

External Audit Report for NHS Dumfries and Galloway

Financial year ended 31 March 2022

Prepared for the Board of NHS Dumfries and Galloway and the
Auditor General for Scotland

11 July 2022



Contents



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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 external audit 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 Board 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.

Executive Summary

This table summarises the key findings and other matters arising from the statutory audit of NHS Dumfries and Galloway ('the Board') and the preparation of the group and Board's financial statements for the year ended 31 March 2022 for those charged with governance and the Auditor General for Scotland.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Board's financial statements give a true and fair view of the financial position of the group and Board and the group and Board's net expenditure for the year;
- the group and Board's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, as interpreted and adapted by the 2021/22 Government Financial Reporting Manual (FRoM), alongside the NHS Manual for Accounts;
- the group and Board's financial statements and the audited parts of the Remuneration Report and Staff Report have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

We are also required to report whether other information published together with the audited financial statements in the Annual Report and Accounts, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We are required to express an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

We have completed our audit of your financial statements and issued an unqualified audit opinion on 11 July 2022, following the Audit Committee meeting on 27 June 2022.

Our audit work was completed remotely during May and June 2022. There have been 5 adjustments to the draft primary financial statements for 2021/22. The cumulative effect of these adjustments was £0.610 million debit to the Statement of Consolidated Comprehensive Net Expenditure for 2021/22. See Appendix 1.

We have identified 3 unadjusted misstatements to the financial statements that have a net impact of £2.574 million credit to the Statement of Consolidated Comprehensive Net Expenditure ("SOCNE") for the year. This includes an extrapolated error of £2.553 million credit to the SOCNE, with the impact of actual errors found being £0.021 million credit on the SOCNE. See further details in Appendix 1 which also includes disclosure corrections identified during our testing.

We have also raised recommendations for management as a result of our audit work in Appendix 2. Our follow up of recommendations from the prior years' audit are detailed in Appendix 3 and Appendix 4.

Executive Summary (continued)

Financial Statements (continued)

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Board's financial statements give a true and fair view of the financial position of the group and Board and the group and Board's net expenditure for the year;
- the group and Board's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, as interpreted and adapted by the 2021/22 Government Financial Reporting Manual (FReM), alongside the NHS Manual for Accounts;
- the group and Board's financial statements and the audited parts of the Remuneration Report and Staff Report have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

We are also required to report whether other information published together with the audited financial statements in the Annual Report and Accounts, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We are required to express an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

We conclude that the Remuneration Report and Staff Report, subject to audit, has been prepared in accordance with requirements and is materially correct. Within our audit testing we did not identify any non-compliance with laws and regulations and our regularity opinion is unmodified.

We have concluded that the information given in the Performance Report and the Governance Statement is consistent with the financial statements and has been prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Our audit opinion is unmodified.

Executive Summary

Wider scope audit

Under the Audit Scotland Code of Audit Practice ('the Code'), the scope of public audit extends beyond the audit of the financial statements. The Code of Audit Practice requires auditors to consider the Board's arrangements in respect of the wider dimensions of public audit covering: financial management; financial sustainability; governance and transparency; and, value for money.

In our Annual Audit Plan for the year ended 31 March 2022 we documented our assessment of wider scope risks and planned audit work. Through our audit procedures we have not identified any further wider scope risks. In accordance with the Code, we outline the work undertaken in response to the risks and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

Financial Management

The Board operated within its financial resource targets for 2021/22. It did so while continuing to operate in a period of considerable uncertainty and whilst responding to the operational and financial challenges in managing the impact of Covid-19 on service delivery.

The Board had a financial gap of £31.194m at the start of 2021/22 with a savings target of £15.155m identified for delivery in year. Despite the challenges of the ongoing pandemic total savings of £14.8 million were delivered, £2.381 million of which were recurring savings. The remaining financial gap as per the plan was covered by non-recurring Covid funding.

The Board received a total Covid-19 funding allocation of £33.656 million from Scottish Government ("SG") for 2021/22. Included within this total was non recurring, non repayable funding of £13.445 million to support delivery of the breakeven position and £4.4m which was allocated to Dumfries and Galloway Council for social care costs and community testing capacity. The overall funding was used to support a range of additional costs for the immediate Covid-19 response including the vaccination programme, test and protect, provision of surge capacity for general and critical care beds, additional equipment, additional workforce requirements, support to third and independent sector providers and extending public health team capacity. Dumfries and Galloway IJB has also carried forward £16.346m into 2022/23 through an IJB earmarked reserve and these monies will be ringfenced for future years Covid-19 costs. This amount is recognised as a liability within the accounts of NHS Dumfries and Galloway as at 31 March 2022.

Executive Summary

Wider scope audit

Financial Sustainability

The Board was required to submit a 3 year Financial Plan (“3YFP”) to Scottish Government. The Board has estimated that it has an underlying deficit of £28.899 million for 2022/23. The Board’s 3YFP identifies additional funding and costs anticipated for the next three years including in-year recurring deficits of £3.5m for 2022/23 and a £4m deficit in 2023/24 and 2024/25. For 2022/23, the baseline uplift from Scottish Government has been confirmed at a total of £8.258 million for NHS Dumfries and Galloway, reflecting a 2% baseline uplift along with further support for increased employer national insurance costs arising from the UK Health and Social Care Levy. In addition, £1.467 million is estimated for the New Medicines Fund based on a further £50m being allocated centrally.

Recurring savings of £4.5 million have been forecast for 2022/23. For 2022/23 non-recurring savings of £8.000 million have been forecast through workforce and flexibility savings.

The Board are unable to provide a balanced financial position for the three year plan and will therefore require non-recurring support from Scottish Government of £20m for 2022/23 and an indicative £20m and £18m for the following two financial years. Without either additional funding or fundamental change to service provision the Board is likely to have a significant deficit beyond the period of the plan. The NHS Board has approved the financial plan as it stands and await a response and sign off from SG in relation to the plan and the assumptions made within. If the plan is not agreed by SG, urgent action will be needed from the Board to either agree additional funding with SG or to reconfigure services.

Executive Summary

Wider scope audit (continued)

Governance and transparency

The Board returned to full governance arrangements in 2021/22. Board meetings for 2021/22 took place via Microsoft Teams and during the year there were 7 public meetings with the recordings published on the Board's website after the meeting. In addition there were 7 private "in committee" Board meetings held during the year.

The Board also obtained independent assurance from Internal Audit. The Chief Internal Auditor concluded that there were adequate and effective internal controls throughout the year. However it is noted that 69% of all internal audit actions were overdue at year end.

A remobilisation plan (RMP3) for 2021/22 was approved and officially signed off by Scottish Government that outlined the recovery plan of planned care across all directorates and specialties. This was subsequently updated to RMP4 and was updated to reflect the position for quarter 3 and quarter 4 of 2021/22.

Value for money

During 2021/22 the pandemic continued to impact on performance delivery. A level of activity was maintained to ensure emergency, cancer and patients deemed as clinically urgent were seen and treated. Collaborative working with diagnostics, radiology, laboratory and endoscopy has enabled the reinstatement of outpatient clinics and elective surgery within current capacity as surge allows. However, there has been a system wide impact on elective care, with services only 'switched on' as COVID demands have allowed.

The Board has been achieving the agreed trajectories in the Remobilisation Plan (RMP4) across many areas, however, the 'Omicron' wave of COVID in early 2022 caused further setbacks to the plans.

Performance information for the Board and The Health and Social Care Partnership can be found on their respective websites

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during the audit process.

Introduction

Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2022 at NHS Dumfries and Galloway. The scope of our audit was set out in our External Audit Plan which was shared with the Audit and Risk Committee on the 31 January 2022.

The main elements of our audit work in 2021/22 have been:

- An audit of NHS Dumfries and Galloway's annual report and accounts for the financial year ended 31 March 2022;
- Consideration of the wider dimensions that frame the scope of public audit as set out in Audit Scotland's Code of Audit Practice 2016 ('the Code') covering: financial management; financial sustainability; governance and transparency and value for money;
- Monitoring NHS Dumfries and Galloway's participation in the National Fraud Initiative (NFI); and
- Any other work requested by Audit Scotland.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

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

Responsibilities

NHS Dumfries and Galloway is responsible for preparing an annual report and accounts which show a true and fair view and that are in accordance with the accounts direction from Scottish Ministers. The Board is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Adding value through our audit work

We aim to add value to management and those charged with governance through our external audit work. We seek to provide constructive recommendations designed to support management to mitigate areas of risk and strengthen the organisation's control environment. Through our wider scope work and interactions, including at Audit and Risk Committee meetings, we seek to help the organisation identify and promote good practices whilst supporting improvements across the wider scope audit dimensions.

Audit of the annual report and accounts

Key messages and judgements

We have issued an **unmodified** audit opinion on the annual report and accounts.

We have identified 3 unadjusted misstatements to the financial statements that have a net impact of £2.574 million credit to the Statement of Consolidated Comprehensive Net Expenditure (“SOCNE”) for the year. This includes an extrapolated error of £2.553 million credit to the SOCNE, with the impact of actual errors found being £0.021 million credit on the SOCNE. Audit adjustments are detailed in Appendix 1.

Our audit opinion

For the financial year ended 31 March 2022 we issued an unmodified opinion on the annual report and accounts. As reported in the independent auditor’s report:

- the group and Board’s financial statements give a true and fair view of the financial position of the group and Board and the group and Board’s net expenditure for the year;
- The group and Board’s financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the United Kingdom, as interpreted and adapted by the 2021/22 Government Financial Reporting Manual (FReM), and the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder.
- expenditure and income were in accordance with applicable enactments and guidance (regularity); and,
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The audit process

In accordance with our annual external audit plan our audit work commenced on 2nd May 2022. We received the draft primary financial statements in line with our agreed timetable which management had prepared based on the Scottish Government Health and Social Care Directorate template accounts.

There was 5 adjustments to the draft primary financial statements for 2021/22. Details of the adjustments are noted within Appendix 1. The cumulative effect of these adjustments was £0.610 million debit to the Statement of Consolidated Comprehensive Net Expenditure for 2021/22. There were 3 unadjusted misstatement to the financial statements. We also identified disclosure adjustments in respect of the draft financial statements. A full listing of adjusted and unadjusted misstatements is detailed in [Appendix 1](#).

Audit of the annual report and accounts (continued)

Group accounts

The Annual Accounts consolidate the results of Dumfries and Galloway Health Board (“the Board”), Dumfries and Galloway Health Board Endowment Funds (“the Endowment Fund”) and the Dumfries and Galloway Integrated Joint Board (“the IJB”), a joint venture accounted for on an equity basis. For 2021/22 the Endowment Fund reported gross expenditure of £385,000 and held net assets of £11.764 million. The Endowment Fund is consolidated in the group accounts as a subsidiary. Through our audit scoping procedures we considered the Board to be the only component “individually financially significant” to the Group, with the Endowment Fund considered to be “not significant, but material”. We therefore performed a full scope audit of the Board using Board only materiality, and applied group materiality when performing specific audit procedures over material balances recognised and held by the Endowment Fund. Analytical procedures were performed using group materiality on all other consolidated balances.

The IJB is accounted for on an equity basis in the consolidated accounts. We consider that this is appropriate. The consolidated balance is c£15.8m, an increase on the £8m recognised in the prior year. In prior years the Trust have also accounted for the investment in IJB in its Board accounts but following discussions with Scottish Government the investment was removed from the draft statement. IAS 28 states that an entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method. The Board Manual says “IFRS 11 notes that a joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures.” We therefore consider that the investment should be shown in the Board accounts and have agreed with management that the investment will be recognised in the Board accounts (as well as the consolidated financial statements). See adjustment on page 40.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Our audit approach was set out in our Audit Plan communicated to the Audit and Risk Committee on 31 January 2022. We updated our audit materiality to reflect the 2021/22 draft financial statements. Materiality was set at £9.117 million for the Group (Board only: £9.084 million), representing 2% of gross expenditure less IJB contributions. Performance materiality was set at £6.838 million for the Group (Board only: £6.813 million), representing 75% of our calculated materiality.

We report to management any difference identified over £250,000 (trivial capped at £250,000 by Audit Scotland).

We applied a lower materiality threshold of £25,000 for Senior Officers’ Remuneration for disclosures within the Remuneration Report and Staff Report to ensure that Senior Officers’ Remuneration has been disclosed appropriately.

Audit of the annual report and accounts (continued)

Service auditors report

The Board utilise a number of shared IT systems, IT applications and processes with other Scottish health boards. Assurance reports are prepared by service auditors in the health sector under ISA (UK) 402 covering the national systems/arrangements. During 2021/22 the service audit reports from KPMG on NSS Payroll Services, IT Services (National IT contract for services provided by ATOS Origin Alliance supporting eFinancials) and Payments to Primary Care Contractors and the BDO service auditor report over National Single Instance (NSI) eFinancials were all unqualified.

We adopt a fully substantive audit approach and therefore while we consider the findings from the Service auditor reports and the impact on our audit procedures, we do not place direct reliance on their work. From consideration of the reports we are therefore satisfied that these do not impact on our audit work.

Internal control environment

In accordance with ISA requirements we have developed an understanding of the Board's control environment. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is fully substantive in nature. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

Audit of the annual report and accounts (continued)

NHS Dumfries and Galloway's financial performance during 2021/22

The Scottish Government requires NHS Boards to meet three key financial targets:

- a Revenue Resource Limit;
- a Capital Resource Limit; and
- a Cash Requirement.

NHS Dumfries and Galloway delivered a break-even position in 2021/22, achieving a small surplus of £37,000 against its revenue resource limits. A breakeven position was also achieved against the capital resource limit set.

However, despite realising a small surplus position, NHS Dumfries and Galloway continued to operate within a challenging financial environment during 2021/22.

	Resource Limit £'000	Outturn Expenditure £'000	Variance [over]/under £'000
Total Revenue Resource Limits	431,228	431,191	37
Total Capital Resource Limits	6,122	6,122	-
Cash Requirement	438,765	438,765	-

Due to the continued impact of the Covid-19 pandemic, the Scottish Government paused the three year annual operating and financial planning process and recognising the exceptional nature of Covid-19 upon healthboards in 2021/22 and the impact on delivery of financial plans, additional non repayable funding was provided to support in-year financial balance across all NHS Boards. NHS Dumfries and Galloway received £13.445 million for this purpose.

The Board had a financial gap of £31.194m at the start of 2021/22 with a savings target of £15.155m identified for delivery in year. Despite the challenges of the ongoing pandemic, total savings of £14.8 million were delivered during the year, £2.381 million of which were recurring savings. With £1.044 million of costs identified as unallocated and available to reduce the recurring deficit being offset by £1.130 million for cost pressures not funded in 2021/22, the deficit carried forward into 2022/23 is £28.899 million. Following discussions with Scottish Government, a Financial Recovery Plan was developed in latter part of 2021/22 setting out the scale of the underlying financial deficit, future financial planning assumptions and plans for savings delivery by the Board. During 2021/22 NHS Boards were provided additional financial support to ensure resources were available to the Health and Social Care Partnership to respond to the Covid-19 pandemic. For Dumfries and Galloway this totalled £33.656m. Included within this total was £4.4m which was passed across to Dumfries and Galloway Council for social care costs and community testing capacity. The overall funding was used to support a range of additional costs for the immediate Covid-19 response including the vaccination programme, test and protect, provision of surge capacity for general and critical care beds, additional equipment, additional workforce requirements, support to third and independent sector providers and extending public health team capacity. Due to the nature of Covid-19 spend there was a level of year end flexibility in relation to this funding, with the Partnership carrying forward £16.346m into 2022/23 through IJB reserves. These monies will be ringfenced for future year's Covid-19 costs.

Responding to significant financial statement 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.

This section provides commentary on the significant audit risks communicated in the External Audit Plan.

Risks identified in our Audit Plan

Commentary

Management override of controls

As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Board's controls for specific transactions.

We consider those critical estimates and judgements as set out within the financial statements, including accounting policies. In addition, we specifically consider the use of manual journals during the year and in creating the financial statements where controls may be overridden by management.

In response to this significant risk, our audit response was as follows:

- We considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures.
- We reviewed accounting estimates for management bias/indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2022 and retrospective review of those estimates as at 31 March 2021.
- Journals testing including:
 - Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;
 - Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they were appropriate and suitably recorded in the financial ledger;
 - We ran specific targeted routines over the journals population to identify higher risk journals, including unusual account combinations or journals posted by senior management; and
 - We performed target testing of transactions around the financial year end, reviewing large journals and those which appear unusual to understand the rationale for the transaction.

Conclusion

Through our audit procedures performed we found that there was no evidence of management override in our testing of transactions tested. We did not identify indication of fraud or inappropriate management bias in accounting estimates that could result in a material misstatement.

Responding to significant financial statement risks (continued)

Risks identified in our Audit Plan	Commentary
<p>Risk of fraud in expenditure recognition</p> <p>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.</p> <p>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.</p> <p>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), which we refer to here as "Other Operating Expenditure". 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.</p>	<p>In response to this significant risk, our audit response was as follows:</p> <ul style="list-style-type: none"> • Walkthroughs of the controls and procedures over Other Operating Expenditure streams; • Substantive testing of expenditure throughout the year to confirm its occurrence, accuracy and completeness of recording; • Focused substantive testing of Other Operating Expenditure recognised pre and post year end to identify if there is any potential overstatement at year end to address the risk of cut-off; and • Review of accruals and provisions, where material, around the year end to consider if there is any indication of overstatement of balances held at year end through consideration of accounting estimates and management judgements. <p>Conclusion</p> <p>We confirm we have not identified:</p> <ul style="list-style-type: none"> • any exceptions in relation to the occurrence, accuracy or completeness of expenditure recognised by NHS Dumfries and Galloway during 2021/22. • any exceptions as a result of focused testing performed in relation to the risk of cut-off of Other Operating Expenditure. • any expenditure which was not in accordance with the nature of NHS Dumfries and Galloway (regularity testing). <p>We did identify 3 misstatements as a result of our detail testing of accruals and provisions that have a net impact of an estimated £2.574 million credit to the Statement of Consolidated Comprehensive Net Expenditure for the year (actual adjustments identified resulted in an actual net impact of £0.0021 million credit to the SOCNE). See Appendix 1 for details.</p>

Responding to significant financial statement risks (continued)

Risks identified in our Audit Plan	Commentary
<p data-bbox="114 263 862 311">Valuation of land, buildings and dwellings</p> <p data-bbox="114 327 862 1449">In accordance with the NHS Accounting Manual and the HM Treasury Financial Reporting Manual (FReM), subsequent to initial recognition, NHS D&G 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 property, plant and equipment (“PPE”) is approximately stated. As at 31 March 2022, NHS D&G held PPE of £325.072 million including land, buildings and dwellings of £303.685 million. Given the value of land, buildings and dwellings held by NHS D&G and the level of complexity and judgement in the estimation valuations, there is an inherent risk of material misstatement in the valuation of land, buildings and dwellings at 31 March 2022. The risk is less prevalent in non land, buildings and dwellings assets as these are generally held at depreciated historical costs, as a proxy of fair value and therefore less likely to be misstated. NHS D&G appoint Avison Young to undertake a rolling programme of valuations across the assets base, valuing land, buildings and dwellings at a minimum of once every five years.</p>	<p data-bbox="875 263 2123 311">In response to this significant risk, our audit response was as follows:</p> <ul data-bbox="875 311 2123 1013" style="list-style-type: none"> <li data-bbox="875 311 2123 391">• Walkthroughs of the controls and procedures over the valuation of land, buildings and dwellings; <li data-bbox="875 391 2123 502">• Consideration of the arrangements in place at the Board for ensuring the carrying value of land, buildings and dwellings remains appropriate and in accordance with IAS 16; <li data-bbox="875 502 2123 582">• Evaluation of the competence, capability and objectivity of the Board’s professional valuers who represent management’s experts under ISA 500; <li data-bbox="875 582 2123 662">• Evaluation of the competence, capability and objectivity of the auditor’s professional valuers who represent auditor’s experts under ISA 500; <li data-bbox="875 662 2123 742">• Review of the suitability of indices applied in the valuation of land, buildings and dwellings including challenging the reasonableness of the rates applied; <li data-bbox="875 742 2123 853">• Challenged management’s assessment of potential impairment of PPE including consideration of any indicators of impairment of PPE not recognised by the Board; and <li data-bbox="875 853 2123 1013">• Using our auditor’s valuation expert in order to challenge management’s expert as well as NHS Dumfries and Galloway management around the valuation instructions issued and approach adopted by the Board in valuing land, buildings and dwellings as at 31 March 2022.

Responding to significant financial statement risks (continued)

Risks identified in our Audit Plan	Commentary
<p>Valuation of land, buildings and dwellings (continued)</p> <p>We focus the risk on:</p> <ul style="list-style-type: none"> • Land, buildings and dwellings where the valuation movement is not in line with the audit team's expectation; • Land, buildings and dwellings which have been valued by the valuers without any physical inspection of relevant data; and • Land, buildings and dwellings which have not been formally valued during the year and management's assessment of impairment in relation to such assets. 	<p>Conclusion</p> <p>As part of the valuation instruction, management's valuer (Avison Young) must prepare a written "Terms of Engagement" document to set out the terms of how these instructions will be met. This is a mandatory requirement stated in VPS1 of the RICS Valuation – Global Standards 2020. Our auditor's valuation expert reviewed NHS Dumfries and Galloway's instructions to Avison Young. Our auditor's valuation expert was comfortable that the valuer's instructions had been agreed by NHS Dumfries and Galloway and Avison Young and that the instructions were in line with the RICS Global Red Book VPS1 and are therefore considered the instructions to be appropriate.</p> <p>The following improvement point was noted. The instructions did not confirm</p> <ul style="list-style-type: none"> • which valuer would perform the valuation and did not confirm the valuer's accreditation and whether or not the valuer was a member of RICS; and • the property addresses of the buildings to be valued, as this was not specified in the Terms of Engagement. <p>We recommend that all such details are included and confirmed within the Terms of Engagement going forward.</p> <p style="text-align: right;"><i>Action One</i></p>

Detecting Irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Board and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2021/22 HM Treasury Financial Reporting Manual (FRoM).
- We enquired of management and the Audit and Risk Committee, concerning the Boards' policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of management and the Audit and Risk Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Board's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered the Board's financial performance for the year and potential management bias in determining accounting estimates, especially in relation to the calculation of the following accruals: IJB reserves (£25.084 million), medical removal expenses accrual (£0.388 million), ICU bed capacity accrual (£0.308 million), lease dilapidation accrual (£0.281 million) and the Family Health Service ("FHS") accrual (£5.270 million). Our audit procedures are documented within our response to the significant risk of management override of controls on page 13.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in revenue and expenditure recognition, and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Board's operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Board's control environment, including the policies and procedures implemented by the Board to ensure compliance with the requirements of the financial reporting framework.

We have no matters that we wish to report to you with regard to irregularities, including fraud.

Significant estimates and judgements

NHS Dumfries and Galloway's financial statements include the following significant accounting estimates and judgement impacting on the annual accounts:

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Property valuations (Land, buildings and dwellings) £303.685 million</p>	<p>As at 31 March 2022, NHS Dumfries and Galloway held PPE of £325.072 million including land, buildings and dwellings of £303.685 million. NHS Dumfries and Galloway appoint Avison Young to undertake a rolling programme of valuations, valuing land and buildings at a minimum of once every five years.</p> <p>All land and buildings were revalued by Avison Young as at 31 March 2022 on the basis of fair value (market value or depreciated replacement cost where appropriate). The valuations have been prepared having regard to the contents of the RICS Valuation Global Standards 2022 (the Red Book) and specifically the appropriate bases of valuation for International Financial Reporting Standards (IFRS). The net impact of the revaluation was an increase of £13.507 million which was credited to the revaluation reserve. Impairment of £5.392 million was charged to the Statement of Comprehensive Net Expenditure and Summary of Resource Outturn.</p> <p>Management has disclosed that the estimates, assumptions and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial statements within the next financial year include property valuations. They have also confirmed and disclosed that they rely on the valuation information provided by their external valuer.</p>	<p>We have tested the accounting entries processed by management in relation to the valuation to ensure these were in accordance with the Manual/FReM. We have tested the data and assumptions applied by management (and their experts) in producing the valuation estimate and we have agreed the valuation accounting entries recognised in the annual accounts for the year ended 31 March 2022 directly to the advice provided by the Board's valuer. We have evaluated the competence, capability and objectivity of the Board's professional valuers who represent management's experts under ISA 500. We have used our auditor's valuation expert in order to challenge management expert's advice as well as the Board's management around the valuation instructions issued to their external valuer and the approach adopted in valuing land and buildings as at 31 March 2022. We have challenged management's assessment of potential impairment of PPE including consideration of any indicators of impairment of PPE not recognised by the Board.</p>	Light Purple

Significant estimates and judgements (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Property valuations (Land, buildings and dwellings) £303.685 million	<i>(Continued)</i>	<p>One recommendation was raised in relation to our audit work over land, buildings and dwellings valuations. Upon review of valuation instructions issued by the Board to their valuer it was noted that the instructions did not confirm</p> <ul style="list-style-type: none"> • which valuer would perform the valuation and did not confirm the valuer's accreditation and whether or not the valuer was a member of RICS; and • the property addresses of the buildings to be valued, as this information was not specified in the Terms of Engagement. <p>We recommend that all such details are included and confirmed within the Terms of Engagement going forward. A management action has been raised in Appendix 1 in relation to these matters. Action plan point – 1.</p>	
Clinical and medical negligence provision £21.012 million	<p>The clinical and medical negligence provision is calculated using information received from the Central Legal Office regarding claims they have received relating to NHS Dumfries and Galloway. The provision covers all claims classified as Category 3 and 50% of the value of claims classified as Category 2 which have been assessed as having a probability of settlement. The share of the NHS Scotland CNORIS liability is estimated based on actual settlement trends in prior years.</p>	<p>We have reviewed clinical and medical legal claims and CNORIS provisions and have confirmed that the amounts recognised are in accordance with advice received from the Central Legal Office ("CLO") in relation to claims outstanding as at 31 March 2022 against the Board.</p> <p>We are satisfied that the provision has not been materially misstated as at 31 March 2022 and has been appropriately reflected in the financial statements.</p>	Light Purple

Significant estimates and judgements (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Pension provision £3.747 million	The pension provision is calculated using information received from the Scottish Public Pension Agency (SPPA) relating to former NHS Dumfries and Galloway employees for whom NHS Dumfries and Galloway have an ongoing pension liability. The liability is calculated using information obtained from SPPA and discount rates as per SGHSCD guidance.	<p>We are satisfied that the provision has been appropriately calculated in accordance with the NHS Accounts Manual and has been agreed to third party supporting information and we are satisfied that the provision has been disclosed appropriately in the accounts.</p> <p>We note that given the value of the pension provision at 31 March 2022 of £3.747 million is immaterial and that the balance was also immaterial in the prior year (2021: £3.999 million). We do not believe that the provision has a “significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial statements within the next financial year” and therefore recommended that this disclosure be removed from the financial statements. See details of Disclosure Adjustments in Appendix 1.</p>	Light Purple

Significant estimates and judgements (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Commitments under PFI Contracts – On Balance Sheet £195.764 million</p>	<p>The Board has one contract financed under a Public Finance Initiative (PFI) and one under the Non Profit Distributing (NPD). The NPD funding model was developed and introduced as an alternative to, and has since superseded, the traditional PFI model in Scotland. The operators financial close and accounting models for the schemes are highly complex and produce accounting estimates for disclosures within the accounts. The unitary charge levied by the PFI supplier contains various elements including cost of services, additions of new equipment, energy and contract inflation which needs to be apportioned by use in the financial model. The application of the models in apportioning these costs is reported in the annual accounts.</p> <p>The accounting model requires judgements to be made in a number of areas by the Board. We have assessed the inputs from the Operator's models to produce an audit estimate for each disclosure within the financial statements. We then compare this with the Board's figures for its accounting estimate. Where the difference between the Board's and the audit accounting estimate falls within our trivial range (£0 to £250k) we are not required to report this. Where the Board's accounting estimate falls outside of this range we will report this accordingly.</p>	<p><i>Statement of Financial Position</i></p> <p>The Board's liability for Mountainhall Treatment Centre is £2.072m higher than the audit estimate. The liability for DGRI is £4.164m lower. The net difference is the disclosure of a lower liability of £2.092m than our estimate.</p> <p><i>Statement of Comprehensive Net Expenditure</i></p> <p>The Board's sum of entries within the statement of comprehensive net expenditure in relation to service charges, interest and the impact of RPI is £1.161m higher than the audit estimate for Mountainhall Treatment Centre and £0.177m lower for DGRI. The net difference is the disclosure of a higher cost of £0.984m than our estimate.</p> <p><i>Future payments for services</i></p> <p>The total future unitary payments disclosed for the Mountainhall Treatment Centre are £2.072m lower than our own estimate and for DGRI they are £1.549m lower. The net difference in the disclosure is £3.621m lower.</p> <p>Conclusion</p> <p>PFI schemes require complex modelling and estimation. We consider that the estimation used by the Board is reasonable and has not created a material risk of misstatement. We have not therefore reported the matters above as errors.</p>	Light Purple

Significant estimates and judgements (continued)

As set out in our Audit Plan, to ensure compliance with ISA 540 revised, we also requested further information from management in relation to the following material estimates (which have not been considered significant by management as described above); Depreciation (£8.101 million); Provisions - Participation in CNORIS (£12.835 million); and Accruals – Prescribing (£11.296 million). We are satisfied that these estimates have been calculated appropriately and that year end estimated balances have not been materially misstated.

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- **Light Purple** We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Other key elements of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or due to their complexity or importance to the user of the accounts.

Issue	Commentary
Matters in relation to fraud and irregularity	It is the Board's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from management regarding management's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquiries of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Accounting practices	We have evaluated the appropriateness of the Board's accounting policies, accounting estimates and financial statement disclosures and have identified no matters to highlight for your attention.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	We have not been made aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified and we have issued an unmodified opinion in this respect.

Issue	Commentary
Opinion on other aspects of the annual report and accounts	<p>We are required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been prepared properly in accordance with the requirements of the National Health Service (Scotland) Act 1978 (the Act), and directions thereunder. We have audited the elements of the Remuneration Report and Staff Report , as required by the Code and are satisfied that these have been properly prepared in accordance with applicable legislation.</p> <p>The information given in the Performance Report is consistent with the financial statements and that report has been prepared in accordance with the Act and directions made thereunder by the Scottish Ministers. The information given in the Governance Statement is consistent with the financial statements and that report has been prepared in accordance with the Act and directions made thereunder by the Scottish Ministers.</p>
Governance statement	<p>The Governance Statement is included within the Accountability Report. The Corporate Governance Report is set out on page 15 of the Annual Report and Accounts. The report sets out how NHS Dumfries and Galloway has been governed during 2021/22, including membership and organisation of its governance structures and how they support the achievement of the Board’s objectives. The report includes the Directors’ Report, the Statement of Accounting Officer’s Responsibilities and the Governance Statement and has been prepared in accordance with the FReM and NHS Scotland Manual for Accounts. In accordance with the Scottish Public Finance Manual (SPFM), the Accountable Officer has a specific responsibility to ensure that arrangements have been made to secure Best Value. Through our audit work over the wider scope audit dimensions: financial management; financial sustainability; governance and transparency; and, value for money, we have considered the arrangements in place at the Board for securing Best Value.</p> <p>Wider assurances through financial and non-financial performance and internal controls and governance arrangements, provide assurances to the Chief Executive to express an opinion on the status of governance arrangements during the year for the purposes of updating the governance statement in the annual report. The Governance statement reflects these assurances and conclusions reached by the Board’s Internal Audit function in year.</p>
Matters on which we report by exception	<p>We are required by the Auditor General for Scotland to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration Report and Staff Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.</p>

Issue	Commentary
Written representations	<p>A letter of representation has been requested from the Board, including specific representations in respect of the Group, which is included in the Audit and Risk Committee papers. Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates for property, plant and equipment valuations, provisions and accruals.</p>
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Board meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered Management’s assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Regularity	<p>The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000. In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.</p>

Issue	Commentary
National Fraud Initiative	<p>The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies, including the health board, received matches for investigation in January 2021. All recommended matches plus any further matches based on findings and the risk of error or fraud was required to be investigated by 30 September 2021 and the results recorded on the NFI system.</p> <p>As part of our audit work in the current year we considered the progress made by NHS Dumfries and Galloway in investigating matches. The Board has made good progress in investigating matches and have demonstrated commitment to NFI including timely submission of data and investigation of matches by Management. Appropriate personnel are involved in the process and there is also oversight from the Audit and Risk Committee.</p>

Wider scope audit

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work of the wider scope audit dimensions: financial management; financial sustainability; governance and transparency and value for money. We take a risk based audit approach, utilising our cumulative audit knowledge of the organisation and understanding of its risks and priorities. Within our annual audit plan we identified 2 significant wider scope risks in relation Financial Sustainability, Governance and Transparency/Value for Money. As part of our audit work we have not identified any further wider scope audit risks.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
<p>Financial Management</p> <p>Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively</p>	<p>No significant wider scope risks identified</p>	<p>Through our cumulative audit knowledge and planning risk assessment we did not identify any significant audit risks in relation to the Board’s financial management arrangements.</p> <p>We have assessed the Board’s financial performance in year (page 12). The Board operated within its financial resource targets, achieving this while continuing to operate in a period of considerable uncertainty and whilst responding to the operational and financial challenges in managing the impact of Covid-19 on service delivery.</p> <p>The Board received a total Covid-19 funding allocation of £33.656 million from Scottish Government (“SG”) for 2021/22. Included within this total was non recurring, non repayable funding of £13.445 million to support delivery of the breakeven position and £4.4m which was allocated to Dumfries and Galloway Council for social care costs and community testing capacity. The overall funding was used to support a range of additional costs for the immediate Covid-19 response including the vaccination programme, test and protect, provision of surge capacity for general and critical care beds, additional equipment, additional workforce requirements, support to third and independent sector providers and extending public health team capacity. This has been carried forward by Dumfries and Galloway IJB in an earmarked reserve for COVID-19 purposes in line with usual accounting arrangements for Integration Authorities.</p>	<p>The Board operated within the financial resources made available to it during 2021/22 and was able to carry forward £16.346m of funding via the IJB.</p> <p>We note that this was an exceptional year due to Covid-19 and an additional funding allocation of £33.656m was allocated to the Board. We note that the additional funding received for Covid-19 was a one off.</p> <p>The Board has estimated that with the withdrawal of this funding and other cost pressures that its underlying deficit is £28.899 million.</p>

Wider scope audit (continued)

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
<p>Financial Management</p> <p>Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively</p>	<p>No significant wider scope risks identified</p>	<p>(Continued)</p> <p>The Board had a financial gap of £31.194m at the start of 2021/22 with a savings target of £15.155m identified for delivery in year. Despite the challenges of the ongoing pandemic total savings of £14.8 million were delivered, £2.381 million of which were recurring savings. With £1.044 million of costs identified as unallocated and available to reduce the recurring deficit being offset by £1.130 million for cost pressures not funded in 2021/22. The remaining financial gap was resolved by the additional Covid-19 funding.</p> <p>We note that the additional funding received for Covid-19 was a one off. The Board has estimated that with the withdrawal of this funding and other cost pressures that its underlying deficit is £28.899 million. Following discussions with Scottish Government, a Financial Recovery Plan was developed in the latter part of 2021/22 setting out the scale of the underlying financial deficit, future financial planning assumptions and plans for savings delivery going forward. We have considered the Financial Recovery Plan further in our consideration of Financial Sustainability.</p> <p>As part of our financial statements audit, we also considered the arrangements in place for monitoring and scrutiny of financial performance in year, including oversight from management and those charged with governance. This has included inquiry of management and review of minutes and papers and review of Internal Audit reports. We have not identified any issues from our work.</p>	<p>We have explored this matter further during our review of Financial Sustainability.</p>

Wider scope audit (continued)

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion																
<p>Financial sustainability</p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered.</p>	<p>Significant risk identified: NHS D&G have continued to face significant challenges in 2021/22, from a financial perspective and as a result of the financial implications of the ongoing operational and service pressures due to Covid-19. A savings gap of £16 million was identified at the start of 2021/22. This savings gap was considered to be significant, relative to the size of the organisation. We will consider the overall financial position reached by NHS D&G during 2021/22 and we will seek to understand the future financial implications of this, as well as the future financial position of NHS D&G for 2022/23 and beyond.</p>	<p>Response to significant risk:</p> <p>The Board had a financial gap of £31.194m at the start of 2021/22 with a savings target of £15.155m identified for delivery in year. Despite the challenges of the ongoing pandemic, total savings of £14.8 million were delivered, £2.381 million of which were recurring savings. With £1.044 million of costs identified as unallocated and available to reduce the recurring deficit being offset by £1.130 million for cost pressures not funded in 2021/22, additional funding of £13.445m (via Covid-19 funding) was provided that bridged the remaining gap.</p> <p>The Board was required to submit a 3 year Financial Plan (“3YFP”) to Scottish Government. The Board has estimated that it has an underlying deficit of £28.899 million for 2022/23. The Board’s 3YFP identifies additional funding and costs anticipated for the next three years as set out below, showing in-year recurring deficits of £3.5m for 2022/23 and a £4m deficit in 2023/24 and 2024/25:</p> <table border="1" data-bbox="779 1134 1621 1399"> <thead> <tr> <th></th> <th>2022/23</th> <th>2023/24</th> <th>2024/25</th> </tr> </thead> <tbody> <tr> <td>Total baseline uplift</td> <td>9,725</td> <td>6,682</td> <td>6,517</td> </tr> <tr> <td>Total estimated costs</td> <td>13,225</td> <td>10,658</td> <td>10,741</td> </tr> <tr> <td>In year recurring deficit</td> <td>(3,500)</td> <td>(3,976)</td> <td>(4,224)</td> </tr> </tbody> </table>		2022/23	2023/24	2024/25	Total baseline uplift	9,725	6,682	6,517	Total estimated costs	13,225	10,658	10,741	In year recurring deficit	(3,500)	(3,976)	(4,224)	<p>NHS Dumfries and Galloway’s 3 year Financial Plan recognises the financial pressures facing the Board. However we note that it has been assumed that all Covid-19 costs and remobilisation costs will be fully funded for 2022/23 and therefore do not impact on the Financial Plan. The Board has forecast these costs at £8.631 million of recurring costs and £7.143 million of non-recurring costs for 2022/23. We also note that amounts included within the plan do not consider the potential impact of increased inflationary pressures or impact of any potential industrial action which may happen going forward.</p>
	2022/23	2023/24	2024/25																
Total baseline uplift	9,725	6,682	6,517																
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Wider scope audit (continued)

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
<p>Financial sustainability</p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered.</p>	<p>Significant risk identified: NHS D&G have continued to face significant challenges in 2021/22, from a financial perspective and as a result of the financial implications of the ongoing operational and service pressures due to Covid-19. A savings gap of £16 million was identified at the start of 2021/22. This savings gap was considered to be significant, relative to the size of the organisation. We will consider the overall financial position reached by NHS D&G during 2021/22 and we will seek to understand the future financial implications of this, as well as the future financial position of NHS D&G for 2022/23 and beyond.</p>	<p>Response to significant risk:</p> <p>For 2022/23, the baseline uplift from Scottish Government has been confirmed at a total of £8.258 million for NHS Dumfries and Galloway, reflecting a 2% baseline uplift along with further support for increased employer national insurance costs arising from the UK Health and Social Care Levy. In addition, £1.467 million is estimated for the New Medicines Fund based on a further £50m being allocated centrally.</p> <p>We note that there are a number of areas of risk which have not been adjusted for in the 3YFP. For example, it has been assumed that all Covid-19 costs and remobilisation costs will be fully funded for 2022/23 and therefore do not impact on the Financial Plan. The Board has forecast these costs at £8.631 million for recurring costs and £7.143 million for non-recurring costs for 2022/23. We also note that amounts included within the plan do not consider the potential impact of increased inflationary pressures or impact of any potential industrial action which may happen going forward, which is particularly pertinent in the current climate.</p> <p>Recurring savings of £4.5 million have been forecast for 2022/23 which is deemed reasonable given the Board achieved an average of £6 million recurring savings on an annual basis in the 3 years preceding the Covid-19 pandemic, from 2017/18 to 2019/20.</p>	<p>At this time the Board are unable to provide a balanced financial position for the three year plan and have therefore estimated a non-recurring support requirement from Scottish Government of £20m for 2022/23 and an indicative £20m and £18m for years 2 and 3 respectively. We note that further funding may also be required if it is confirmed that Covid-19 recurring and non-recurring costs will not be funded by SG in 2022/23 onwards.</p> <p>The Plan has been approved by the Board and has been submitted to Scottish Government for their approval. The Board are currently awaiting a response from SG as to whether they deem the Plan to be appropriate and acceptable.</p>

Wider scope audit (continued)

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion																																								
<p>Financial sustainability</p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered.</p>	<p>Significant risk identified: NHS D&G have continued to face significant challenges in 2021/22, from a financial perspective and as a result of the financial implications of the ongoing operational and service pressures due to Covid-19. A savings gap of £16 million was identified at the start of 2021/22. This savings gap was considered to be significant, relative to the size of the organisation. We will consider the overall financial position reached by NHS D&G during 2021/22 and we will seek to understand the future financial implications of this, as well as the future financial position of NHS D&G for 2022/23 and beyond.</p>	<p>Response to significant risk:</p> <p>For 2022/23 non-recurring savings of £8.000 million have been forecast through workforce and flexibility savings. Based on the above, the outlook as per the 3YFP is as follows:</p> <table border="1"> <thead> <tr> <th></th> <th>2022/23</th> <th>2023/24</th> <th>2024/25</th> </tr> </thead> <tbody> <tr> <td>Recurring deficit b/f</td> <td>(28,899)</td> <td>(27,899)</td> <td>(25,875)</td> </tr> <tr> <td>Net additional recurring investment</td> <td>(3,500)</td> <td>(3,976)</td> <td>(4,224)</td> </tr> <tr> <td>Total Recurring Deficit Anticipated</td> <td>(32,399)</td> <td>(31,875)</td> <td>(30,099)</td> </tr> <tr> <td>Recurring Target Set Savings</td> <td>4,500</td> <td>6,000</td> <td>6,000</td> </tr> <tr> <td>Target Recurring Deficit</td> <td>(27,899)</td> <td>(25,875)</td> <td>(24,099)</td> </tr> <tr> <td>Offset by non-recurring – Workforce</td> <td>4,000</td> <td>2,000</td> <td>2,000</td> </tr> <tr> <td>Offset by non-recurring – Flexibility</td> <td>4,000</td> <td>4,000</td> <td>4,000</td> </tr> <tr> <td>In Year Non-Recurring Savings Target</td> <td>8,000</td> <td>6,000</td> <td>6,000</td> </tr> <tr> <td>Target In Year Position</td> <td>(19,899)</td> <td>(19,875)</td> <td>(18,099)</td> </tr> </tbody> </table>		2022/23	2023/24	2024/25	Recurring deficit b/f	(28,899)	(27,899)	(25,875)	Net additional recurring investment	(3,500)	(3,976)	(4,224)	Total Recurring Deficit Anticipated	(32,399)	(31,875)	(30,099)	Recurring Target Set Savings	4,500	6,000	6,000	Target Recurring Deficit	(27,899)	(25,875)	(24,099)	Offset by non-recurring – Workforce	4,000	2,000	2,000	Offset by non-recurring – Flexibility	4,000	4,000	4,000	In Year Non-Recurring Savings Target	8,000	6,000	6,000	Target In Year Position	(19,899)	(19,875)	(18,099)	<p>We recommend that NHS Dumfries and Galloway seek SG approval as soon as practicable in relation to the proposals set out within the 3 Year Financial Plan. If SG do not approve the Plan, NHS Dumfries and Galloway should work with SG to determine an agreed approach to returning the Board to recurring financial balance by alternative means.</p> <p>An action has been raised in Appendix 2 in relation to this.</p> <p>Action plan point – 2.</p>
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Recurring deficit b/f	(28,899)	(27,899)	(25,875)																																								
Net additional recurring investment	(3,500)	(3,976)	(4,224)																																								
Total Recurring Deficit Anticipated	(32,399)	(31,875)	(30,099)																																								
Recurring Target Set Savings	4,500	6,000	6,000																																								
Target Recurring Deficit	(27,899)	(25,875)	(24,099)																																								
Offset by non-recurring – Workforce	4,000	2,000	2,000																																								
Offset by non-recurring – Flexibility	4,000	4,000	4,000																																								
In Year Non-Recurring Savings Target	8,000	6,000	6,000																																								
Target In Year Position	(19,899)	(19,875)	(18,099)																																								

Wider scope audit (continued)

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
<p>Financial sustainability</p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered.</p>	<p>Significant risk identified: NHS D&G have continued to face significant challenges in 2021/22, from a financial perspective and as a result of the financial implications of the ongoing operational and service pressures due to Covid-19.</p> <p>A savings gap of £16 million was identified at the start of 2021/22. This savings gap was considered to be significant, relative to the size of the organisation. We will consider the overall financial position reached by NHS D&G during 2021/22 and we will seek to understand the future financial implications of this, as well as the future financial position of NHS D&G for 2022/23 and beyond.</p>	<p>Response to significant risk (continued):</p> <p>As noted above, the Board are unable to provide a balanced financial position for the three year plan and will therefore require non-recurring support from Scottish Government of £20m for 2022/23 and an indicative £20m and £18m for the following two financial years. Without either additional funding or fundamental change to service provision the Board is likely to have a significant deficit beyond the period of the plan.</p> <p>The NHS Board has approved the financial plan as it stands and await a response and sign off from SG in relation to the plan and the assumptions made within. If the plan is not agreed by SG, urgent action will be needed from the Board to either agree additional funding with SG or to reconfigure services.</p>	

Wider scope audit (continued)

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
<p>Governance and transparency</p> <p>Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>Significant risk identified: Remobilisation Plans have been agreed between NHS D&G and Scottish Government, outlining agreed levels of monthly activity to support recovery from the Covid-19 pandemic. The core indicators reported against the Remobilisation Plan are set by Scottish Government and primarily reflect immediate challenges to bring services back online. Many historic measures, such as those set out in the Local Delivery Plan relating to people being seen within certain timeframes are not currently being reported due to the substantial impact that Covid related service stoppages have had on many services. We will review the progress made by NHS D&G in relation to the latest agreed Remobilisation Plan.</p>	<p>Response to significant risk:</p> <p>NHS Dumfries and Galloway have well established governance arrangements with the Board being supported by the Audit and Risk Committee, Performance and Resource Committee, Staff Governance Committee and Public Health Committee. The Board returned to normal governance arrangements in 2021/22. Board meetings for 2021/22 took place via Microsoft Teams and during the year there were 7 public meetings with the recordings published on the Board’s website after the meeting. In addition there were 7 private “in committee” Board meetings held during the year.</p> <p>The Board also obtained independent assurance from Internal Audit. The Chief Internal Auditor concluded that there were adequate and effective internal controls throughout the year. We note however that as disclosed in the Governance Statement 69% of all internal audit actions are overdue. We recommend that management work with Internal Audit to ensure that these overdue actions are implemented, addressed and completed as soon as is practicable.</p> <p>A remobilisation plan (RMP3) for 2021/22 was approved and officially signed off by Scottish Government that outlined the recovery plan of planned care across all directorates and specialties. This was subsequently updated to RMP4 and was updated to reflect the position for quarter 3 and quarter 4 of 2021/22 as well as the Board’s ongoing Public Health response to support the Covid-19 pandemic, remobilisation of screening services and the Board’s Sustainability and Modernisation (“SAM”) Programme.</p>	<p>NHS Dumfries and Galloway’s governance arrangements have continued to operate effectively during the financial year. The Board is supported through standing committees. From review of Board and Committee minutes and papers, we found that there was clear and transparent reporting and decision making. In addition, the Board obtained independent assurance from Internal Audit. We note that as disclosed in the Governance Statement 69% of all internal audit actions are overdue. We recommend that management work with Internal Audit to ensure that these overdue actions are implemented, addressed and completed as soon as is practicable.</p>

Action plan point 3

Wider scope audit (continued)

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant conclusion	Thornton
<p>Governance and transparency</p> <p>Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>Significant risk identified:</p> <p>Remobilisation Plans have been agreed between NHS D&G and Scottish Government, outlining agreed levels of monthly activity to support recovery from the Covid-19 pandemic. The core indicators reported against the Remobilisation Plan are set by Scottish Government and primarily reflect immediate challenges to bring services back online. Many historic measures, such as those set out in the Local Delivery Plan relating to people being seen within certain timeframes are not currently being reported due to the substantial impact that Covid related service stoppages have had on many services.</p> <p>We will review the progress made by NHS D&G in relation to the latest agreed Remobilisation Plan.</p>	<p>Response to significant risk (continued):</p> <p>In addition specific focus is given to the development of Mental Health and Psychology services given the longer term impact on Wellbeing that is evident as a result of the pandemic.</p> <p>We have not identified any further risks or significant deficiencies in governance arrangements, leadership and decision making at the Board.</p>	<p>We have not identified any further risks or significant deficiencies in governance arrangements, leadership and decision making at NHS Dumfries and Galloway.</p>	

Wider scope audit (continued)

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
<p>Value for money Value for money is concerned with using resources effectively and continually improving services.</p>	<p>Significant risk identified: Remobilisation Plans have been agreed between NHS D&G and Scottish Government, outlining agreed levels of monthly activity to support recovery from the Covid-19 pandemic. The core indicators reported against the Remobilisation Plan are set by Scottish Government and primarily reflect immediate challenges to bring services back online. Many historic measures, such as those set out in the Local Delivery Plan relating to people being seen within certain timeframes are not currently being reported due to the substantial impact that Covid related service stoppages have had on many services. We will review the progress made by NHS D&G in relation to the latest agreed Remobilisation Plan.</p>	<p>Response to significant risk: During 2021/22 the pandemic continued to impact on performance delivery. A level of activity was maintained to ensure emergency, cancer and patients deemed as clinically urgent were seen and treated. However, there has been a system wide impact on elective care, with services only ‘switched on’ as COVID demands have allowed. Collaborative working with diagnostics, radiology, laboratory and endoscopy has enabled the reinstatement of outpatient clinics and elective surgery within current capacity as surge allows. The Board has been achieving the agreed trajectories in the Remobilisation Plan (RMP4) across many areas, however, the ‘Omicron’ wave of COVID in early 2022 caused further setbacks to the plans. Performance information for the Board and The Health and Social Care Partnership can be found on their websites</p>	<p>We have not identified any further risks or significant deficiencies in value for money arrangements at NHS Dumfries and Galloway.</p>

Other areas of focus

In accordance with Audit Scotland Planning Guidance, as part of our audit work in 2021/22 we consider the Board's arrangements for equality and fairness as well as considering the risk of fraud in procurement. We did not identify any significant wider scope audit risks in these areas. Utilising Audit Scotland's Best Value guidance we considered the arrangements at NHS Dumfries and Galloway.

Risk of fraud in procurement

In accordance with Audit Scotland's planning guidance we considered the risk of fraud and corruption within the procurement function. Through our audit procedures performed we have not identified any significant risks or deficiencies in relation to NHS Dumfries and Galloway's arrangements over fraud and corruption within procurement.

As outlined on the NHS Dumfries & Galloway website, the Board buys goods and services by competition and in compliance with government policy and the relevant legislation. The NHS Dumfries and Galloway Procurement Strategy 2018/19 -2020/21 is also available on the Board's website. As noted within, the aim of this strategy is to secure Best Value through planned and sustainable procurement which best meets the needs of the organisation and supports key objectives and to demonstrate a clear and concise approach to NHS Dumfries & Galloway's procurement activities outlining what will be done and how and when it will be achieved over the period November 2017 to March 2020. We note that the Procurement Strategy was due to be reviewed in March 2020. Given the changes in the Board since March 2020, good practice would suggest the strategy is reviewed and updated as soon as practicable.

Action plan point 4

To comply with the Procurement Reform (Scotland) Act 2014 (The Act), NHS Dumfries and Galloway is required to publish an annual Procurement Report detailing information on all regulated procurement activity. The latest version of the report, for the year ended 31 March 2021, is available online, with the report for the year ended 31 March 2022 expected to be published in September 2022.

Internal Audit have a procurement audit review planned for later in 2022/23, which will focus on Estates and IT given the level of spend in these areas. Previous internal audits that have considered the procurement function include IT Hardware Management (May 2021), Contract Management (July 2020), Stores and Stock Control – Pharmacy (February 2020), and Procurement (April 2017). We note that there are open actions in relation to all of these reports. Whilst we have confirmed that these actions are being monitored by management and reported to the Audit and Risk Committee accordingly, as noted on page 33 we recommend that management work with Internal Audit to ensure that these overdue actions are implemented, addressed and completed as soon as is practicable.

Action plan point 3

Other areas of focus (continued)

Equality and fairness

In accordance with Audit Scotland's Code of Audit Practice and Audit Scotland Planning Guidance, as part of our 2021/22 external audit we considered the Fairness and Equality characteristics and the arrangements in place at NHS Dumfries and Galloway.

NHS Dumfries and Galloway's Equality and Diversity Workforce Data Report 2021 is available on the Board's "Equality and Diversity" website page. The report contains some of the high level observations for each protected characteristic (Age, Disability, Gender, Gender Reassignment, Marriage and Civil Partnership, Pregnancy and Maternity, Race, Religion and Belief and Sexual Orientation). The report also meets NHS Dumfries and Galloway's statutory obligation, under the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012, to publish information annually relating to the diversity profile of its workforce and an analysis of equality and diversity in recruitment, retention, and employee relation cases.

The page also confirms that it is committed to eliminating discrimination and improving equality of opportunity and contains a number of documents to help make this happen including NHS D&G Equal Pay Statement and Gender Pay Gap Information (April 2021) and its Equality and Diversity Mainstreaming and Equality Outcomes Report 2021, the purpose of which is to set out the progress made within the partnership to ensure that equality is at the centre of all activities and to integrate General Equality Data into day to day functions.

An internal audit was performed in 2021/22 in relation to Health Inequalities. This reports included 6 recommendations, including a high priority recommendation that the Inequalities and Health Inequalities Steering Group should start meeting once again to deliver on the aims and responsibilities of their approved Terms of Reference or their responsibilities should be temporarily integrated into another suitable forum such as the reformed Public Health Committee. Again, we note that these actions are being monitored by management and reported to the Audit and Risk Committee accordingly.

We have not identified any further risks or significant deficiencies in relation to equality and fairness arrangements within NHS Dumfries and Galloway

Other areas of focus (continued)

Climate change

The Climate Change (Scotland) Act 2009 originally set out measures adopted by the Scottish Government to reduce emissions in Scotland by at least 80% by 2050. The Climate Change (Emissions Reductions Targets) (Scotland) Act 2019 amended this longer-term target to net-zero by 2045, five years in advance of the rest of the UK. In 2020 'The Climate Change (Scotland) Amendment order came into force to reflect this and now requires NHS Boards to report on their progress in delivering their emissions reduction targets. All designated Major Players (of which NHS Dumfries and Galloway is one) are required to submit an annual report to the Sustainable Scotland Network detailing compliance with the climate change duties imposed by the Act and the Amendment order. The information returned by the Board is compiled into a national analysis report, published annually and superseding the prior requirement for public bodies to publish individual sustainability reports. The latest version of the report, NHS Dumfries and Galloway's Climate Change Report 2020/21, is available for review on the Sustainable Scotland Network site. The above is disclosed within the annual accounts for 2021/22. We have not identified any risks or significant deficiencies in relation to the reporting by NHS Dumfries and Galloway on climate change.

Appendices

1. Audit Adjustments

We are required to report all non trivial misstatements, whether or not the accounts have been adjusted by management. We are pleased to report there were no material corrected or uncorrected misstatements to the financial statements arising during our audit.

Impact of 2021/22 adjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have been made within the final set of financial statements. The Audit and Risk Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £' 000
Reclassification of rebates from NHS Scotland Bodies (Operating Income) to Other Healthcare Expenditure		
Dr NHS Scotland Bodies (Operating Income)	2,364	
Cr DMS – Prescribed Drugs Secondary Care	(2,364)	
Final Mental Health Allocation as per late Allocation Letter from SG		
Dr Other Healthcare Expenditure	272	
Cr Creditors < 1 year accruals		(272)
Revised CNORIS Participation Disclosure as per late Allocation Letter from SG		
Dr Other Healthcare Expenditure	338	
Cr CNORIS Scheme – Future Provision		(338)
Late adj for LFD kits donated by UK Government as advised by SG and NHS NSS		
Dr PPE and Testing Kits expenditure	2,898	
Cr Donations income	(2,898)	
Investment in IJB		
Dr Investment in associates and joint ventures		15,386
Cr Other reserves.		(15,386)
Overall impact	610	(610)

Impact of 2020/21 adjusted misstatements – Prior Period Adjustment (“PPA”) of comparative accounts

No adjustments have been made to the prior period statements.

We note that the Board initially adjusted the financial statements to exclude the Board’s investment (£8m) in the IJB from the Board’s financial statements. This reflected discussions with the Scottish Government. This has been restated. See page 10 for details.

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. Management consider these as not being material to the users of the accounts, in the context of the complete financial statements and as external auditors we agree with this conclusion. The adjustments proposed would not have materially impacted on the financial position of NHS Dumfries and Galloway at the financial year-end:

Adjustment No.	Detail	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £' 000
1	Difference between patient charges accrual for February and March 2022 as at year end and actual prescribing costs incurred by NHS D&G Dr Expenditure Cr Prescribing accrual	367	(367)
2	Reversal of medical removal expenses accrual recognised at 31 March 2022 Dr Accruals Cr Other operating expenditure	(388)	388
	<i>Extrapolated error over remaining untested balance</i> Dr Accruals Cr Other operating expenditure	(2,553)	2,553
3	Reclassification of dilapidation provision from accruals to provisions Dr Accruals Cr Provisions		281 (281)
	<i>Extrapolated error over remaining untested balance</i> Dr Accruals Cr Provisions		1,850 (1,850)
	Overall impact	(21)	21
	Overall impact including extrapolated misstatement	(2,574)	2,574

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Auditor recommendations	Adjusted?
Critical judgements	<p>International Financial Reporting standards prescribe the required disclosures in relation to critical judgements. It also requires separate consideration of accounting estimates.</p> <p>Significant Estimates relate to assumptions and estimates at 31 March that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Judgements relates to areas of material judgement in the application of accounting policy that aren't significant estimates. In the draft accounts, Management have combined critical estimates and judgements. It is unclear from the disclosure what critical judgements have been applied. For significant estimates, it is unclear where Management consider the key assumptions where there is an increase risk of a material change in the estimate over the next 12 months. There is an opportunity to enhance the disclosure to focus on those key areas of estimation that may have a significant risk of material misstatement in the next 12 months. This should focus on those key areas of assumptions such as land, buildings and dwelling valuations.</p>	Partly - Audit are satisfied that this is not material disclosure misstatement to the financial statements.
IFRS 15 – Revenue recognition	<p>While the majority of NHS Dumfries and Galloway's expenditure is funded through Scottish Government Funding through resource limits and treated in accordance with the FReM as funding rather than income, the Board does receive income for services provided. This includes recharges to other boards and charges for services to commercial organisations. This income would fall within the scope of IFRS 15. The Board's accounting policies should be enhanced to meet the disclosure requirements of IFRS 15 including the income recognition criteria and performance conditions associated with material revenue streams.</p>	Partly – Segmental reporting information has been provided in Note 6 of the Annual Accounts. Audit team are satisfied that this is not material disclosure misstatement to the financial statements.

Misclassification and disclosure changes (continued)

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Auditor recommendations	Adjusted?
Related parties	In accordance with the FReM, all Scottish public sector bodies, including health boards would be considered related parties on the basis that they are under common control of the Scottish Government. In accordance with the FReM, the accounts required updating to record details of the individual bodies where material transactions had taken place during the financial year.	Not adjusted
Financial instruments and segmental reporting	The Board has followed NHS Scotland template accounts and the NHS Scotland Manual for Accounts to support in the preparation of the Annual Accounts. However, there are opportunities to enhance the disclosures in the accounts to meet the requirements of the FReM and IFRS. In particular, under IAS 8, operating segments should report the level of information as communicated to Management. This should include income at service level, gross expenditure as well as the net cost of services. Currently only net cost of services is reported. In addition, financial instrument disclosures could be enhanced to provide more qualitative and quantitative information around the risks and sensitivities around risks from financial instruments.	No - Management have prepared the accounts in line with the NHS Manual and template accounts. These recommendations will be considered for future years accounts. Audit are satisfied that these are not material to the financial statements.
Financial instruments	The Manual for Accounts requires an analysis of all financial instruments should be disclosed which distinguishes between the different classifications of financial assets and liabilities. This includes (a) Financial assets subsequently measured at amortised cost. (b) Financial assets subsequently measured at fair value through other comprehensive income (c) Financial assets subsequently measures at fair value through profit or loss (d) Financial liabilities at amortised cost and (e) Financial liabilities at fair value through profit or loss. The disclosures did not comply with these requirements and have been restated.	Restated

2. Action plan and recommendations

We have set out below, based on our audit work undertaken in 2021/22, the significant recommendations arising from our audit work:

Recommendation	Agreed management response
<p>1. Valuation – Terms of Engagement</p> <p>Our auditor’s valuation expert reviewed NHS Dumfries and Galloway’s instructions to Avison Young as part of our audit procedures in relation to the valuation of the Board’s land, buildings and dwellings. Whilst our auditor’s valuation expert was comfortable that the valuer’s instructions had been agreed by NHS Dumfries and Galloway and Avison Young and that the instructions were in line with the RICS Global Red Book VPS1 and are therefore considered appropriate, it was noted that the instructions did not confirm</p> <ul style="list-style-type: none"> • which valuer would perform the valuation and did not confirm the valuer’s accreditation and whether or not the valuer was a member of RICS; and • the property addresses of the buildings to be valued <p>as this information was not specified in the Terms of Engagement. We recommend that all such details are included and confirmed within the Terms of Engagement going forward.</p>	<p>Management response: Noted, this contract is pulled off a national framework, and having used the valuers for a number of years, we are aware of the accreditation of the valuer however note this is not a formal notification. The properties to be valued is a long standing list which was provided to the valuers the first time we used them, this is then updated at the kick off meetings with the estates team, however a new list will be issued each year.</p> <p>Action owner: Kelly McClure, Divisional Finance Manager</p> <p>Timescale for implementation: December 2022</p>

Recommendation

2. Financial Recovery Plan

NHS Dumfries and Galloway's 3 year Financial Plan recognises the financial pressures facing the Board. However we note that it has been assumed that all Covid-19 costs and remobilisation costs will be fully funded for 2022/23 and therefore do not impact on the Financial Plan. The Board has forecast these costs at £8.631 million of recurring costs and £7.143 million of non-recurring costs for 2022/23. We also note that amounts included within the plan do not consider the potential impact of increased inflationary pressures or impact of any potential industrial action which may happen going forward.

At this time the Board are unable to provide a balanced financial position for the three year plan and have therefore estimated a non-recurring support requirement from Scottish Government of £20m for 2022/23 and an indicative £20m and £18m for years 2 and 3 respectively. We note that further funding may also be required if it is confirmed that Covid-19 recurring and non-recurring costs will not be funded by SG in 2022/23 onwards.

The Plan has been approved by the Board and has been submitted to Scottish Government for their approval. The Board are currently awaiting a response from SG as to whether they deem the Plan to be appropriate and acceptable.

We recommend that NHS Dumfries and Galloway seek SG approval as soon as practicable in relation to the proposals set out within the 3 Year Financial Plan. If SG do not approve the Plan, NHS Dumfries and Galloway should work with SG to determine an agreed approach to returning the Board to recurring financial balance by alternative means.

3. Internal Audit recommendations

The Chief Internal Auditor concluded that there were adequate and effective internal controls throughout the year. We note however that as disclosed in the Governance Statement, 69% of all internal audit actions are currently overdue. We recommend that management work with Internal Audit to ensure that these overdue actions are implemented, addressed and completed as soon as is practicable.

Agreed management response

Management response: There is and has been regular dialogue with Scottish Government, there is engagement at a national level including Chief Executive and DOF to consider the options for bridging the overall SG funding shortfall, not just the D&G position.

Action owner: Director of Finance

Timescale for implementation: July 2022

Management response: Noted, this will be progressed through the year now that Covid emergency measures have been stepped down. This is discussed as part of every Audit and Risk Committee meeting

Action owner: Jeff Ace, Chief Executive

Timescale for implementation: December 2022

Recommendation

4. Procurement Strategy

The NHS Dumfries and Galloway Procurement Strategy 2018/19 -2020/21 is available on the Board's website. As noted within, the aim of this strategy is to secure Best Value through planned and sustainable procurement which best meets the needs of the organisation and supports key objectives and to demonstrate a clear and concise approach to NHS Dumfries & Galloway's procurement activities outlining what will be done and how and when it will be achieved over the period November 2017 to March 2020. We note that the Procurement Strategy was due to be reviewed in March 2020. Given the changes in the Board since March 2020, good practice would suggest the strategy is reviewed and updated as soon as practicable.

Agreed management response

Management response: Noted. The refresh of the strategy is on the procurement workplan having been delayed during Covid pandemic.

Action owner: Deputy Director of Finance

Timescale for implementation: July 2023

3. Follow up of 2020/21 recommendations

We set out below our follow up of our 2020/21 recommendations:

Review of Journals

Through audit procedures performed, we noted that there is no formal journal review process in place and that journals are not being reviewed in a consistent manner across Finance.

We recommend that a formal journal review policy is drafted and approved, and that management review journals posted using an agreed, risk based approach which is adopted across all areas of Finance. Spot checks should be performed to confirm that journals are being reviewed in line with the agreed policy.

Responsible officer: Deputy Director of Finance

Initial management response: The Deputy Director of Finance will develop a risk-based approach to authorisation of journals and add to the spot check reviews carried out by Financial Governance to enhance internal assurance that the procedure is being adopted correctly.

Timescale for implementation: September 2021

Follow up: CLOSED. A revised journal process was implemented in 2021/22 whereby authorisers were advised to use discretion to direct spot checks towards higher risk transactions, e.g. new users, reversing journals which affect the balance sheet, high value transactions, year end journals etc. We did not identify any journals in our detailed testing which had not been appropriately reviewed.

2021/22 Financial Plan

NHS Dumfries and Galloway have shared their one year plan for 2021/22 with SG. SG note that the Board's one-year plan indicated a significant challenge in terms of delivering breakeven against baseline position, with £16 million of savings still to be identified against a savings challenge of £31.2 million for 2021/22. They also noted that a savings forecast at this level is significantly higher than the level currently anticipated by other territorial health boards and which would indicate a high level of risk to delivering financial balance, and that it indicates long term sustainability risks. They have requested that the Board continue to update SG in terms of the progress with the in-year financial plan, in particular what steps are required – both on a recurring and non-recurring basis – to close the current £16 million savings deficit and to understand what further work has been undertaken through the Sustainability and Modernisation Programme.

We recommend that NHS Dumfries and Galloway, alongside SG, consider what support is available in order to continue to identify recurring and non-recurring savings to close the current £16 million savings deficit, as well as to further identify savings for future years, which we recognise continues to be difficult given the ongoing circumstances of Covid-19 recovery.

(Continued)

3. Follow up of 2020/21 recommendations (continued)

2021/22 Financial Plan (continued)

Responsible officer: Director of Finance

Initial management response: The Director of Finance is meeting regularly with Scottish Government to review options to close the in year financial plan. Support has been sought through the financial improvement workstream and work is underway to review the current savings plan which will be reported back through NHS Board and Performance and Resources.

Timescale for implementation: April 2022 **Follow up:** Action has been closed and superseded by 2021/22 Action Point 1 as documented above.

3. Performance Committee and capturing broader governance learning beyond Covid-19

The Performance Committee was stood down in April 2020 as part of NHS Dumfries and Galloway's temporary governance changes, introduced in response to the COVID-19 pandemic. However, all committees that were initially stood down have either been returned to full governance (Healthcare Governance Committee, March 2021), re-established on "governance lite" format (Audit and Risk Committee and Staff Governance Committee) or have been disbanded (Person Centred Health and Care Committee, October 2020). However we note that the Performance Committee has neither been reinstated nor disbanded during 2020/21.

We would recommend that the Board consider whether this committee requires reinstatement going forward. In addition there is a future opportunity to reconsider the broader governance arrangements in place, reflecting on what has worked well during the Covid-19 period, in terms of governance, that may want to be retained, to ensure future effective governance and transparent decision making.

Responsible officer: Director of Finance

Initial management response: An update on temporary governance arrangements was agreed at NHS Board on 14th June 2021, with an agreement to bring back Performance Committee in the Autumn. The terms of reference will be reviewed and a paper formally to return this committee will come to the September 2021 Board. In addition, the Board has agreed to the introduction of a new Public Health committee, with a workshop organised to shape the remit of the committee scheduled for August 2021.

Timescale for implementation: December 2021

Follow up: Closed. Performance Committee was once again active in 2021/22 and held 3 quorate meetings.

4. Follow up of 2019/20 recommendations

We set out below our follow up of our 2019/20 recommendations:

1. Capital impairments

During 2019/20 NHS Dumfries and Galloway amended the estates plans and capital investment programme. While the Board has approved the capital programme, including the decision not to proceed with the investment in the Cresswell site, there was no explicit reporting of the financial implication of ceasing the project and that this would result in a £1.4 million impairment cost to the Board. We recommend that for future capital decisions there is clear consideration of the wider financial implications on the Board.

Responsible officer: Deputy Director of Finance

Initial management response: A review of reporting arrangements for this type of adjustment are underway and will likely be presented to Board or Audit and Risk Committee.

Follow up management response (2020/21): A review of reporting arrangements has as yet to take place as this work was paused as a result of Covid-19.

Timescale for implementation: November 2020

Follow up: CLOSED. Management confirmed that reporting will take place through the Strategic Capital Programme Board as required, however nothing has went yet for 2021/22. GT have noted that since this recommendation was first raised in 2019/20 no other such instances have been noted. As such we will close this recommendation on the basis that if circumstances were to arise again in the future management would explicitly report the financial implications of ceasing such a project as well as communicating any related potential impairment costs to the Board.

5. Audit fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	126,140
Pooled costs	13,470
Contribution to Audit Scotland costs	5,920
Contribution to Performance Audit and Best Value	Nil
2021/22 Fee	145,530

Fees for other services

Service	Fees £
We confirm that for 2021/22 we did not receive any fees for non-audit services	Nil

Independence and ethics

- 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 Standards and therefore we 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 Financial Reporting Council's Ethical Standard 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 are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.
- We can confirm no independence concerns have been identified.

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2021 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2021)

6. Communication of audit matters

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table below.

Our communication plan	Audit Plan	Audit Findings
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		•



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