



Dumfries and Galloway Integration Joint Board

External Audit progress report

Audit and Risk Committee 19 March 2018

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Our Progress at March 2018

2017-18 work	Complete	Date Planned	Comments
<p>Completion of planning procedures Meeting with senior management and review of minutes and key corporate documentation to inform our audit planning process.</p>	✓		We have completed our audit planning procedures to inform our risk assessment and tailored audit approach.
<p>Agreement of fees We are required to agree fees with Dumfries and Galloway Integration Joint Board (IJB) for the 2017-18 audit by end of March 2018.</p>	✓		The fees for our work and contributions to Audit Scotland are included within the updated Audit Plan.
<p>Annual Audit Plan We are required to issue a detailed audit plan to those charged with governance at Dumfries and Galloway IJB, setting out our proposed approach in order to give an opinion on the organisation's 2017-18 financial statements, and wider scope responsibilities.</p>	✓		The Audit Plan we presented to the December Audit and Risk Committee has been finalised and issued to Dumfries and Galloway IJB by 31 March 2018.
<p>Interim accounts audit Our interim fieldwork visit will include:</p> <ul style="list-style-type: none"> • review of Dumfries and Galloway IJB's control environment • Completing a walkthrough of key processes of income and expenditure recognition. • Finalising our audit planning procedures. 	✓	March	In accordance with our annual audit plan, we are completing our interim audit procedures including finalising our audit plan. Our procedures will include: reviewing minutes of meetings of the Dumfries and Galloway IJB; walkthrough of key financial processes over income and expenditure; and review of relevant internal audit reports.
<p>Wider scope considerations Our responsibilities under the Code of Audit Practice extend beyond the audit of the financial statements. These wider responsibilities cover financial sustainability and governance and transparency. As part of our audit we consider the arrangements in place at Dumfries and Galloway IJB across these wider scope areas.</p>	In progress	Feb - May	Through meetings with management as well as review of minutes and corporate documentation, we have developed our understanding around these wider scope areas. Further work will be undertaken in April and May and we will conclude on our work in our annual external audit report.

Update on our audit work

Within our annual external audit plan we identified significant audit risks. Below is an update on the work performed across those risk areas as well as further planned audit procedures. No new significant risks have been identified since our audit planning.

	Identified audit risk at planning	Work done to date and in progress	Further audit work
Risk of fraud in revenue and expenditure	<p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. The Financial Reporting Council's Practice note 10 (revised), states that for public sector entities, auditors should also consider the risk that material misstatements occur by the manipulation of expenditure recognition.</p> <p>Given the IJB's income comes from agreed levels of funding from NHS Dumfries and Galloway and Dumfries and Galloway Council, we have rebutted the presumed risk of improper recognition of revenue. However, we consider the risk of manipulation of expenditure incurred by the IJB.</p>	<ul style="list-style-type: none"> Walkthroughs of the controls and procedures around recognition of expenditure including services commissioned from NHS Dumfries and Galloway and Dumfries and Galloway Council. Reviewing funding and commissioning agreements in place. 	<ul style="list-style-type: none"> Review expenditure recognised for 2017/18 and agree to underlying funding agreements with third parties. Review of year end expenditure transactions to gain assurance that transactions are reflected in the appropriate financial year and that balances are free from material misstatement.
Management override of controls	<p>As set out in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and preparing fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Therefore, there is a presumed risk that management override of controls is present in all entities.</p>	<ul style="list-style-type: none"> Developed our understanding of the entity level controls in place at Dumfries and Galloway IJB that reduce the risk of management override. 	<ul style="list-style-type: none"> A focus on understanding how/where management override of controls may occur Understanding key areas of judgement within the Financial statements and the basis for these judgements and the application of accounting policies Reviewing unusual and/or significant transactions

IJB arrangements

Following the December IJB Audit and Risk Committee meeting we have had a further discussion with internal audit around our planned wider scope to ensure that we don't duplicate but we also support the wider assurance the Audit and Risk Committee require, in particular related to Governance.

In addition, we will share with Management example protocols we have seen elsewhere for other IJBs which consider how internal audit and other relevant assurance reports are shared with the IJB, which are in place for the Council and the Health Board that are relevant to the IJB. The working protocols these other IJBs have devised are intended to support scrutiny but avoid duplication.

Update on wider scope audit dimensions

Within our external audit plan we detailed our responsibilities in relation to the wider audit dimensions of Scottish public sector audit.

	Wider scope audit dimension planning	Update as at March 2018
Financial sustainability	<p>Across the public sector are financial pressures with reductions in Scottish Government Funding for 2017/18 and forecasted further reductions in future years. The IJB face a number of challenges including an ageing population; reducing acute admissions and shifting the balance of care. Furthermore, the uncertainty around the potential implications of Brexit on workforce and finances creates additional risk.</p> <p>While the IJB anticipate meeting financial targets in 2017/18 there are a number of known financial pressures for future years. Management recognise the need for sustainable transformational savings.</p>	<p>We have reviewed the financial budget papers for 2018/19 which project that the IJB will be required to deliver savings of between £20 - £27 million for 2018/19 to deliver a balanced budget.</p> <p>We will continue to discuss financial sustainability with IJB Management. We will review the financial plans in place, including the scenarios set out, the governance of the plans and regular reporting on future financial scenarios. Included within this we will consider the funding of any deficits between the two bodies (NHS and Council).</p>
Financial management	<p>In our annual external audit plan, we did not identify a specific financial management risks.. The Integration scheme and funding agreements between the IJB, Dumfries and Galloway Council and NHS Dumfries and Galloway confirm that any overspends in 2017/18 would be supported by the party who originally delegated the budget if financial balance could not be achieved.</p>	<p>The 2017/18 financial plan advised that the IJB required savings of £17.694 million to achieve a balanced budget. Of this, £5.2 million required to be identified. We have reviewed the latest financial monitoring reports reported to the IJB. While good progress has been made to identify areas of savings, management forecast an overspend of £1 million for the year. We will continue to consider the IJB's financial management arrangements informed through the work of internal audit and the high level financial framework of policies and procedures. This will include the level of oversight and scrutiny of expenditure incurred by NHS Dumfries and Galloway and Dumfries and Galloway Council on behalf of the IJB</p>
Governance and transparency	<p>The IJB Board and officers are responsible for establishing robust governance arrangements. During 2017/18 these arrangements continue to be developed. This includes ensuring effective systems of internal control, including arrangements to safeguard public funds and compliance with applicable laws and regulations. It is important that these arrangements are sufficient and appropriate and embedded within the organisation to support decision making and the delivery of the strategic aims of the IJB.</p>	<p>We will focus in on:</p> <ul style="list-style-type: none"> - The governance structures in place to support the achievement of the IJB Directions/Integration scheme - The sources of assurance identified at each IJB governance committee including the IJB Board to provide annual assurances re Governance - How performance is reported and scrutinised by the IJB Board and supporting committees - The effectiveness of the Audit and Risk Committee
Value for money	<p>During our audit planning we did not identify any specific risk in relation to the IJBs arrangements for effectively utilising its resources and arrangements in place to continually improve services.</p>	<p>Through review of minutes we have considered the financial and performance monitoring reports presented. We will continue to consider the IJB's performance management framework and how they capture and measure performance and outcomes. We will also consider progress against the key strategic corporate plans and how this is being reported and monitored</p>

Sector and technical updates

Scottish government budget

On 21 February, the 2018-19 draft budget was passed by the Scottish Parliament. The budget reflects the Scottish Government devolved powers to adjust tax thresholds to generate additional revenue on top of the block grant funding received from the UK Government to support public services.

Dumfries and Galloway IJB recognise the significant financial challenges that it faces both in the short and medium term. While the baseline funding across the NHS represents a 1.5% uplift for territorial boards and £350 million to be transferred to social care, with cost and demand pressures, the IJB is likely to require savings of approximately £20 - £27 million for 2018/19.



Corporate governance reporting

The Financial Reporting Council (FRC) has issued its annual report on corporate reporting in 2016/17. This includes the FRC's review of corporate reporting in UK companies through review of accounts.

While focused on private sector companies, the findings also apply to public bodies. Along with compliance with legislative requirements and accounting standards, the report identifies nine characteristics of a good audit report:

- A single story (consistent with financial statements)
- How the entity generates money and utilises it
- What worries the board
- Consistency between accounts and performance monitoring results
- Reduce the clutter
- Clarity
- Summarise
- Explain changes
- True and fair.

The full FRC report can be found at the link below:

<http://www.frc.org.uk/getattachment/311af48c-bdfa-4484-8e7d-6de689fd8f4b/Corporate-reporting-SoN-FINAL.pdf>

Material Judgements

The International Accounting Standards Board (IASB) has issued guidance on making materiality judgements when preparing financial statements. Practice statements 2: *Making Materiality judgements*, is applicable for all financial statements prepared from 14 September 2017 so will be applicable to the 2018/19 financial statements. However, early adoption is permitted.

The practice statement outlines a four-step process for making materiality judgements including:

1. Identifying information with potential to be material
2. Assess whether information is material i.e. could the information reasonably be expected to influence users' decisions.
3. Classify, characterise and present the information in the financial statements to make them understandable
4. Review the financial statements to determine whether all material information has been identified.

We will consider these areas when continuing to reassess our materiality throughout our audit.



Sector and technical updates

NHS Injury cost recovery scheme

The UK Department of Health has issued guidance on the application of the NHS injury cost recovery scheme for 2017/18. The guidance sets out the process for boards to recover costs incurred on treating injuries.

The Department of Work and Pensions' Cost Recovery Unit (CRU) has responsibility for the operation of the scheme. The CRU notify boards of claims. Using an average tariff system the cost of claims is calculated. Health boards should recognise income at the point they have received notification of the claim and that treatment has been provided.

As part of our year end audit work we will assess whether NHS Dumfries and Galloway is recognising income and debtors for cost recovering in accordance with this guidance in 2017/18.

For more information please refer to the link below:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655585/ICR_guidance_2017_2018.pdf

Workforce planning

Audit Scotland has issued a report on NHS workforce planning. This is the first in a two part audit on the NHS workforce within Scotland.

It focuses on overall workforce planning arrangements including how well placed the NHS workforce is to meet current and future demands within Scotland.

The key messages include:

- Spending on NHS staff increased by 11% between 2011 – 2017
- Most territorial boards overspent against their pay budget in 2016/17
- Agency staff costs increased by 107% in six years across the NHS in Scotland
- There are urgent workforce challenges facing the NHS and improving workforce planning is critical to addressing these.

For more information please refer to the link below:

http://www.audit-scotland.gov.uk/uploads/docs/um/tb_2017_3.pdf

Reporting financial performance

Audit Scotland's Professional Support has issued a good practice note to assist NHS boards in improving the reporting of financial performance and outturn in their performance reports. The guidance is based on review of all Scottish

boards' 2016/17 disclosures to identify instances of good practice and areas for improvement.

The note highlights the following key recommendations for boards to consider:

- Provide a clear explanation of the financial performance resource limits and the purpose of the memorandum for in year outturn
- Ensure narrative descriptions are consistent with the amounts being described
- Check that figures and terminology are internally consistent
- Explain where figures have been prepared on a difference basis.

For more information please refer to the link below:

http://www.audit-scotland.gov.uk/uploads/docs/um/gp_improving_quality_nhs_accounts_reporting.pdf



Health and social care integration

Audit Scotland is undertaking the second phase of its review of health and social care integration. The review will follow up the emerging risks highlighted in the Health and Social Care Integration : Phase 1 (2015). This will include: governance arrangements; budget-setting; strategic planning, engagement with the voluntary sector, and the development of localities. Where possible, it will also examine the evidence for significant shifts in service delivery, from acute to community-based and preventative services. The review is due to report in autumn 2018.

Wider insights

How will our future relationship with the EU shape the NHS?

This briefing from Nuffield Trust looks in depth at five key areas where the deals the UK reaches – or fails to reach – as it leaves the European Union (EU) will impact health and social care. While focused on arrangements in England, the briefing identifies areas for consideration applicable across the UK.

This report draws on analysis and insights from the current system, and explores the challenges and opportunities presented by STPs for accountability in the NHS. The briefing looks at five key areas, shown below, where agreements governing our future within the EU will shape health and social care:



Medicines and medical devices



Regulation of science, staff & health care



Customs and trade



Health programmes and agencies



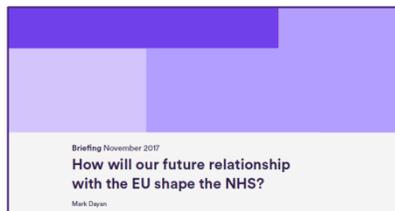
Reciprocal and cross-border health care

For each of the five key areas, the report looks in depth at the options, alternatives and workarounds that will be possible under different models of Brexit.

The report considers the impact of leaving the EU, suggesting that it will add to the current pressures faced by NHS leaders across the UK, in a period of serious difficulties across staffing, finance and reform.

Health and social care are, on paper, among the sectors least influenced by the EU and the single market. As such, there is a risk they will be overlooked by both sides in negotiations. However, the report suggests this would be a serious mistake with many different parts of EU law and EU institutions playing an important role in enabling care to be delivered to the current standards.

Click on the report cover below to read more.



Wider insights

Can effective patch management prevent a cyber-attack?

Sophisticated malware and ransomware attacks have been on the increase in recent years, with cyber-crime predicted to cost \$6 trillion a year by 2021.

While the physical cost of a cyber-attack can be high, the reputational damage can harm an organisation's credibility and lead to loss of consumer and public trust.

Recent high profile attacks WannaCry and NotPetya shared a common theme; they exploited known vulnerabilities and could have been prevented. Ransomware and malware are continually evolving, and organisations should ensure they have adequate patch management policies and procedures in place to keep their systems and data safe.

Staying prepared for a cyber-attack

Patch management involves updating software to address vulnerabilities in a programme or operating system. A robust patch management process should incorporate three key components:

- A patch management policy
- A team or individual with oversight for patch management
- Utilising automated tools.

A **patch management policy** is crucial to the basic upkeep of any IT network. It enables an organisation to have better supervision of their data resources, ensuring they align with regulatory requirements and broader governance controls. It also enables a swift response to cyber threats or incidents, outlining clear guidelines to follow in the event of a security breach.

A **team or individual with oversight for patch management** is essential to support the effective application of the patch management policy. Every organisation, regardless of their size, should allocate responsibly for the security and maintenance of systems and applications. This also includes updates and revisions to the existing policy.

The use of **automated tools** can streamline the patch management process and apply patches promptly, limiting the amount of time an identified vulnerability can be exploited. With a high volume of patches being released every month, automated tools ensure they are implemented and improve productivity within the information security department.

A combination of these three elements form the basis of an effective patch management strategy, helping to mitigate the risk of a cyber-breach. Regardless of an organisation's size or business sector, the consequences of a cyber-attack can be high and effective patch management should be seen as an essential aspect of any cyber security framework.

For more information please refer to the link below:

<https://www.grantthornton.co.uk/en/insights/can-effective-patch-management-prevent-a-cyber-attack/>



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