

NHS Dumfries and Galloway

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for NHS Dumfries and Galloway
January 2024

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Introduction

Summary of planned audit work

1. I, Fiona Mitchell-Knight, have been appointed by the Auditor General for Scotland as external auditor of NHS Dumfries and Galloway (the board) for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of my five-year audit appointment. A brief biography of the audit team is provided at [Appendix 1](#).
2. This document summarises the work plan for my 2023/24 audit. The main elements of the audit include:
 - an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
 - an audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report.
 - consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.
 - provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out conclusions on the wide scope areas.

Respective responsibilities of the Auditor and Audited Body

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and NHS Dumfries and Galloway. Key responsibilities are summarised below.

Auditor responsibilities

4. My responsibilities as appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.
5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at NHS Dumfries and Galloway. In doing this, we aim to support improvement and accountability.

NHS Dumfries and Galloway's responsibilities

6. NHS Dumfries and Galloway is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

7. NHS Dumfries and Galloway has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

Communication of fraud or suspected fraud

8. In line with ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this plan to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. During our audit, should members of the Board have any such knowledge or concerns relating to the risk of fraud within it, we invite them to communicate this to us for our consideration.

Adding Value

9. My team and I aim to add value by tailoring audit work to the circumstances of NHS Dumfries and Galloway and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Audit and Risk Committee; and by recommending and encouraging good practice. In so doing, we will help NHS Dumfries and Galloway promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual report and accounts

Introduction

10. The annual report and accounts are an essential part of demonstrating NHS Dumfries and Galloway's stewardship of resources and its performance in the use of those resources.

11. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

12. My team and I focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. I am required to plan my audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

14. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for NHS Dumfries and Galloway and its group are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for NHS Dumfries and Galloway and its group

Materiality	Board	Group
<p>Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of NHS Dumfries and Galloway's operations. For the year ended 31 March 2024, we have set our materiality at 1.5% of gross expenditure based on the audited financial statements for 2022/23.</p>	£7.385 million	£7.407 million

Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.	£4.800 million	£4.815 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. We have set this at approximately 5% of planning materiality.	£0.350 million	£0.370 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of NHS Dumfries and Galloway, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.		<ul style="list-style-type: none"> • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of significant accounting accruals and prepayments.

Source: Audit Scotland

18. As set out in International Standard on Auditing (UK) 240: The auditor's responsibilities relating to fraud in an audit of financial statement, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk as most of the board's funding is received from the Scottish Government. This funding is clearly communicated and can be readily agreed to third party confirmations.

19. In line with Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for the main expenditure streams of NHS Dumfries and Galloway. Most expenditure is in low-risk areas where individual transactions are well-controlled (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale, with management or Board approval required for transactions greater than £1 million. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

20. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risks, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

21. The areas of specific audit focus are:

- **Estimations and judgements – valuation of land and buildings:**
This is an area of audit focus, given the significant degree of subjectivity in the valuation of this category of assets. The value of land and buildings subject to specialist revaluations was approximately £331.9 million as at 31 March 2023. A full revaluation is expected to be conducted as at 31 March 2024. We will review the arrangements in place to assess whether the annual revaluation process is complete and is free from material misstatement.
- **Estimations and judgements – assessment of clinical medical negligence and CNORIS provisions:** NHS Dumfries and Galloway recognised provisions of approximately £34.9 million as at 31 March 2023 for clinical and medical claims against the health board and its share of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). These provisions are based on the assessed likelihood and settlement value of claims against the board, which also has a large degree of subjectivity. We will review how the provisions have been estimated to ensure they are free from material misstatement.
- **Service Level Agreements (SLA) Income** - boards deliver a number of patient services to patients on behalf of other health boards under annual SLAs. In line with IFRS 15, the board is required to identify at the inception of the contract each performance obligation within the contract. Income should be recognised when the board satisfies each performance obligation. Where a performance obligation is satisfied over time, income should be recognised by measuring the progress towards complete satisfaction of that performance obligation. Where the board has not delivered the full activity under the SLAs by the year end, the board should recognise any shortfall in activity as a contract liability (deferred income). Due to issues identified in the accounting treatment of SLA income at other health boards in 2022/23, this will be an area of audit focus.

Regularity

22. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

23. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Group Consideration

24. As group auditors, we are required under ISA (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

25. NHS Dumfries and Galloway has a group which comprises component

entities, including a subsidiary, the Endowment Fund, and a joint venture, Dumfries and Galloway Integration Joint Board (IJB). Through our audit risk assessment procedures, we have not identified any of the group components to be significant components and therefore we do not require additional audit work to be performed. Our planned audit approach for the components is informed by our assessment of risk at the Endowment Fund and IJB and our consideration of the size and nature of assets, liabilities, and transaction streams.

26. The audits of the financial information of some of the components are performed by other auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

Wider Scope and Best Value

Introduction

27. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

28. In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by NHS Dumfries and Galloway. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how NHS Dumfries and Galloway demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

29. We have identified a significant risk in the wider scope areas set out in [Exhibit 3](#). This exhibit sets out the risk, management's sources of assurance for the risk, and the further audit procedures we plan to perform to gain assurances over the risk.

Exhibit 3**2023/24 wider scope risks**

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Financial Sustainability</p> <p>The board is projecting worsening deficit positions over the next three financial years (2023/24 - 2025/26).</p> <p>Special Board reports in January 2024 show an estimated deficit of £28.9 million in 2023/24 and a post savings deficit of £35.9 million in 2024/25. The Scottish Government have advised there will be a brokerage cap of £25 million in 2024/25, with the cap reducing in further years.</p> <p>The board are currently receiving tailored support for their financial recovery, through Stage 2 of the Scottish Government's escalation framework.</p> <p>Any additional financial support received will be repayable on a brokerage basis to the Scottish Government in future years.</p> <p>In common with many boards, there is a risk in relation to the financial sustainability of the board.</p>	<ul style="list-style-type: none"> • Briefing to NHS Board members December 2023 to advise on correspondence from SG. • Further briefing to Board members January 2024 • Ongoing engagement with board planned (workshops/special board etc). • Ongoing support and discussions with SG. • Monitoring and scrutiny through BMT and P&R. • Consideration of external audit reports. • Updates on financial position through corporate risk register. 	<p>Review of budget monitoring process and reports.</p> <p>Review of short and medium-to-longer term financial plans.</p> <p>Review and report on assess the board's year-end position and plans for future recovery.</p>

Source: Audit Scotland

30. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Duty of Best Value

31. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure

Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within NHS Dumfries and Galloway.

32. In addition, as part our Best Value work, we will be carrying out a review of the Best Value characteristic “fairness and equality” set out in the SPFM within NHS Dumfries and Galloway.

National Fraud Initiative

33. The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland and overseen by the Public Sector Fraud Authority 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.

34. The delivery model for NFI in Scotland has always involved appointed auditors who have reported on participation and outcomes. Auditors have an important role to play in the success of the 2022/23 NFI exercise. In order to assist auditors with their reporting responsibilities, central Audit Scotland arrangements have recently been revised to provide auditors with enhanced support.

35. Participating bodies received matches for investigation in Spring 2023. Most matches should have been investigated by 30 September 2023 and the results recorded on the NFI system. However, some investigations may continue beyond this date, and we are required to monitor the board’s participation and progress during 2023/24 and include references in our Annual Audit Report.

36. We will issue an information return detailing the board’s progress investigating matches by 28 February 2024. The information provided is a key source of evidence for Audit Scotland’s next NFI report, due to be published in Summer 2024.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

37. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

38. We will provide:

- an Independent Auditor's Report to NHS Dumfries and Galloway, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts.
- NHS Dumfries and Galloway and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

39. [Exhibit 4](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. In determining the target reporting date, due regard is paid to the administrative date set by the Scottish Government for the consolidated accounts of 30 June 2024.

40. We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

Exhibit 4 2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2024	29 January 2024
Independent Auditor's Report	30 June 2024	24 June 2024 ARC 27 June 2024 Board
Annual Audit Report	30 June 2024	24 June 2024 ARC 27 June 2024 Board

Source: Audit Scotland



41. All annual audit plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

42. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

43. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts tables with complete working papers package.	6 May 2024
Latest submission date for the receipt of the unaudited annual report and accounts (excluding governance statement)	20 May 2024
Latest submission date for the receipt of the governance statement	27 May 2024
Latest date for final clearance meeting with the Director of Finance (or equivalent)	18 June 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	24 June 2024
Agreement of audited and unsigned annual report and accounts	24 June 2024
Issue of Annual Audit Report to Board.	27 June 2024
Signed Independent Auditor's Report	27 June 2024

Source: Audit Scotland

Audit fee

44. In determining the audit fee, we have taken account of the risk exposure of NHS Dumfries and Galloway and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £180,170 as set out in [Exhibit 6](#).

Exhibit 6

Audit fees (including VAT)

Fee component	Fees (£)
External Auditor Remuneration	167,440
Pooled costs	20,240
Contribution to Audit Scotland costs	0
Contribution to Performance and Best Value	0
Sectoral Cap Adjustment	-7,510
Total 2023/24 fee	180,170
Total 2022/23 fee	169,900

Source: Audit Scotland

45. In setting the fee for 2023/24, we have assumed that NHS Dumfries and Galloway has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

46. It is the responsibility of NHS Dumfries and Galloway to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

47. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

48. I am independent of NHS Dumfries and Galloway in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

49. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

50. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of NHS Dumfries and Galloway.

Audit Quality

51. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

52. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

53. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

54. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

55. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Appendix 1: Your audit team

56. The audit team involved in the audit of NHS Dumfries and Galloway have significant experience in public sector audit.

Fiona Mitchell-Knight FCA
Audit Director
FMitchell-Knight@audit-scotland.gov.uk

Fiona is the appointed auditor and engagement lead for the audit of NHS Dumfries and Galloway and will sign off the independent auditor's report on the Fund's annual accounts. Fiona has over 30 years of public sector audit experience with Audit Scotland, covering local government, health, pension funds and the further education sector.

Peter Lindsay CPFA
Senior Audit Manager
PLindsay@audit-scotland.gov.uk

Peter has over 27 years of auditing experience and has delivered external audit services to a range of organisations across all areas of the Scottish public sector. Peter will have overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly, planned, resourced and executed.

Aimee MacDonald CA
Audit Manager
aimacdonald@audit-scotland.gov.uk

Aimee has over 9 years of public sector audit experience delivering audits across several areas of the Scottish public sector. Aimee will be your primary contact and will be responsible for the day-to-day management of the NHS Dumfries and Galloway audit.

57. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

58. Where possible and appropriate, we use our data analytics team to enable us to capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

NHS Dumfries and Galloway

Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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