audit Scotland's quality report can be found at www.audit-scotland.gov.uk

Our wider quality arrangements are set out in our annual transparency reports which are available on our website (www.grantthornton.co.uk).

Project management

- Use of Inflo to track progress and deliverables throughout the audit
- Clear roles and ownership of responsibilities within our team
- Clarity over expectations and timetable
- Track record delivering public sector audits on behalf of Audit Scotland

Clear reporting

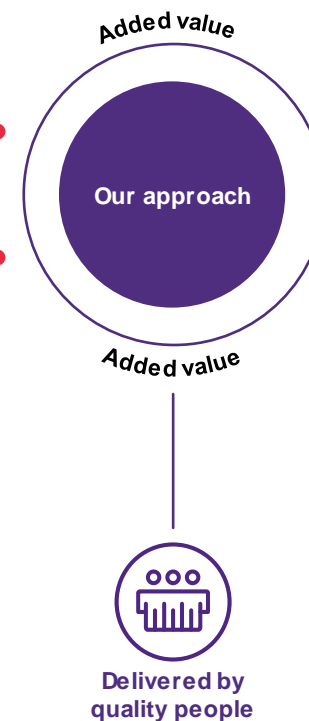
- Clear audit outputs at planning and within our final Annual Report
- Practical, risk based, recommendations for you to take forward
- Our judgements and conclusions set out transparently and in clear language
- Senior presence at Audit and Risk Committee to present our findings and support wider dialogue

Pragmatism and early attention of issues

- Accessible and proactive engagement team
- Working with you to reach the right solution – flexing the workplan, recognising Covid-19 restrictions
- Audit partner takes ultimate decision on technical matters, consulting with our technical experts

Public sector understanding

- Using our public sector insight to inform our audit and identify improvements you could make
- Regular meetings throughout the year sharing our observations and wider sector knowledge
- Wider scope conclusions to support you in considering key risks and the improvement actions to take



Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. This includes the revised ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures. As a firm, we are absolutely committed to meeting the expectations of the FRC over audit quality and public sector financial reporting. This includes, for Audit Scotland contracts, meeting the expectations of the Audit Scotland Quality Team and the ICAS quality framework.

To meet the standards set we have engaged an auditor expert to enhance professional scepticism and assurance over the significant audit risk identified for valuations. This has been reflected as an increase above the baseline fee as not included in Audit Scotland fee assumptions, as has additional work over ISA 540. Our fee as set out has been agreed with the Director of Finance.

Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified. We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards. We believe the revisions to the baseline fee allow us to meet the required standard.

Additional external audit fee, above baseline

The baseline fee has been amended as set out below:

Additional fee requirements for 2020/21 audit	Fees £
Revisions to ISA 540 and additional work required by Auditors at planning and year end of judgements and significant estimates. This will be a 2020/21 additional cost only.	1,500
Property, plant and equipment valuations including the need for an auditors expert (valuations) and increased audit work over valuation. We are proposing to pass on 25% of the increased costs to you, with G-T meeting the remaining 75% cost. (Note 1)	1,875
Additional fee above baseline (representing a 2.5% increase compared to the maximum 10% allowable)	3,375

Note 1: At this stage there are some unknowns on property valuation. Should the costs be lower than forecast we will not pass this additional cost on to NHS Dumfries and Galloway.

Audit Fees (Continued)

Audit fees for 2020/21

Set out below is the agreed fee which reflects the increase to the baseline fee as outlined on the previous page.

Service	Fees £
External Auditor Remuneration	121,005
Pooled Costs	13,180
Contribution to Audit Scotland costs	6,040
Contribution to Performance Audit and Best Value	-
2020/21 Fee	140,225

Additional Fees (Non-Audit Services)

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

Fee assumptions

In setting the fee for 2020/21 we have assumed that NHS Dumfries and Galloway will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made in preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Independence

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence.

We encourage you to contact us to discuss these or any other independence issues with us.

We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard.

Our team complete annual fit and proper declarations including independence confirmations on a client by client basis as well as completing timesheets. The work of our Ethics team is overseen by the Ethics partner and all staff undergo ethics training in year.



Appendices

Appendix 1 - Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

NHS Dumfries and Galloway

Responsibilities include:

- Preparing financial statements that give a true and fair view;
- Maintaining accounting records;
- Establishing and maintaining systems of internal control;
- Effective internal controls including controls to achieve objectives and secure value for money;
- Establish arrangements for proper conduct of affairs including legality of transactions;
- Arrangements for prevention and detection of fraud, error, irregularity, bribery and corruption; and
- Appropriate corporate governance arrangements and arrangements to monitor the effectiveness of governance.

External Audit

Responsibilities include:

- Comply with professional engagement and ethical standards;
- Provide an ISA compliant audit and opinion on the financial statements including regularity of transactions;
- Demonstrate compliance with the wider scope public audit as detailed in the Code and applicable guidance;
- Liaise with and notify Audit Scotland when circumstances indicate a statutory report may be required. This includes sharing awareness of current and/or sector issues;
- Notify Audit Scotland of any known or suspected frauds greater than £5,000; and
- Contribute to relevant performance studies (as set out in the planning guidance for the year).



Appendix 2 - Communication

ISA (UK) 260 as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (we assume this to be the Audit and Risk Committee on behalf of the Board). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to management and/or the Audit and Risk Committee.

	Audit Plan	Annual Report (considered our ISA 260 Report)
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of NHS Dumfries and Galloway's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report or emphasis of matter		•

Appendix 3 - Fraud responsibilities

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at NHS Dumfries and Galloway.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls;
- leading a discussion with those charged with governance (for NHS Dumfries and Galloway this is assumed to be the Audit and Risk Committee) on their view of fraud. Typically we do this when presenting our Audit Plan and in the form of management and those charged with governance questionnaires;
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud; and
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We also make inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year.

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at NHS Dumfries and Galloway we will report to the Auditor General as required by Audit Scotland.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is NHS Dumfries and Galloway's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with NHS Dumfries and Galloway to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing NHS Dumfries and Galloway's arrangements in response to the National Fraud Initiative.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

Appendix 4 - Auditing Accounting Estimates and Related Disclosures (ISA 540 revised)

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do **Audit and Risk Committee** members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021. Based on our knowledge of NHS Dumfries and Galloway we have identified the following material accounting estimates for which this is likely to apply:

- Depreciation;
- Valuation of property, plant and equipment (valuation);
- the provision for clinical and medical negligence costs and participation in CNORIS; and
- accruals (prescribing costs).

NHS Dumfries and Galloway's Information systems

In respect of NHS Dumfries and Galloway's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

Appendix 4 - Auditing Accounting Estimates and Related Disclosures (continued)

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have made formal inquiries of management. We would appreciate a prompt response to these inquiries in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

