NHS Ayrshire and Arran

2023/24 Annual Audit Report

AUDIT SCOTLAND

Prepared for the Board of NHS Ayrshire and Arran and the Auditor General for Scotland

June 2024

Contents

Key messages

2023/24 annual report and accounts

1. Audit opinions on the annual report and accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.

2. While it does not impact on our audit opinions, we have identified three individuals on the board's payroll who are working long term in permanent roles in the Scottish Government. While the costs are reimbursed through recharges, in our opinion only individuals who contribute to the board's services should be reflected in its staff cost expenditure in the accounts. This approach may also result in an increased cost to the Scottish public purse as a whole if the board's terms of employment are more favourable than those of the Scottish Government. We have recommended that these arrangements be reviewed for 2024/25.

Financial management

3. A deficit budget was set and reported for 2023/24. Although, the board is now reporting that it met its financial targets for 2023/24 and operated within its Revenue Resource Limit (RRL), this was only achieved using £38.4 million of additional financial support from the Scottish Government. The Acute Services budget was overspent by £36.1 million which makes up a large proportion of the underlying budget deficit.

4. In December the Scottish Government made the decision to pause a number of major construction projects. As a result the National Treatment Centre Ayrshire and Arran has been put on hold for at least two years with only £424,000 spent in 2023/2024.

Financial sustainability

5. NHS Ayrshire and Arran's three-year financial plan shows the board's services are not sustainable. The projected underlying deficit budget for 2024/25 is £53.5 million. This is much higher than the Scottish Government's brokerage cap that was reduced to £27.7 million for 2024/2025. An

overspend against its financial revenue spend target will need to be reported in 2024/25.

6. It is the Board's responsibility to lay out in its plans the options available to deliver a level of services, within its available funding. Financial balance for the board now requires radical reform of health services. Progress has been slow to date in key areas such as the closure of unfunded acute beds, to reduce the board's underlying cost base.

7. In a report to the Performance Governance Committee meeting of May 2024, the Director of Finance shared a number of areas for discussion relating to short, medium and longer-term service reform options. However many of these medium and long term measures were not costed and could not be considered as credible options.

8. The board cannot be passive in its response to increasing financial pressures in the face of increased demand. Difficult decisions now need to be taken and the board's future financial plans must now be developed to demonstrate how its services will be changed to reflect the funding it will receive.

9. These challenges are not new, the board has not delivered within its core funding base over a long period. Additional financial support received from Scottish Government to date of £78.5 million will also need to be repaid if the board returns to financial balance: £38.4 million for 2023/24, £25.4 million for 2022/23 and £14.7 million for 2019/2020. This will also need to be reflected in future delivery plans.

10. Further challenges come from backlog maintenance the cost of which for the board's estate totals £74.6 million with 24% being identified as high and significant risks.

Vision, leadership and governance

11. While governance arrangements are in place to monitor and report on the board's service and financial performance, the leadership of NHS Ayrshire and Arran need to be more effective in transforming services or realising cost efficiencies, to reduce its underlying cost base.

12. The Chief Executive, Directors and Board members need to provide focussed and effective leadership to ensure future delivery plans demonstrate how services will change and efficiencies will be realised to meet the growing

needs of patients within the financial constraints it faces. Progress should be challenged by the Board.

13. The Board's operational and financial performance recovery requires radical reform of health and care services. There are four organisational priorities for recovery. Work ongoing includes a reassessment of their Caring for Ayrshire ambition and securing a rebalance in the financial risk between the Health Board and Integration Joint Boards. However there is no clear plan in place to show how the underlying budget deficit will be closed.

14. Also, progress against 47% of the board's ADPs actions for recovery is rated as either red or amber in the RAG status.

15. The Board has carried out a self-assessment against the Blueprint for Good Governance and developed an improvement plan for to address areas where the Board members survey scores showed improvement was needed.

16. Internal Audit identified a number of improvement recommendations which are being actioned.

17. The board conducts its business in an open and transparent manner.

Use of resources to improve outcomes

18. Reliance on temporary staff comes at a high cost to the board. Expenditure on agency and other directly engaged staff was £17.0 million in 2023/24.

19. Service performance against national waiting time standards is reported as being behind target. Delayed discharges, whilst above forecast, are now at their second lowest position since August 2022; however, the length of stay for all patients remains higher than the national average.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of NHS Ayrshire and Arran (the board). The scope of the audit was set out in an Annual Audit Plan presented to the 20 March 2024 meeting of the Audit and Risk Committee. This annual audit report comprises:

    - significant matters arising from the audit of NHS Ayrshire and Arran's annual report and accounts
    - conclusions on the following wider scope areas that frame public audit as set out in the *Code of Audit Practice 2021*:
        - Financial Management
        - Financial Sustainability
        - Vision, Leadership, and Governance
        - Use of Resources to Improve Outcomes

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

Audit appointment from 2022/23

3. I, Fiona Mitchell-Knight FCA, have been appointed by the Auditor General as auditor of NHS Ayrshire and Arran for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second of my five-year appointment. My appointment coincides with the new Code of Audit Practice which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank board members, audit and risk committee members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance. We look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. NHS Ayrshire and Arran has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual

report and accounts that are in accordance with the accounts direction from the Scottish Ministers.

6. The board is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

7. The responsibilities of the independent appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2021 and supplementary guidance and International Standards on Auditing in the UK.

8. Weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of NHS Ayrshire and Arran from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. This report contains an agreed action plan at Appendix 1 setting out specific recommendations, responsible officers, and dates for implementation. It also includes actions from prior years and progress against these.

Auditor Independence

10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £221,290, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

11. We add value to NHS Ayrshire and Arran through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability
- sharing intelligence and good practice.

1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

Adjustments have been made in the audited accounts to reflect our audit findings. Changes were required to reflect errors in the board's accounting for service concession arrangements and hospital at home grant income.

An unadjusted error remains in the accounts for capital expenditure accounted for in the wrong financial year.

We have identified three individuals on the board's payroll who are working long term in permanent roles in the Scottish Government. Service Level Agreements (SLAs) are in place that set out the legal arrangements for these individuals. The payroll costs incurred by the board are reimbursed by the Scottish Government through recharges. From an accounting perspective, inclusion of these staff costs in the board accounts, when they do not provide services to the board to match against these costs, does not represent a true and fair reflection of their role in delivering local services. In addition, their employment responsibilities and risks remain with the board while it gets no benefit in terms of services from them. This does not represent Best Value for NHS Ayrshire and Arran. Also this approach may result in an increased cost to the Scottish public purse as a whole if the board's terms of employment are more favourable than those of the Scottish Government.

Audit opinions on the annual report and accounts are unmodified

12. The board approved the annual report and accounts for NHS Ayrshire and Arran and its group for the year ended 31 March 2024 on 27 June 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report was prepared in accordance with the financial reporting framework
- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Overall materiality was assessed on receipt of the unaudited annual report and accounts as £23.5 million

13. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

14. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in Exhibit 1.

Exhibit 1
Materiality values for NHS Ayrshire & Arran and its group

Materiality level	Amount – Board & Group
Overall materiality	£23.5 million
Performance materiality	£14.1 million

Materiality level	Amount – Board & Group
Reporting threshold	£230 thousand

Source: Audit Scotland

15. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

16. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60% of overall materiality, reflecting the nature and extent of prior year misstatements.

17. It is our responsibility to request that all misstatements are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

18. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the board including our view about the qualitative aspects of the board's accounting practices.

19. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

20. The significant findings and key audit matters are summarised in Exhibit 2. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included.

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
1. Application of IFRS 16 to Service Concession Arrangements International Financial Reporting Standard (IFRS) 16 applied to service concession arrangements (i.e. PFI, PPP and NPD agreements) for the first time in 2023/24. The board has two service concession arrangements, Woodland View and Ayrshire Maternity Unit. IFRS 16 requires the board to remeasure the lease liability when a change in indices causes a change in future lease payments and that change has taken effect. Both arrangements have an index linked element where payments increase each year due to increases in RPI inflation. In line with typical service concession arrangements, the board's agreements have a service element with the operator responsible for services like hard facilities management. Accounting requirements require the service element to continue to be expensed as incurred. In error, the board had included the service element of the charge when calculating the IFRS 16 adjustments.	The board has agreed to adjust the 2023/24 accounts. Trade and other payables has reduced by £5.027 million to reflect the decrease in the board's net obligations under PFI contracts. There has also been a decrease of £0.263 million to other operating expenditure to correct errors in the 2023/24 IFRS 16 accounting adjustment. This has resulted in a £4.764 million increase in the general fund. While we have concluded that any further errors would not be material, there remain potential inaccuracies in the service concession financial models being used by the board due to the methodology being adopted. We recommend the board review these models before the 2024/25 year-end. **Recommendation 2** (refer **Appendix 1**, action plan)
2. Student Houses included in 2023/24 Capital Expenditure The board purchased three properties for students at a cost of £0.617 million. This was recognised as 2023/24 capital expenditure. While the missives were concluded on 27 March 2024, the date of entry was not until the 25 April 2024 and therefore after the year-end. Expenditure should only be recognised for goods and services when they have been received or supplied. It is our view that the board did not have control, and use, of these	The board has decided not to adjust the 2023/24 accounts. This has been included as an expenditure accrual. As a result, we conclude that trade and other payables and asset additions are both overstated by £0.617 million. We have included this as an unadjusted error in Appendix 2.

Issue	Resolution
properties until the 25 April 2024 and the purchase should not be reflected in 2023/24. We have concluded that this was a technical accounting difference, and not an instance of management override of control.	
3. Ayr Hospital Nursery The board have owned the nursery beside University Hospital Ayr since 2010/11. Part of the property is leased to a private nursery, with the remainder being used as office space by the board. Our audit procedures identified that, while the nursery was included in the board's fixed asset register, it was not included in the revaluation of the board's buildings at 31 March 2024. It was therefore not reflected in the board's financial statements. The building was valued at £0.562 million at 31 March 2024 by an independent valuer.	The board has agreed to adjust the 2023/24 accounts Property, plant and equipment has increased by £0.562 million. There has been a corresponding £0.562 million increase to the revaluation reserve. In accordance with financial reporting requirements, the board have recognised the building as an owner occupied asset. This is on the basis that the building could only be sold as one single site, and the proportion of the building occupied by the board is considered significant.
4. Health and Social Care Integration The three integration joint boards (IJB) activities have been reflected in the board's accounts. £582.864 million has been included in the board's other health care expenditure relating to the board's payments to the IJB. Income of £539.955 million for services commissioned by the IJB has also been included. The IJBs have been consolidated into the group accounts as joint ventures. £16.195 million has been shown in financial assets, representing the board's share of the IJBs cumulative financial outturns to 31 March 2024. The IJB figures are based on the unaudited accounts for each IJB and the deadline for these accounts to be audited is 30 September 2024. We do not anticipate any material changes to the draft figures used in consolidation.	For information only.

Issue	Resolution
5. Endowment Fund In accordance with IFRS 10, the board's financial statements consolidate the Ayrshire and Arran Endowment Funds on a merger accounting basis. The board held funds on trust of £8.347 million at 31 March 2024 which represented the full balance of the endowment fund reserves. The endowment fund has been consolidated into the group accounts based on unaudited accounts. The endowment fund is not a material group entity, and we do not anticipate any material changes to the draft figures used in consolidation.	For information only.
6. Hospital at Home Income Our audit procedures identified that the board had £0.449 million of hospital at home grant income unspent at the year-end. After clarification with the Scottish Government, it was confirmed that the unspent income would only be recovered if it remained unspent at the end of the next financial year at 31 March 2025. In the unaudited accounts, the board had recognised a £0.420 million expenditure accrual for hospital at home staff costs which related to the 2024/25 financial year. We concluded that this was 2024/25 expenditure that should have been expensed as the staff were paid and was therefore an error. As there are conditions to this income which require return if not complied with, and there was reasonable assurance at the year-end that these conditions would be met, it is our view that the £0.453 million unspent should be recognised in deferred income within trade and other payables.	The board have agreed to amend the 2023/24 accounts. Trade and other payables has increased by £0.029 million. There has also been a £0.420 million decrease in expenditure, and £0.449 million decrease in income.
7. Accruals accounting Error Expenditure accruals represent items of current year expenditure which have not yet been paid by the end of the financial year. Conversely,	The board have agreed to amend the 2023/24 accounts. Both trade and other payables and trade and other receivables on the Statement of

Issue	Resolution
expenditure prepayments are payments made in the current financial year that relate to goods or services received in a future financial period. The board had included both an expenditure accrual and prepayment for £0.590 million relating to a item of IT expenditure that related to a future financial period and had not been paid by the end of the financial year. It is our view that neither an accrual or prepayment should have been recognised for this amount.	Financial Position have decreased by £0.590 million. This had no impact on the board's year-end outturn.
8. Classification of Trade and Other Receivables and Trade and Other Payables It is a requirement of the NHS Accounts Manual that trade and other receivables (Note 9) and trade and other payables (Note 12) are classified according to their Whole of Government Accounts (WGA) classification. This disclosure provides information on the value of payables and receivables with different bodies within the public sector. Due to system limitations, the board have been unable to produce a report that discloses this information accurately. We have obtained satisfactory evidence that the total receivables and payables balances are accurate, concluded this is solely an error in classification.	The board have been unable to rectify this for the 2023/24 accounts. We have accepted the disclosures as this does not represent a material misstatement to the total receivables and payables figures in the accounts. The Board should ensure correct disclosures are reported in 2024/25.

21. An additional issue has been identified that is not material to the accounts, but we are bringing it to your attention as it relates to the board's governance and ability to demonstrate Best Value.

Remuneration Report – Outward secondees

22. Many secondments of staff are organised between boards to support the right staff being in place across Scotland to provide health services. We identified that the unaudited remuneration report included three senior employees, who have been working in the Scottish Government for a considerable time, in full time posts.

23. Service level agreements (SLAs) are in place between the board and Scottish Government which lay out the employment terms for these individuals. They remain as board employees, on board terms and conditions while carrying out their new roles in Scottish Government. This is despite their moves to Scottish Government being into long term, permanent roles. Their posts in NHS Ayrshire and Arran have been filled permanently. Their costs are reimbursed to the board through Scottish Government recharges included in the board's income. It has been explained that this arrangement is to enable these individuals to stay on the terms and conditions of the board instead of moving onto Scottish Government terms and conditions. They are now not considered to be secondees by the board and have been removed from the secondee disclosures in the accounts.

24. The SLA's lay out the terms of the agreement and the basis on which the board's payroll payments are considered valid expenditure from a legal perspective. However from an accounting perspective, inclusion of their staff costs in the board accounts, when they do not provide services to the board to match against these costs, does not represent a true and fair reflection of their role in delivering local services.

25. Retaining these individuals on employment contracts with the board long term also means that any employment responsibilities and risks remain with the board while it gets no benefit in terms of services from them. This does not represent Best Value for NHS Ayrshire and Arran. In addition, this approach may also result in an increased cost to the Scottish public purse as a whole if the board's terms of employment are more favourable than those of the Scottish Government.

26. We have not carried out audit testing of the secondees to other boards but similar conclusions could be reached if any of these secondees or individuals with SLAs are on long term, permanent secondments to other boards.

Recommendation 3

The employment status of all employees who are working long term in permanent positions in other boards or the Scottish Government should be clarified for 2024/25. Only valid board employees should be reflected in its expenditure in the accounts.

Legal advice should be taken on the board's exposure to risks from their employment contracts remaining with NHS Ayrshire and Arran.

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

27. Our Annual Audit Plan presented to the Audit and Risk Committee on 20 March 2024 included the significant audit risks we had identified in the board from our planning work.

28. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. Exhibit 3 sets out the two significant risks of material misstatement to the financial statements we identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3
Identified significant risk of material misstatement in the annual report and accounts

Audit risk	Audit Response	
1. Risk of material misstatement due to fraud caused by management override of controls As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	Assessed the design and implementation of controls over journal entry processing. Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Tested journals throughout the year with a focus on year-end entries and significant risk areas. Assessed the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. Assessed any changes to the methods used to prepare accounting estimates compared to the prior year.	**Results:** We assessed the controls in place over journal entry processing. We made inquiries of staff. We undertook detailed substantive testing of journal entries, accruals and invoices. Our journal testing included a data analytics review to identify key risk factors. We reviewed related party relationships and disclosures. We also reviewed accounting estimates and transactions for appropriateness. We tested substantively income and expenditure transactions around the year-end. Our testing of accruals identified capital expenditure

Audit risk	Audit Response	
	Evaluated significant transactions outside the normal course of business. Tested substantively income and expenditure transactions around the year-end to confirm they were accounted for in the correct financial year. Carried out focussed testing of accounting accruals and prepayments.	that was not recognised in the correct financial year. **Conclusion**: We identified one instance where capital expenditure was accounted for in the incorrect financial year. This is reported in Exhibit 2. We have concluded this was a technical accounting difference, and not an instance of management override of control.
2. Application of IFRS 16 to Service Concession Arrangements International Financial Reporting Standards (IFRS) 16 Leases and its application to the board's service concession arrangements (PFI and NPD) is effective for 2023/24. The board has two material service concession arrangements: Woodland View and the Ayrshire Maternity Unit. Accounting for these arrangements is complex. There is a risk that the application of this new accounting standard results in a material misstatement to the financial statements.	Assessed whether service concession arrangements had been accounted for in accordance with the requirements of IFRS 16. Tested the IFRS 16 transitional accounting adjustments and confirmed these are accurate and complied with the financial reporting framework.	We evaluated the board's accounting treatment of its two material service concession arrangements. We substantively tested the accounting adjustments that were made for accuracy and compliance with IFRS 16. **Conclusion**: We identified errors in the board's accounting for service concession arrangements. This is reported in Exhibit 2.

29. We also identified "areas of audit focus" in our 2023/24 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **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 £496.9 million at 31 March 2023. A full revaluation was conducted at 31 March 2024. We reviewed the arrangements in place to satisfy the board that the annual revaluation process is complete and is free from material misstatement. We are satisfied there are no material misstatements in the valuation of land and buildings.

- **Service Level Agreements (SLA) Income and Expenditure:** 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 SLAs are based on activity level, if a board has not delivered the full activity during the year, the board should recognise any shortfall in activity as a contract liability. If the board has paid for delivery of activity at another board, and this has not delivered at the year-end, an expenditure prepayment should be recognised. We reviewed the board's accounting for SLA agreements. The £56.299 million SLA expenditure agreement with NHS Greater Glasgow & Clyde was subject to a formal contract amendment agreed by both parties in accordance with IFRS 15. The contract set out that there was to be no under or over delivery associated with the 2023/24 payment. The SLA agreements with other boards were immaterial but operated in the same way.

30. There are no other matters which we need to bring to your attention.

There was one non-material misstatement identified within the financial statements not corrected by management

31. We identified one misstatement that was not corrected by management in the audited accounts. We considered the size, nature and circumstances leading to this uncorrected misstatements and concluded this was not material. Further details of the uncorrected misstatement is included in Appendix 2.

There were delays in preparing the unaudited annual report and accounts

32. The audit of the accounts takes place over a condensed period in May and June. A template that is used to populate the unaudited annual report and accounts was received two days after our agreed audit timetable of 7 May

2024. The annual report and accounts and supplementary working papers package were incomplete. The package did not include a finalised Performance Report and there were arithmetical and consistency issues and omitted transactions, balances and disclosures. These outstanding items were provided to external audit during May and early June. This adds additional pressure for the audit team and finance staff in concluding the audit by the statutory 30 June deadline.

33. Whilst we acknowledge that some of the delay is due to late accounting adjustments, improvements are required in future years to ensure that the timetable is adhered to. We believe that one factor might be the reliance on a few key staff. We have recommended that the board review its arrangements for preparing the annual report and accounts.

34. The audit team received good support from finance staff.

Recommendation 1

The board should review its arrangements for preparing the annual report and accounts. The reliance on a few key staff to meet the reporting timetable should be part of the review.

Some progress was made on prior year recommendations

35. The board has made some progress in implementing the prior year audit recommendations. Six of the 13 prior year recommendations have been implemented, with one in progress, and six superseded by recommendations within our 2023/24 action plan. For actions superseded, revised responses and timescales have been agreed with management and are set out in Appendix 1.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Main judgements

NHS Ayrshire and Arran has effective financial management arrangements in place for reporting on its financial position. However the 2023/24 budget was set projecting a deficit position.

The board is now reporting that it met all its financial targets for 2023/24 and operated within its Revenue Resource Limit (RRL), this was achieved using £38.4 million of additional financial support from the Scottish Government.

The revenue position for the year ended 31 March 2024 was a £38.0 million deficit.

In December the Scottish Government made the decision to pause a number of major construction projects. As a result the National Treatment Centre Ayrshire and Arran has been put on hold for at least two years with only £424,000 spent in 2023/2024.

Effective internal controls operated over the financial systems with the exception of controls over changes to supplier bank details.

Although NHS Ayrshire and Arran operated within its Revenue Resource Limit (RRL) of £1,089.5 million, this was achieved using £38.4 million of additional financial support from the Scottish Government

36. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within. The requirement for boards to develop three-year financial plans was reintroduced from 2022/23.

37. As illustrated in Exhibit 4, the board reported that it operated within all limits during 2023/24. However, the underspend against Core RRL was achieved

as a result of the board receiving additional non-recurring financial support of £38.4 million from the Scottish Government in March 2024. In a letter dated 9 May 2024, the Director of Health and Social Care Finance, Digital and Governance at the Scottish Government confirmed that an appropriate repayment profile for the additional financial support would be agreed in due course following the board's return to financial balance.

Exhibit 4
Performance against resource limits in 2023/24

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	1,089.46	1,089.09	0.37
Non-core revenue resource limit	26.72	26.72	0
Total revenue resource limit	**1,116.18**	**1,115.81**	**0.37**
Core capital resource limit	20.86	20.86	0
Non-core capital resource limit	0.34	0.34	0
Total capital resource limit	**21.20**	**21.20**	**0**
Cash requirement	**1,197.92**	**1,197.92**	**0**

Source: NHS Ayrshire and Arran Annual Report and Accounts 2023/24

£8.9 million of efficiency savings were achieved, against planned efficiencies of £9.6 million

38. The Cash Releasing Efficiency Savings (CRES) programme for 2023/2024 was generally achieved with the main exceptions being Renal 2D/2F (£600k) where none of the planned savings were achieved, and I&SS Operational (£1.5 million) where only £1.0 million of the planned savings were achieved (which was covered non-recurrently by holding staffing vacancies).

The revenue position for the year ended 31 March 2024 was a £38.0 million deficit

39. The budget for 2023/24 was approved by the Board in March 2023, it showed a projected deficit of £56.4 million. Planned CRES for 2023/2024

was £9.6 million. During the year, Scottish Government provided some £5.6 million of sustainability funding together with further non-recurring funding of £11.0 million which along with a notified reduction in the CNORIS settlement improved the financial position. The revenue position for the year was a deficit of £38.0 million.

40. The Financial Management Report for the year ending 31 March 2024 was presented to the Board meeting of 21 May 2024 by the Director of Finance. The report highlights the most significant areas of financial pressure as:

- The budget for Acute Services was overspent by £36.1 million. Main contributing factors were an overspend on medical pay of £9.0 million and an overspend on nursing pay budgets of £13.4 million mainly due to £8.85 million of nursing agency spend. Supplies were also overspent by £12.8 million.
- The new Medicines Fund budget of £18.6 million was overspent by £3.7 million.
- Reserves (budgets not issued to directorates) were £4.1 million overcommitted.

41. The above overspends were offset by an underspend of £5.7 million on Corporate Services budgets of £41.6 million.

A new model has been agreed for costing the set aside arrangements from 2024/25

42. The funding for large hospital services is referred to as the 'set aside' budget – it is excluded from the payment to the Integration Joint Boards but is 'set aside' for direction by the IJBs through the Strategic Plan. Legislation requires that the method for determining the amount to be set aside should be included in the Integration Scheme.

43. In 2022/23 we reported that work was ongoing with the IJBs around set aside services and the development of commissioning plans as the Integration Schemes were reviewed during 2023/24.

44. Ayrshire Finance Leads have now developed and agreed on a new model for costing the set aside arrangements, based on actual bed usage and average costs. A baseline level of usage has been agreed based on the average actual use across years 2016/17 to 2019/20, the last four years prior to the pandemic. A pan-Ayrshire Joint Commissioning Plan is currently under development; this will outline the level of acute unscheduled care provision that each of the IJBs want to commission from the Health Board.

45. Following approval by the three IJBs, the Plan is expected to be enacted operationally through the mechanism of Directions by the Local Authorities and NHS Ayrshire and Arran during 2024/25.

A deficit budget was set in 2023/24

46. In March 2023 the Board set a deficit budget of £56.4 million for 2023/2024.

47. The board's code of Corporate Governance requires that the Director of Finance provides the Board with financial reports at regular intervals showing:

- NHS Ayrshire & Arran's overall performance against its notified Revenue Resource limit on the basis of income and expenditure for the period under review including a forecast of the expected position at 31 March.
- Any other financial reports required by the Board in the performance of its functions.

48. We observed that the Board receive regular and accurate financial information on its performance against budgets. We concluded that the board has appropriate budget setting and monitoring arrangements.

Development of the National Treatment Centre Ayrshire and Arran has been put on hold for at least two years

49. The proposed capital investment plan for 2023/2024 approved at Board on 23 May 2023 anticipated allocations of £36.6 million including programme specific funding of £16 million for the National Treatment Centre Ayrshire and Arran (NTC). However following the 2024/25 budget in December 2023, the Scottish Government indicated that although all major projects in construction will be completed, NHS boards should pause the development of any projects that have not yet passed certain development milestones. As a result, the NTC has been put on hold for at least two years with only £424,000 spend in 2023/2024.

50. Capital expenditure for the year was £21.2 million in line with the revised Capital Resource Limit. The most significant area of spend in the year was for the national secure adolescent unit (Foxgrove) at Ayrshire Central Hospital where a £7.7 million spend took the total spend on the project to £19.5 million.

51. The NTC was scheduled to open in 2025 however it is now delayed until 2027 at the earliest. Foxgrove was scheduled to be completed in October 2023, but is now delayed until November 2024.

Effective internal controls operated over the financial systems with the exception of controls over changes to supplier bank details

52. As part of our audit, we develop an understanding of the board's control environment in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that NHS Ayrshire and Arran has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is fully substantive in nature.

53. Our audit procedures identified that more robust control procedures should be introduced when a supplier requests an amendment to their bank details. This is one of the most common areas for fraud to occur. An instance was identified where a supplier's bank details were changed on receipt of an email from an employee outside the finance team. This was contrary to the board's agreed processes. Best practice is for a member of the finance team to confirm any change in bank details is legitimate by contacting the supplier both by phone and email using the supplier details held on file. The board have committed to completing training with relevant members of the accounts payable team, and to introduce improvements in this area. There have been no instances of fraud identified in this area.

54. In 2022/23, we recommended that the board should introduce robust journal authorisation controls to mitigate the risk of accounting entry errors, and misstatements, in the annual report and accounts. In response to our recommendation the board have introduced a revised journal review control where a small number of riskier journals are evaluated on a monthly basis.

55. No other material weaknesses or areas of concern were identified from this work which would have caused us to alter the planned approach as documented in our 2023/24 Annual Audit Plan.

Control weaknesses within NHS National Services Scotland resulted in the service auditor issuing qualified opinions

56. The NHS in Scotland procures several service audits each year to provide assurance on the controls operating within the shared systems.

57. NHS National Services Scotland procures service audits covering Practitioner and Counter Fraud Services (primary care payments), payroll and the national IT services contract that supports the associated systems.

58. For the Practitioner and Counter Fraud Services the Type II service audit resulted in a qualified opinion on the controls relating to dental payments as the controls associated with the objective '*Controls provide reasonable assurance that: GDS payments are made completely and accurately based*

on authorised claims to the valid contractors; GDS payments are made only once; and Verification is performed in accordance with Scottish Government Guidance' did not operate effectively during the year.

59. For the national IT services contract the Type II service audit also resulted in a qualified opinion on the controls relating to access to the systems as the controls associated with the objective *'Controls provide reasonable assurance that logical access to applications, operating systems and databases is restricted to authorised individuals'* did not operate effectively during the year.

60. We have reviewed the qualifications contained within the service auditor reports and have undertaken additional substantive audit procedures including analytical review of GMS payments to conclude that the qualifications did not have an adverse impact on our audit opinion.

An unqualified opinion was provided by the NSI service auditors on the controls operating in shared systems, however an assurance gap remains

61. NHS Ayrshire & Arran procures a Type II service audit of the National Single Instance (NSI) eFinancials services. The service auditor assurance reporting in relation to the NSI eFinancials was unqualified. The assurance gap identified last year for the IT general controls, system backup and disaster recovery remains. This continues to be a risk for NHS Scotland that needs to be addressed, but it did not impact on our 2023/24 audit.

62. In 2022/23 we reported that a gap was identified in the current service audit arrangements. The NSI service auditor report for 2023/24 again reports that: 'Atos provides national IT services to the NHS in Scotland and hosts the servers upon which the financial ledger sits. Therefore, IT general controls, controls over the server, backup of financial ledger data and disaster recovery arrangements are outside the scope of this report'. The assurance gap therefore remains for the IT general controls, system backup and disaster recovery for the NSI eFinancials system.

63. This is an area that needs to resolved for NHS Scotland and NHS Ayrshire and Arran should continue to work with NSS to ensure appropriate service auditor assurance is provided to other NHS boards on Atos services which support e-Financials.

Recommendation 4

NHS Ayrshire and Arran should continue to engage with NHS NSS to address the assurance gap over eFinancials general IT controls.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Main Judgements

NHS Ayrshire and Arran's three-year financial plan shows the board's services are not sustainable. The projected underlying deficit budget for 2024/25 is £53.5 million. This is much higher than the Scottish Government's financial support (brokerage) cap which was reduced to £27.7 million for 2024/2025.

The board cannot be passive in its response to increasing financial pressures in the face of increased demand. Financial recovery for the board will require radical reform of health services but there is no clear plan on how the underlying budget deficit will be closed. Progress has been slow in some key areas such as the closure of unfunded acute beds.

In a report to the Performance Governance Committee meeting of May 2024, the Director of Finance shared a number of areas for discussion relating to short, medium and longer term service reform options. However, many of these reform options measures were not costed and could therefore not be considered as credible options to close the budget gap.

Additional financial support received from Scottish Government to date of £78.5 million will also need to be repaid if the board returns to financial balance.

Further challenges come from backlog maintenance cost for the Board's estate totals £74.6 million with 24% being identified as high and significant risks.

64. In our 2023/24 Annual Audit Plan we identified a wider scope audit risk relating to the board's financial sustainability. Our audit findings from the work done on this area are recorded below.

Rising demand, operational challenges and rising costs have exacerbated the financial position of the NHS in Scotland

65. As highlighted in Audit Scotland's *NHS in Scotland 2023* report, the financial position is concerning across the heath sector. Despite growth in health funding a range of financial pressures are presenting a significant challenge for all health boards. The national key messages from the report are:

- 'Significant service transformation is required to ensure the financial sustainability of Scotland's health service. Rising demand, operational challenges and increasing costs have added to the financial pressures on the NHS and, without reform, its longer-term affordability.
- The NHS, and its workforce, is unable to meet the growing demand for health services. Activity in secondary care has increased in the last year but it remains below pre-pandemic levels and is outpaced by growing demand. This pressure is creating operational challenges throughout the whole system and is having a direct impact on patient safety and experience.
- There are a range of strategies, plans and policies in place for the future delivery of healthcare, but no overall vision. To shift from recovery to reform, the Scottish Government needs to lead on the development of a clear national strategy for health and social care. It should include investment in preventative measures and put patients at the centre of future services. The current absence of an overall vision makes longer-term planning more difficult for NHS boards.'

The 2024/25 revenue plan deficit of £53.5 million is much higher than the Scottish Government will provide brokerage for

66. The Board's draft three-year financial plan was presented to the Performance Governance Committee meeting on 1 February 2024 and submitted to the Scottish Government on 22 March 2024. It details projected variances against Core RRL of £56.0 million in 2024/25, £55.4 million in 2025/26 and £53.2 million in 2026/27. Indicative savings targets of £28.2 million are identified for 2024/5, £24.1 million for 2025/26, and £20.5 million in 2026/27. Non-recurring savings of £4.1 million for 2024/25, £3.0 million in 2025/26 and £3.0 million in 2026/27 are also identified.

67. A letter from the Scottish Government's Director of Health and Social Care Finance, Digital and Governance (DHSCFD&G) dated 6 February 2024 notified a brokerage cap for the Board in 2024/25 of £35 million. A further letter on 12 February 2024 responding to the draft financial plan reduced the brokerage cap to £27.7 million.

68. In a letter to the Chief Executive dated 30 April 2024 the DHSCFD&G noted that the Board must continue to work with both finance and performance colleagues within the Scottish Government to consider options to reduce expenditure to deliver a financial outturn within the brokerage cap communicated. He also noted that should the Board not meet this position, it is his expectation that an overspend would need to be shown in the financial statements.

69. The Board approved an updated 2024/25 Revenue Plan at its meeting on 21 May 2024. The plan forecasts a 2024/2025 deficit of £53.5 million. This is £25.8 million in excess of the Scottish Government's brokerage cap for in 2024/2025.

70. In his accompanying report to the Board meeting, the Director of Finance explained that the recurring deficit in 2023/2024 was £50.28 million. However, despite additional recurring sustainability funding, a projected overspend on the New Medicines Fund, together with the continuing cost for unfunded beds and new cost pressures, the deficit before CRES is £77.6 million. He also explained that recurring cash releasing efficiency savings of £24.1 million are required in 2024/2025 to bring the projected deficit to £53.5 million (see Exhibit 5 below).

Exhibit 5 NHS Ayrshire and Arran budget pressures 2024/25

	£ million
Underlying deficit	50.3
Cost pressures	18.5
Cash releasing efficiency savings	(24.1)
Additional funding	(5.8)
Unfunded beds	3.7
New medicines fund	10.9
Projected deficit	53.5

Source: NHS Ayrshire and Arran

71. One of the main cost pressures for 2024/2025 is the New Medicines Fund where the cost of medicines approved by the Scottish Medicines Consortium increases in line with Government policy to increase access to medicines. The projected deficit budget for 2024/2025 is also dependent upon the timing of the closure of the unfunded acute beds.

72. Recurring cost pressures of £18.5 million also include clinical cost pressures of £4.6 million and £4.3 million relating to primary care prescribing.

73. Scottish Government expect Boards to deliver at least 3% cash releasing efficiency savings (CRES), for the board this is £26.5 million. Exhibit 6 below provides a breakdown of the planned CRES for 2024/25. This is some £2.4 million short of the 3% required by Scottish Government. The Director of Finance has confirmed that HSCP CRES is not included in Exhibit 6 which would cover this gap.

Exhibit 6 NHS Ayrshire and Arran Planned CRES 2024/25

	£000
Service level agreements	2,100
Waiting times	4,000
Acute prescribing	2,545
Primary care prescribing	4,050
Closing unfunded acute beds	6,440
Reduce use of agency nurses	2,000
Reduce use of agency doctors	1,000
Other acute (including taxis and medical prescribing)	191
Estates rationalisation	50
Procurement	300
Corporate	1,460
TOTAL	**24,136**

Source: NHS Ayrshire and Arran

The closure of unfunded acute beds has been slow and taken longer than anticipated

74. As outlined above, savings and the timing of the closure of the unfunded acute beds will play a part in achieving planned CRES during 2024/25. However the board's ambitions in this area have been slower than anticipated.

75. In a report to the Performance Governance Committee meeting of May 2024, the Director of Finance acknowledges that to reduce the underlying deficit, three parallel streams of work are needed:-

- Reform of acute services to reduce length of stay, close speedily all unfunded beds and thereafter close funded acute beds to release cash releasing efficiency savings.
- Achievable cash releasing efficiency savings targets set for all other Directorates (3%).
- Rebalance the financial risk between the Health Board and Integration Joint Boards in relation to:-

  - primary care prescribing and overspends;

  - partnership agreement review

76. He acknowledges that although some progress was made with the closure of 80 beds in-year, a further 100 unfunded beds are planned for closure in 2024/25.

77. The Director of Finance reports that, the biggest risks to achieving the revenue plan in 2024/2025 are maintaining access times to quality care whilst managing the board's ability to deliver the full CRES target, together with a commitment to close all unfunded beds. The delivery of CRES will be reviewed, monitored and progressed by the Financial Improvement and Scrutiny Group (FISG). This group is chaired by the Chief Executive and has various Directors as members.

Backlog maintenance cost for the Board's estate totals £74.6 million with 24% being identified as high and significant risks

78. Audit Scotland's *NHS in Scotland 2023* report set out that there is already a significant backlog of maintenance required across the NHS estate, with the identified backlog now exceeding £1.1 billion. The latest available data as at 31 March 2022 identifies that the board's current condition and performance of the existing estate shows a backlog maintenance cost for the estate totalling £74.6 million with 24% being identified as high and significant risks. Within the Boards estate, the highest proportion of backlog is recorded at the University Hospital Crosshouse which makes up 42% of all backlog maintenance.

79. As capital budgets available for new buildings and maintenance decrease, it is not clear how the board will address both routine and backlog maintenance requirements as the existing estate ages.

Financial recovery for the board will require radical reform of health services

80. As set out in paragraphs 71 to 73 above, the Director of Finance has highlighted a number of cost pressures which will worsen the board's existing underlying deficit. Given the board's own assessment of the risks it faces in delivering the 2024/25 Revenue Plan, the board's cost base is not sustainable in the future.

81. Recognising that the scale of the overall financial challenge varies across boards, NHS Boards have been categorised into three groups (Tailored Support; Enhanced Monitoring and Quarterly Engagement), to ensure Scottish Government support is directed based on need. NHS Ayrshire and Arran remains in the 'Enhanced Monitoring' category (Level 3) which requires that they will receive specific support from Scottish Government in order to improve the underlying financial health of the board. Viridian began a nine week engagement with the Board in May 2024.

82. A letter from the Scottish Government's DHSCFD&G dated 17 May 2024 notified all Chief Executives that Boards at level 2 or 3 of the NHS Scotland Support and Intervention Framework have been given a brokerage cap which cannot be exceeded, or an overspend will show in the financial statements. This does not change the statutory responsibility to break even. The letter also explained that Boards must move quickly to achieve financial balance because as the year progresses, options to reduce the deficit will become more limited, therefore action is required now.

83. Planned efficiency savings are not enough to close the predicted financial gap in 2024/25 and financial recovery in the medium to longer term will require radical reform of health services. In a report to the Performance Governance Committee meeting of May 2024, the Director of Finance shared a number of areas for discussion relating to short, medium and longer term service reform options. However many of these measures were not costed and could therefore not be considered as credible options to close the budget gap.

84. The Director of Finance acknowledged that the short term initiatives will need considerable review (e.g. any reduction in planned care) and that the medium and longer term initiatives (e.g. recommissioning of urgent and emergency care) will require policy and system redesign to realise.

85. Whilst we recognise that a range of improvement activity is taking place across the board, there are no approved plans to reduce the Board's residual financial gap towards the brokerage cap set. Recurring pressures are currently being met with a combination of recurring and non-recurring solutions with an underlying recurring over-commitment. This needs to be addressed as a matter of urgency. An effective long term financial recovery plan needs to be introduced, and decisions about the way services are delivered in the short, medium and longer-term based on information about the cost, impact and quality of all available options. Detailed scenario planning should also be undertaken to provide an understanding for the Board of the effects of various reform options. This matter is discussed further at paragraphs 96 to 99.

Additional financial support received from Scottish Government will need to be repaid

86. The Scottish Government has provided additional financial support, sometimes known as brokerage, over a number of years for boards predicting a financial deficit.

87. NHS Ayrshire & Arran required £38.4 million of brokerage from Scottish Government in order to achieve financial balance in 2023/2024. Without this additional support, the board's final outturn would have been an overspend of £38.0 million (equivalent to 3.4% of the Revenue Resource Limit). This brokerage is repayable once the board is in financial balance along with

£14.7 million brokerage from 2019/2020 and the £25.4 million brokerage from 2022/23.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Main Judgements

The Board's operational and financial performance recovery requires radical reform of health and care services and is focussed on four agreed organisational priorities for recovery. Ongoing work includes a reassessment of their Caring for Ayrshire ambition and securing a rebalance in the financial risk between the Health Board and Integration Joint Boards. However there are no approved plans in place to show how the underlying budget deficit will be closed.

Progress against 47% of the board's ADP actions for recovery is rated as either red or amber in the RAG status

While governance arrangements are in place to monitor and report on the boards service and financial performance, the leadership of the board need to be more effective in transforming services and realising efficiencies to reduce its underlying cost base.

The Chief Executive, Directors and Board members need to ensure delivery plans demonstrate how services will change and efficiencies will be realised to meet the growing needs of patients within the financial constraints it faces. Effective leadership is required to drive the changes needed and progress should be challenged by the Board.

The Board has carried out a self-assessment against the Blueprint for Good Governance and developed an improvement plan for implementation to address areas where the Board members survey scores showed improvement was needed.

The Annual Delivery Plan shows that operational and financial performance recovery requires radical reform of health and care services and sets out four agreed organisational priorities for recovery

88. All NHS Boards were required to submit to Scottish Government an Annual Delivery Plan (ADP) for 2023/24 which includes the key deliverables expected to be taken forward over the year. The final draft 2023/24 ADP was submitted for consideration to Scottish Government on the 7 July 2023. On 31 July 2023, a letter was received from Scottish Government recommending the Plan be presented to the Board for approval. The Plan was approved by the Board on 14 August 2023.

89. The 2023/24 ADP notes that operational and financial performance recovery requires radical reform of health and care services and sets out the following four agreed organisational priorities to recover the scale of underlying deficit:

- Delivery of the Caring for Ayrshire ambition for whole health and care system reform;
- Reduction in length of stay, closing all unfunded beds and realignment of workforce reducing agency and locum spend (see paragraph 61);
- Delivery of a programme of cash releasing efficiency savings targets (see paragraph 45); and
- Review of the financial risk between the Health Board and Integration Joint Boards in relation to Primary care prescribing and overspends and the approach to risk share in relation to set aside commissioning (see paragraphs 40 to 43).

90. Alongside these four priorities, the 10 national drivers for recovery incorporate 96 detailed actions for the recovery and stabilisation of services which are included in the 2023/24 ADP. Each action includes a key deliverable with agreed quarterly milestones and planned completion dates. Also detailed are the major strategies and programmes each deliverable relates to. Progress against each milestone is reported quarterly and given a RAG status.

Progress against 47% of the board's actions for recovery is rated red or amber in the RAG status

91. Q3 and Q4 ADP monitoring returns were submitted to the CMT on 20 May 2024 prior to submission to the Scottish Government on 7 June 2024. At Q4, for the 93 actions remaining, 12 actions (13%) were rated red and 32 (34%) were rated amber. Of the 12 actions rated red, 8 related to Unscheduled Care, in particular reducing the length of stay, delivery of effective discharge planning and 12 hour breaches.

The board are reassessing their Caring for Ayrshire ambition

92. Caring for Ayrshire (CfA) is the reform strategy which sets out the board's whole system health and care redesign and reform ambition. The board is required to develop a whole system plan as part of a Programme Initial Agreement which is to be completed and submitted to Scottish Government no later than January 2026. This plan must build on and include the ambitions for reform that are held in the Caring for Ayrshire strategy.

93. The CfA vision is to develop clear health and care pathways for the people of Ayrshire and Arran. Greater emphasis and resources will be focussed on providing care as close to home as possible, ensuring people can access appropriate health and care support in their own communities. This work will explore local Community Health and Social Care Centres providing more localised alternatives to acute hospital attendances and admissions. These could provide a wide range of services currently provided within acute hospital settings.

94. The programme is led by the board in collaboration with the three Ayrshire Integration Joint Boards. The 'Caring for Ayrshire' ambition was grounded in the shared understanding of the need to reform of health and care services. The board are resetting their CfA ambition and will set out a whole system plan and associated infrastructure plan for approval by the NHS Board and IJBs.

95. The CfA workstream status report at March 2024 records that the main deliverable from the project will be in the form of a Programme Initial Agreement (PIA) supporting 20 to 30 year investment plan which is to be completed and submitted to Scottish Government no later than January 2026. The status report also records that as part of the wider PIA the Board will develop a whole system plan which sets out the scope, scale and configuration of health and care services across Ayrshire and Arran which reflects the successful implementation of the CfA Strategy.

Recommendation 5

A detailed timeline should be created through the Whole System Plan that demonstrates attainable milestones to track progress.

Effective leadership is needed to deliver the board's transformation agenda. Progress has been too slow to date and focus is needed to achieve change.

96. NHS board chief executives and senior teams are responsible for the delivery of critical day-to-day services as well as leading the changes to how services are accessed and delivered in their boards. This places significant demands on senior leadership teams. Board executive and non-executive directors have some challenging decisions to make with regard to how services are best delivered in the current financial climate.

97. Whilst it is acknowledged by the senior officers and Board that the sustainable and longer-term recovery of the current £53.5 million forecast deficit is crucial, there is no approved plan to develop further measures to reduce the Board's residual financial gap towards the brokerage cap set.

98. The board has identified areas in need of improvement but initiatives remain unfinished and in some cases transformational reviews such as Rightsizing the Workforce have struggled to make progress and resulted in little fundamental change.

99. Change now needs to happen quickly if the board is to make up for lost time in addressing its transformational challenges. More focused and effective leadership is needed to drive the change and to promote a culture of challenge. The Board should challenge the progress being made.

100. The Director of Finance has confirmed that in May Viridian began a nine week engagement with the Board. Opportunities for further national support should be welcomed to act as a catalyst for change.

Recommendation 6

The Chief Executive, Directors and Board members need to ensure future delivery plans demonstrate how services will change and efficiencies will be realised to meet the growing needs of patients within the financial constraints it faces. Focussed and effective leadership is required to drive the changes needed and progress should be challenged by the Board.

There has been no significant change to the board's governance arrangements during the year. Overall the governance arrangements operated effectively in the year

101. The Board of NHS Ayrshire and Arran is supported by 6 committees, including the Audit and Risk Committee. A further 2 standing committees (Area Clinical Forum and Pharmacy Practices) report annually to the Board. Minutes of committee meetings are presented to the Board. In addition, papers from the IJBs are presented to Board meetings as appropriate. Non-executive Board members are also members of selected committees and

are represented at the IJB Board. From review of Board and committee minutes and papers, we found that there was clear and transparent reporting and decision making. There has been no significant change to the board's governance arrangements during 2023/24.

102. Through our attendance at Audit and Risk Committee meetings, we concluded that committee papers were well prepared (and in sufficient time in advance of meeting for review), adequate time was allowed to discuss the issues on the agenda and committee members were well-prepared and asked appropriate questions. This enables the Audit and Risk Committee to exercise effective scrutiny.

Work to rebalance the financial risk between the Health Board and Integration Joint Boards is ongoing

103. The board currently meet the increased costs of energy, e-health and all drugs (including primary care prescribing). The integration scheme sets out the position in relation to primary care prescribing, however the scheme also requires that in relation to the set aside budget, the Integration Joint Boards should contribute financially if they are responsible for increased use and risk sharing in these areas.

104. In 2022/23 we reported that work was ongoing with the IJBs around set aside services and the development of commissioning plans as the Integration Schemes were reviewed during 2023/24. At paragraph 39 we note that Ayrshire Finance Leads have now developed and agreed on a new model for costing the set aside arrangements, based on actual bed usage and average costs which is expected to be enacted operationally during 2024/25.

105. In 2022/23 we also reported that work was ongoing to change the balance of the financial risk between the Health Board and Integration Joint Boards in relation to primary care prescribing and overspends. Primary care prescribing budgets are currently delegated to IJBs within each local authority area in Scotland. Ayrshire, however, differs from the rest of Scotland in relation to the risk management of over or underspends against the primary care prescribing budget with this currently managed by the Health Board who meet the cost of overspends or retain underspends, whereas in other local authority areas the IJB manages this risk.

106. During 2023/24, a Task Group relating to Primary Care Prescribing and led by the board's Director of Finance, agreed in principle that whilst IJBs should hold full responsibility for Primary Care Prescribing, a prudent approach would be to undertake a 'year of learning' for 2024/25 to enable chief officers and funding partners to fully understand the implications of such a decision. The group therefore recommended that the 2024/25 learning year would allow IJB and health colleagues sufficient time to design the necessary

systems, processes and safeguards to allow full transfer to take place on 1 April 2025.

The Board has carried out a self assessment against the Blueprint for Good Governance. An improvement plan has been produced to areas where Board members survey results showed improvements are needed in its governance arrangements

107. The NHS Scotland Blueprint for Good Governance states that NHS boards should regularly review their governance arrangements. A self assessment was carried out, based on a survey completed by Board members. In March 2024, the Board agreed an improvement plan consisting of six priority areas covered by the Blueprint for Good Governance. The improvement plan arose from a development session with Board members, covering areas where their survey scores showed improvements were needed.

108. More detailed underlying actions will be agreed to deliver the improvement plan which will include input and support from executive leads and board members as work develops. The timeline for this work is 31 March 2025. The Board have delegated monitoring of delivery of the plan and evidence of action taken to the Audit and Risk Committee.

109. The six priority areas include:

- Improved information to support financial and delivery plan decision making. Ensure Members have access to clear data/information and have opportunity at an early stage to influence strategy in order to set direction of travel and ambitions (revenue and capital planning, Caring for Ayrshire)

- Improved scrutiny and assurance. Support Members to hold the executive to account by providing improved information on the financial controls - financial performance and delivery and mitigation of financial risks. Provide assurance with clear improvement actions to deliver the agreed financial position and link this to Best Value principles

- Improve assurance to Board by strengthening greater understanding of risks, how these are being mitigated and how they triangulate with different sources of assurance information such as performance and quality reports.

110. On an annual basis the Audit and Risk Committee undertakes a self-assessment exercise, and the draft results were discussed and endorsed at the Audit and Risk Committee meeting held in March 2024. The self-assessment checklist used by the board is taken from the Scottish Government Audit Committee Handbook. This process represents good practice in demonstrating a clear commitment to continuous improvement.

The board conducts its business in an open and transparent manner

111. There continues to be an increasing focus on demonstrating the best use of public money. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources.

112. NHS Ayrshire and Arran's commitment to transparency is demonstrated by:

- public availability of board papers and minutes of committee meetings
- the annual accountability review (where members of the public can attend)
- the form and content of annual reports.

113. As an alternative to public access to committee meetings, minutes of all meetings are available through the board papers. We concluded that the board conducts its business in an open and transparent manner.

Internal audit reported on areas for improvement in the governance arrangements which are being progressed and monitored

114. The board obtained independent assurance on its governance arrangements from Internal Audit. In her Annual Report and Opinion for 2023/24 to the Audit and Risk Committee in June 2024, the Head of Internal Audit gave reasonable assurance on the organisational framework of governance, risk management and internal control. From the nine substantive audit reports in year, Internal Audit did not identify any "very-high" risk findings. 17 "high-risk", 23 "moderate-risk", and 3 "low-risk" recommendations were identified by Internal Audit in the year.

115. As at March 2024, Internal Audit assessed progress towards implementing 45 agreed audit actions. 13 were assessed as complete and a further 3 were proposed for closure having been superseded. 14 actions were not yet due for implementation and the remaining 15 were overdue.

116. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2023/24 we did not plan to place formal reliance on the work of internal audit to support our financial statements audit opinion. However, we considered internal audit report findings as part of our wider dimension work.

The board has appropriate arrangements in place for prevention and detection of fraud and error

117. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

118. The board has a range of established procedures in place designed to maintain standards of conduct, prevent and detect bribery and corruption and prevent and detect fraud and error.

119. The counter fraud policy and action plan is available to all staff via the board's intranet and on the board's website. There are codes of conduct for members and staff which are also available on the board's website. The board has implemented and publicised the National Whistleblowing Standards as established by the Independent Whistleblowing Officer. Counter fraud update reports are presented to each Audit and Risk Committee meeting. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

120. We have concluded that the board has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

The board is proactive in investigating matches and reporting the outcomes of National Fraud Initiative (NFI) activity

121. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

122. NFI data matches were issued to the board in January 2023 as part of the NFI exercise for 2022/23. 27 of the 4,218 data matches identified for the board were considered to have a high risk. The results of the board's review were reported to the Audit and Risk Committee in November 2023. No instances of fraud were identified in the review. Once the 2022/23 exercise is finalised across all bodies, Audit Scotland will produce a report summarising the findings for Scotland.

123. As part of the NFI process, the board completed a self-appraisal checklist which was submitted to the Audit and Risk Committee in January 2024. The review identified a number of areas for action including the need to provide

dedicated resource for the NFI initiative and early investigation of high risk payroll matches.

124. The results of NFI activity are reported regularly to the Audit and Risk Committee by the Assistant Director of Finance. We concluded that the board is proactive in investigating matches and reporting the outcomes of NFI activity.

The NISR Review Report 2023 records that the board's overall compliance has increased from 73 per cent in 2022 to 87 per cent in 2023, and it is a 'high performing board'

125. The board is an Operator of Essential Services (OES) and is therefore required to adopt the cyber security controls set out in the EU Network and Information Systems Regulations 2018 (NISR). Compliance with the NISR is assessed on a regular basis by the Scottish Health Competent Authority, with the actual audit and review process undertaken by a service organisation. In the case of the board, this has been undertaken by Cyber Security Scotland. According to the NISR Audit Guidance, an initial compliance audit was undertaken for all Scottish health boards in 2020, with audits to be conducted every third year unless more frequent audits are warranted. Compliance reviews are conducted in intervening years.

126. Last year we reported that the NISR Review Report 2022 highlighted that the board's overall compliance status was 73 per cent and showed steady improvements over the previous couple of years from 52 per cent in 2020 up to 54 per cent in 2021.

127. The NISR Review Report 2023 records the board's overall compliance status as 87% with 14 categories and 53 sub-categories rated at 80% compliance or above and 10 at over 90%.

128. The key messages of the report are positive, giving the opinion that: Ayrshire & Arran is a high-performing board with well-defined security policies and procedures in place.

129. This is reflected the data analysis summarised below, which shows:

- an overall compliance status of 87%;
- 14 categories and 53 sub-categories rated at 80% compliance or above with 10 at over 90%.
- 351 controls achieved (82%).
- The board has achieved two of the more advanced 80-80-0 Key Performance Indicators, with the third close to achievement; being prevented by only one subcategory with <30% compliance.

130. The single area that is below 30% compliance and therefore a focus for development is Business Continuity/Disaster Recover Testing, Policies and Procedures. The report also listed 6 areas including Security in Procurements and Security in Cloud Services which would benefit from strengthening as they are currently less than 60% compliant.

131. The NISR Review Report 2023 was presented to the April 2024 Information Governance committee meeting. Members requested that an action plan be prepared for the September 2024 meeting for issues arising from the report.

The Digital Services Business Continuity and Disaster Recovery Plans were last tested in 2019

132. The Digital Services Disaster Recovery Plan (DRP) was last updated in November 2023. Included in the plan are key systems, services and Included in the plan are key systems, services and infrastructure which the Digital Services & Infrastructure Services Department is responsible for, and which if lost may lead to a disaster being declared. The Digital Services Business Continuity Plan BCP) was last updated in April 2023. Formal testing of both plans was last carried out in 2019. However, following the implementation of a new system in 2022, fall over testing was carried out, and the formal programme of disaster recovery testing is now to be implemented.

133. Failure to test the DRP and BCP can expose the board to significant risks including compliance failures, inadequate incident response and operational disruptions. By conducting testing periodically the board can identify weaknesses in their plans allowing for necessary adjustments to be made before a real incident occurs.

Recommendation 7

Regular testing of the Digital Services DRP and BCP is essential to enhance resilience against potential disruptions.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Main judgements

Reliance on temporary staff comes at a high cost to the board. Expenditure on agency and other directly engaged staff was £17.0 million in 2023/24.

Delayed discharges, whilst above forecast, are now at their second lowest position since August 2022; however, the length of stay for all patients remains higher than the national average.

Service performance against national waiting time standards is reported as being behind target.

The review of the Board's Best Value arrangements should be shared with Board members.

Staffing remains the most significant cost for the board and will continue to increase

134. Audit Scotland's *NHS in Scotland 2023* report set out that staff costs across the NHS increased again in 2023/24, both in real terms and as a proportion of overall spending, to £9.8 billion. Commitments around pay, and terms and conditions, play an important role in the recruitment and retention of staff. Staff costs are subject to annual increases but will also rise because of recruitment ambitions to increase the number of NHS employees, including nurses and doctors There is an ongoing commitment to no compulsory redundancies for NHS staff.

135. Recently agreed pay deals, reflecting higher than expected inflation, resulted in significant wage increases across the public sector. For example, junior doctors in Scotland agreed to a 4.5 per cent wage deal in 2022/23, with an average increase of 12.4 per cent agreed for 2023/24. Similarly, NHS workers subject to the Agenda for Change agreement (which includes

nurses, midwives, paramedics and others) agreed an average 7.5 per cent increase in pay in 2022/23, with a further 6.5 per cent average increase in 2023/24.

136. The National Workforce Strategy for Health and Social Care in Scotland (March 2022) committed to increasing the NHS workforce over the next five years by one per cent (1,800 Whole Time Equivalent (WTE)) to ensure there is sufficient workforce capacity, but this does not take into account any reduction in WTE hours. Forthcoming changes such as the intention to move staff, including nurses, to a 35-hour working week will mean more WTE staff being needed to meet staffing requirements and provide the same number of working hours.

Reliance on temporary staff comes at a high cost to the board

137. In 2023/24, nursing pay budgets were £13.4 million overspent, mainly due to £9.7 million of nursing agency spend. This compares with £10.6 million in 2022/2023 and £6.7 million in 2021/2022. Medical pay was overspent by £9.0 million mainly due to £5.6 million spend on agency doctors.

138. The use of bank, agency and locum staff provides flexibility to cover for vacancies and staff absence and is monitored closely by the board. However continued reliance on non-core staff will have a significant impact on the board's plans to achieve the savings required for longer term financial sustainability. Expenditure on agency and other directly engaged staff was £17.0 million in 2023/24 (£18.7 million in 2022/23).

139. A reduction in nurse agency spend in 2023/2024 is partly due to elimination of non-framework and partly the closure of some unfunded beds. The 2024/2025 financial plan relies on the closure of all unfunded acute beds and cessation of nurse agency spend by October 2024.

140. The number of whole time equivalent (WTE) staff increased during and after the pandemic, from 9,500 WTE in 2019/20 to 11,036 in 2023/24. The board acknowledge that the trend of increasing staff during the pandemic requires to be reversed as recurring funding to support this level of staffing does not exist. This will require beds in acute hospitals to close.

141. The Health, Safety & Wellbeing Improvement Plan identifies the programme of work being undertaken to improve staff health and wellbeing and, through the Promoting Attendance Policy, to have a clear process for appropriately managing staff sickness absence. There was an increase in sickness absence in December 2023 and a further sharp increase in January 2024 to around 6.4% (against the 4% national standard). The absence rate then fell during the final quarter to 5.5%.

Delayed discharges are now at their lowest position since August 2022

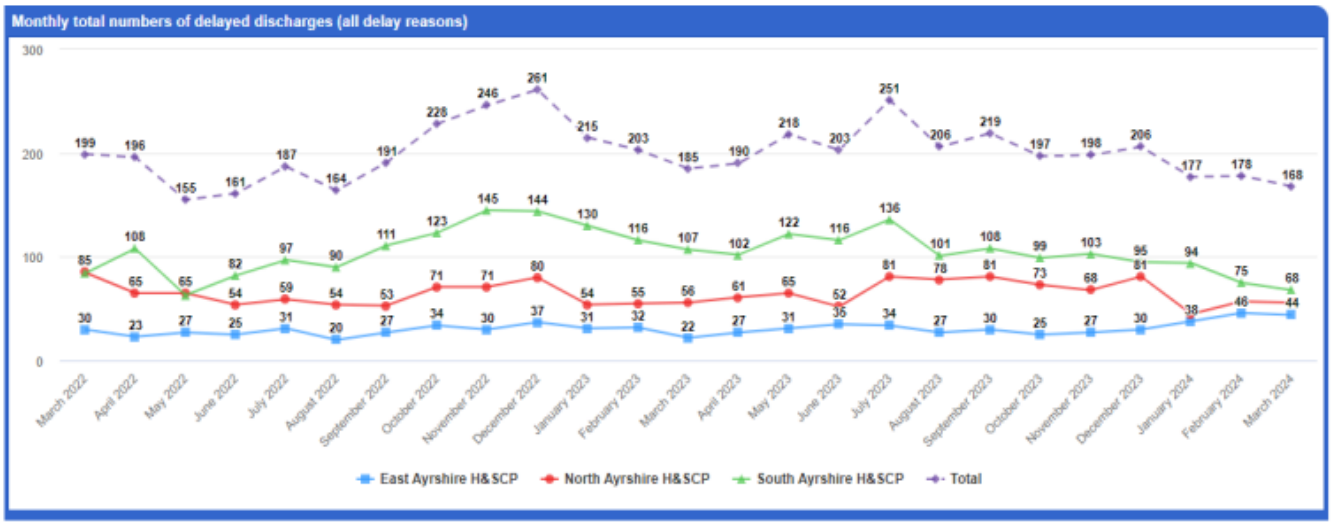
142. In 2022/23 we reported that delayed discharges largely centred in South Ayrshire prevented the removal of some of the additional beds.

143. The board's 2023/24 Performance Report notes that Delayed Discharge Occupied Bed Days (OBDs) for all delay reasons (see Exhibit 7) continued to fall during 2023/24 and have reached their lowest levels since August 2022, with 168 delays reported, a decrease of 9.5% compared to March 2023. The majority of delays are from South Ayrshire Health and Social Care Partnership (HSCP) residents (68 delays; 40.5%) however they are at lower levels compared to March 2023 (107 delays; 53.7%).

144. The national target is for no non-complex delays over 2 weeks, however in March 2024 there were 53 such delays within NHS Ayrshire and Arran, with 34 of these (64.2%) from South Ayrshire HSCP. Numbers from North Ayrshire HSCP increased from 15 at February 2024, to 19 at March 2024. East Ayrshire HSCP continued to report zero non-complex delays over 2 weeks.

145. Since August 2023, bed days occupied due to a delayed discharge have fallen gradually but increased again between February and March 2024. Despite this rise, bed days occupied due to a delayed discharge are at their second lowest position since June 2022.

Exhibit 7: Delayed Discharge Occupied Bed Days (OBDs) for all delay reasons



Source: NHS Ayrshire and Arran

Appropriate arrangements are in place for performance monitoring and reporting

146. The Board is kept informed of performance across all areas. The detailed review and scrutiny of performance has been delegated to the Performance Governance Committee (PGC) which meets five times per year. Reports presented to meetings of the PGC provide both an overview of operational performance for key performance indicators such as waiting times for accessing treatment and relating to the board's priorities as set out in the ADP for 2023/24.

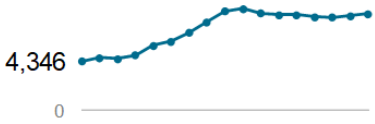
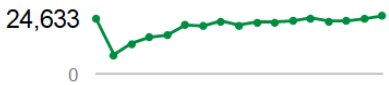
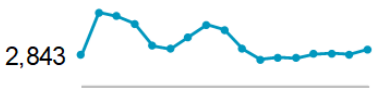
147. We concluded that the board has appropriate arrangements in place for performance monitoring and reporting.

Service performance against national waiting time standards is reported as being behind target

148. The 2023/24 annual report and accounts include the position at the end of March 2024 on the board's performance against its national waiting time standards. The performance report records that the numbers of ED 12 Hour Breaches at board level increased to 894 in October 2023 before reducing to 750 in December 2023. Numbers have increased again in March 2024 to 914, the second-highest recorded position. While performance against waiting time standards is not currently the board's only focus for performance monitoring, they provide context for the scale of the impact of the pandemic of the delivery of health services. Exhibit 8 demonstrates how activity and waiting times continue to be impacted by the recovery from Covid-19 and Exhibit 9 provides a comparison of current waiting times compared to prior years.

149. The largest increases in Exhibit 8 are in waiting times, with one of the most significant being the number of people waiting more than 12 weeks for a new outpatient appointment. This has increased from 3,964 in March 2020 to 32,578 in March 2024. The impact of this increase is reflected in Exhibit 9 which shows the percentage of outpatient admissions waiting no more than 12 weeks has reduced from 74.6 per cent in March 2020 to 59.3 per cent in March 2024.We recognise that in some areas performance has improved in the last year.

Exhibit 8: Trends in demand and activity per acute services

Demand	Quarterly trend Mar 2020 to Mar 2024	Change (%)
Ongoing waits for diagnostic tests		13.9%
Ongoing waits for an inpatient or day case admission		96.0%
Ongoing waits for a new outpatient appointment		147.6%
Activity	**Quarterly trend Mar 2020 to Mar 2024**	**Change (%)**
Number of scheduled elective operations in theatre system		-9.5%
Number of inpatient and day case admissions		-5.1%
Number of new outpatient appointments		4.5%
Length of waits	**Quarterly trend Mar 2020 to Mar 2024**	**Change (%)**
Ongoing waits longer than 6 weeks for diagnostic tests		17.1%
Ongoing waits longer than 12 weeks for an inpatient or day case admission		351.1%
Ongoing waits longer than 12 weeks for a new outpatient appointment		721.8%

Source: Public Health Scotland

Exhibit 9
Performance against key waiting time standards

Target/standard	March 2020	March 2021	March 2022	March 2023	March 2024[1]
Cancer 62 Day RTT Proportion of patients that started treatment within 62 days of referral (95% target)	92.2%	79.1%	77.3%	80.1%	78.9%[1]
18 Weeks RTT Proportion of patients that started treatment within 18 weeks of referral (90% target)	80.1%	71.1%	67.0%	60.3%	64.5%
Patient Treatment Time Guarantee (TTG) Proportion of inpatients or day case that were seen within 12 weeks (target 100%)	77.0%	75.2%	68.9%	58.5%	60.2%
Outpatients waiting less than 12 weeks Proportion of patients on the waiting list at month end who have been waiting less than 12 months since referral at month end (target 95%)	74.6%	69.2%	68.4%	58.3%	59.3%
A & E attendees Proportion of A & E attendees who were admitted, transferred,	80.6%	81.2%	71.6%	66.0%	65.9%

[1] Where data to 31 March 2024 was unavailable, the latest data for the quarter ending 31 December 2023 has been used.

or discharged within 4 hours (target 95%)					
Cancer 31 Days RTT Proportion of patients who started treatment within 31 days of decision to treat (target 95%)	99.2%	98%	97.4%	97.5%	99.0%[1]
Drug and Alcohol 21 days Proportion of drug and alcohol patients that started treatment within 21 days (target 90%)	97.5%	98.0%%	98.9%	97.9%	98.1%[1]
Psychological Therapies Waiting time within 18 weeks (target 90%)	75.9%	88.5%	90.2%	89.4%	88.1%[1]

The review of the Board's Best Value arrangements should be shared with Board members

150. The Scottish Public Finance Manual (SPFM) and Ministerial guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure Best Value. The guidance sets out the key characteristics of Best Value and states that compliance with the duty of Best Value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

151. The SPFM also says that 'the Boards of relevant public service organisations have corporate responsibility for promoting the efficient and effective use of staff and other resources by the organisations in accordance with the principles of Best Value.'

152. Following a self assessment on best value by the Corporate Management Team, an action plan has recently been prepared by the Chief Executive to demonstrate how the board will achieve the relevant best value characteristics, ensure continuous improvement across all activities and deliver improved performance and outcomes. The action points are derived from the 5 generic and 2 cross-cutting themes which now define the expectations placed on Accountable Officers by the duty of Best Value. The action plan details 20 actions, 19 of which are rated as amber with one (renewed procurement strategy) rated red. Each action point includes key actions planned together with an allocated lead. Half yearly progress updates will be provided to CMT.

153. Despite the Board members having responsibilities to regarding promoting Best Value principles the results of the self assessment have not to date been shared with Board members. The results of the Best Value assessment should now be shared with Board members. Discussion on its findings could be delegated to the Audit and Risk Committee.

Recommendation 8

The results of the Best Value assessment should be shared with Board members. Discussion on its findings could be delegated to the Audit and Risk Committee.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Preparation of financial statements There were delays in preparing the unaudited annual report and accounts. We believe that one factor might be the reliance on a few key staff. **Risk:** The board fails to provide staff to deliver audited financial statements on time.	The board should review its arrangements for preparing the annual report and accounts, including ensuring there is sufficient capacity to meet the statutory reporting deadline. Paragraphs 32-33	For 2024/25 annual accounts, we will get someone other than the financial controller to complete the Remuneration and Staff Report, which was delayed during 2023/24 annual accounts process. Director of Finance 31 March 2025
2. Application of IFRS 16 to Service Concession Arrangements Our audit procedures identified errors of £5.027 million in the board's accounting for service concession arrangements following the implementation of IFRS 16. There remain potential inaccuracies in the service concession financial models being used to populate the figures in the annual accounts. **Risk:** The liability for service concession arrangements within the Statement of Financial Position is misstated.	The board should review the service concession financial models being used prior to the 2024/25 year-end. Exhibit 2	This requirement to revalue annually the creditor due on PFIs is new in 2023/24 and is very complicated. Originally the Board tried to use the Scottish Government model which was not considered robust therefore we used the Glasgow financial model and came to the position reported in 2023/24. We will further develop our reporting for 2024/25.' Director of Finance 30 April 2025

Issue/risk	Recommendation	Agreed management action/timing
3. Outward secondees who work permanently for Scottish Government A number of staff who left the board some time ago to work in Scottish Government remain on the payroll, classified as 'Outward Secondees' in the Remuneration Report. The board's payroll costs and the income received as a recharge for these individuals should not be included in the board's accounts. **Risk:** the board's income and expenditure is misstated and it is exposed to employment issue risks.	The employment status of all employees who are working long term in permanent positions in other boards or the Scottish Government should be clarified for 2024/25. Only valid board employees should be reflected in its expenditure in the accounts. Legal advice should be taken on the Board's exposure to risks from their employment contracts remaining with NHS Ayrshire and Arran. Paragraph 24 -25	The Board will implement process for annual review current Senior Manager and Executive secondment agreements and service level agreements with relevant Director and placement organisations. CLO consideration of existing agreements and risk assessment to be completed on an individual basis to identify any employment risks and liabilities to the Board. Director of Human Resources 31 March 2025
4. Service auditor reports Unqualified opinions were provided by service auditors on the controls operating in shared systems, however an assurance gap remains over eFinancials general IT controls. Specific assurance for general IT controls provided by the IT services report relates only to payroll and practitioner services. **Risk:** The board does not have adequate control assurance over key elements of its IT environment.	NHS Ayrshire and Arran should continue to engage with NHS NSS and wider NHS Scotland to address the assurance gap over eFinancials general IT controls. Paragraph 63	The Board will continue to engage with NHS NSS (who provide an assurance report on IT services) to seek to address the assurance gap. Director of Finance 31 March 2025

Issue/risk	Recommendation	Agreed management action/timing
5. Resetting Caring for Ayrshire ambitions The board is required to develop a whole system plan as part of a Programme Initial Agreement which is to be completed and submitted to Scottish Government no later than January 2026. This plan must build on and include the ambitions for reform that are held in the Caring for Ayrshire strategy. The whole system plan, as requested by the Scottish Government, includes an operating span of 20 to 30 years. It is essential that financial sustainability is secured at the earliest opportunity **Risk:** The board is unable to deliver the transformational change at the pace that is required.	A detailed timeline should be created through the Whole System Plan to be in place that demonstrates attainable milestones to track progress. Paragraph 95	The whole system plan will be developed as part of the Programme Initial Agreement which is to be completed and submitted to Scottish Government no later than January 2026. The reform commitments from the Caring for Ayrshire strategy will be embedded in the Whole System Plan. The clinically led reform work completed in 2023 with Buchan Associates will inform the reform agenda. Reform milestones will be costed and aligned to the whole system plan. Financial sustainability will be mapped to the reform milestones. Director of Transformation and Sustainability. 31 January 2026.
6. The predicted 2024/25 financial gap is £25.8 million higher than the Scottish Government support cap for 2024/2025 The Board has been slow to transform services. Its future financial plans must demonstrate how its services will be delivered within the funding it will receive. Planned efficiency savings are not enough to close the predicted financial gap in 2024/25 and financial recovery in the medium to	The Chief Executive, Directors and Board members need to ensure future delivery plans demonstrate how services will change and efficiencies will be realised to meet the growing needs of patients within the financial constraints it faces. Effective leadership is required to drive the changes needed and progress should be	The future CRES workplan will provide the milestones for closing the financial gap. This is linked with the development of the Whole System Plan. Recommendation 5 Chief Executive 31 December 2024

Issue/risk	Recommendation	Agreed management action/timing
longer term will require radical reform of health services. There is currently no clear plan to develop further measures to reduce the Board's residual financial gap towards the brokerage cap set. **Risk**: The board is unable to meet its statutory financial target to deliver a balanced outturn.	challenged by the Board. Paragraph 100	
7. Testing of Disaster Recovery and Business Continuity Plans The Digital Services' Disaster Recovery and Business Continuity plans were last formally tested in 2019. Only by conducting testing periodically can the board identify weaknesses in their plans allowing for necessary adjustments to be made before a real incident occurs. **Risk**: Failure to test the DRP and BCP can expose the board to significant risks including compliance failures, inadequate incident response and operational disruptions.	Regular testing of the board's DRP and BCP is essential to enhance resilience against potential disruptions. Paragraph 133	Plans are in place to test the disaster recovery and business continuity plans. Chief Executive 31 December 2024.
8. Best Value self assessment Despite the Board members having responsibilities to promote Best Value principles the results of the self-assessment have not to date been shared with Board members.	The results of the Best Value assessment should be shared with Board members. Discussions on the findings could be delegated to the Audit and Risk Committee. Paragraph 153	The outcomes of the Best Value self-assessment completed by CMT have been shared with the Board Chair and informed the Governance Statement in the annual accounts. Progress against the action plan will be monitored through CMT assurance meetings.

Issue/risk	Recommendation	Agreed management action/timing
Risk: The board does not meet its responsibility to promote Best value.		The format of future Best Value assessments will be developed further and will be shared with board members in quarter 4 of 2024/25. Chief Executive 31 January 2025.

Follow-up of prior year recommendations in the 2022/23 Annual Audit Report

Issue/risk	Recommendation	Agreed management action/timing
b/f 1. Recognition of costs in the correct years Our review of the board's accounting treatment for transactions around the year-end confirmed that the purchase of IT equipment with a value of £2.699 million was not accounted for in the correct financial year. There is a risk that accounting practices are compromised to achieve financial targets.	The board should not recognise a liability to pay for items prior to the point of delivery as the board does not control the item, does not have access to most of the future benefits and is not exposed to most of the risks. Original Management Response The recommendation is noted. **Responsible officer:** Director of Finance **Agreed date:** July 2023	**Complete** We have reported in Exhibit 2 that £0.617 million of capital expenditure relating to the purchase of student houses was not accounted for in the correct financial year. We also report that trade and other payables and asset additions are both overstated by £0.617 million and we have included this as an unadjusted error in Appendix 2. We have concluded however that this was a technical accounting difference, and not an instance of management override of control.
b/f 2. Journal authorisation controls Our audit testing identified accounting entry errors, processed through manual journal entries, of £0.782 million.	The board should introduce robust journal authorisation controls to mitigate the risk of accounting entry errors, and misstatements, in the annual report and accounts. Original Management Response	**Complete** The board have introduced a journal review control. This is a review of a small number of journals that is carried out monthly. We reviewed the operation of this control and concluded that, overall,

Issue/risk	Recommendation	Agreed management action/timing
As reported in previous Annual Audit Reports, there are no journal authorisation controls in place. Members of the finance team can therefore post journals to the financial ledger without secondary authorisation. Introducing secondary authorisation would reduce the risk of error when accounting entries are created. There is a risk that invalid or erroneous journal entries result in a material misstatement.	Management propose to introduce a targeted, retrospective sample approach to journal review in order to mitigate these risks. **Responsible officer:** Assistant Director of Finance (Operational Services) **Agreed date:** March 2024	it was operating as intended by management.
b/f 3. Untaken holiday liability Our review of the board's approach to the calculation of the untaken holiday liability included in the board's 2022/23 unaudited annual report and accounts at £6.029 million, identified that it was not fully in accordance with the relevant guidance. As a result of our comments officers accepted that the accrual needed to be restated. The revised approach identified that the board's untaken holiday liability should be £6.270 million, an	The board should carry out a detailed review of its approach to, and the data used, for the calculation of the untaken holiday liability with reference to the relevant guidance. Original Management Response The adjustment required to the accrual was marginal (4%) however we expect a more robust basis of accrual for medical staff untaken holidays will be achieved through implementation of the Allocate e-rostering system over the next two years. **Responsible officer:** Assistant Director of Finance	**Complete** The board have revised their approach to the calculation to the untaken holiday liability for medical staff. The new e-rostering system is being by some staff which enhanced the data being used to estimate the board's untaken holiday liability at 31 March 2024. We concluded that the board's revised approach was in accordance with applicable guidance.

Issue/risk	Recommendation	Agreed management action/timing
increase of £0.241 million. There is a risk that the untaken holiday liability is inaccurately disclosed in the board's financial statements.	(Governance and Shared Services) **Agreed date**: March 2024	
b/f 4. Assets no longer in use Our fixed asset testing identified fully depreciated plant and machinery assets with a value of £7.994 million which remained on the asset register but were no longer in use. Finance are not notified when assets have been scrapped, and disposed of. This has resulted in accuracies in both the asset register and 2022/23 annual report and accounts. There is a risk that assets are inaccurately recorded in the board's asset register and financial statements.	The board should review its asset disposal processes and obtain evidence at least annually to confirm that assets on the asset register remain in use. Original Management Response We will review and update our capital operating and accounting procedures and we will utilise the EME database and Digital Assets register to provide confirmation that assets on the register remain in use. **Responsible officer:** Assistant Director of Finance (Governance and Shared Services) **Agreed date:** March 2024	**Complete** The board have completed a detailed review of the asset register with a significant number of assets no longer in use formally disposed of. Asset with an original value of £38.274 million were disposed of in 2023/24 (2022/23 £10.076 million). The board, at least annually, should carry out a similar exercise to confirm that assets on the register remain in use.
b/f 5. Fixed Assets The information recorded in the board's Real Asset Management system was inadequate for audit purposes. Several manual adjustments were required to populate and provide evidence for the	The board should review its arrangements for fixed asset accounting. Original Management Response RAM is a national system implemented 10 years ago therefore we would not replace the system, but will produce working papers for	**In Progress** From our audit procedures undertaken, we have noted that significant improvements have been made to the fixed asset working papers supplied for audit. A number of manual adjustments are however still made by the Fixed Asset Manager to the

Issue/risk	Recommendation	Agreed management action/timing
fixed asset disclosures in the accounts. There is a risk that information in the RAM system does not provide the board with sufficient information to produce the fixed asset disclosures required for the annual report and accounts.	auditors reconciling to annual accounts. **Responsible officer:** Assistant Director of Finance (Governance and Shared Services) **Agreed date:** March 2024	outputs produced by the RAM system. The board should continue to review where improvements in its fixed asset processes can be made to create efficiencies.

Issue/risk	Recommendation	Agreed management action/timing
b/f 6. Annual Delivery Plan Alongside the four agreed organisational priorities, 227 detailed actions for the recovery and stabilisation of services were included in the 2022/23 ADP. Each action point includes a key deliverable with agreed milestones and planned completion dates. It is not clear however how the individual deliverables and milestones contribute to the achievement of the organisational priorities.	The board needs to set out in more detail what achieving its outcomes looks like and milestones over the short, medium and long term. Original Management Response The board is working on delivering its Whole System Plan and associated Infrastructure Plan which will set out intentions in relation to service reform and associated infrastructure (digital and buildings) investment needs over the medium and long term in line with our Caring for Ayrshire ambition. The Whole System Plan will provide a reference position that will contextualise Annual Delivery Plan and Medium Term Plan deliverables in the coming year/3 years planning cycles. In the meantime, the 2023/24 ADP has been developed and submitted to Scottish Government, the 3 year Medium Term Plan will be submitted in early July. Both reference key deliverables in the short and medium term that relate to national and local priorities. **Responsible officer:** Director of Transformation and Sustainability **Agreed date:** March 2024	**Superseded** The Scottish Government deadline for the submission of the Whole System Plan is the 31 January 2025. As reported in paragraph 91, 47% of the board's actions for recovery from its ADP are rated as red or amber in the RAG stats. The board are also reassessing its longer term Caring for Ayrshire (CfA) ambition. We have reported in Recommendation 5 of our 2023/24 action plan that ADP milestones and planned completion dates require to be aligned with the board's long term CfA ambition, a detailed timeline for which should be created with attainable milestones to track project progress.

Issue/risk	Recommendation	Agreed management action/timing
b/f 7. Service auditor reports Unqualified opinions were provided by service auditors on the controls operating in shared systems, however an assurance gap has been identified. Specific assurance for general IT controls provided by the IT services report relates only to payroll and practitioner services.	NHS Ayrshire and Arran should engage with NHS NSS and wider NHS Scotland to address the assurance gap over eFinancials general IT controls. Original Management Response Will engage with NSS Director of Finance to identify and fill any assurance gap which exists. **Responsible officer**: Director of Finance **Agreed date:** March 2024	**Superseded** Updated position for 2023224 reported at paragraph 57. The assurance gap therefore remains for the IT general controls, system backup and disaster recovery for the NSI eFinancials system. This is an area that needs to resolved for NHS Scotland and NHS Ayrshire and Arran should continue to work with NSS to ensure appropriate service auditor assurance is provided to other NHS boards on Atos services which support e-Financials. See Recommendation 4 of our 2023/24 action plan.

Issue/risk	Recommendation	Agreed management action/timing
b/f 8. Best Value Whilst there is evidence of elements of best value being demonstrated by NHS Ayrshire and Arran across a range of areas, the mechanism for formally reviewing and reporting on the arrangements to secure best value is not formalised and published.	A formal review of the Best Value assurance framework and an assessment of the board's Best Value arrangements should be completed and reported to the Board. Original Management Response The Board will monitor local implementation of the Blueprint for Good Governance and the Chief Medical Officer's Delivering Value Based Health and Care strategy, both of which were published by Scottish Government over the last six months. The Board will also review the Integration Schemes for IJBs to amend the current risk imbalance. **Responsible officer:** Chief Executive **Agreed date**: March 2024	**Superseded** A Best Value assessment has been completed and an action plan produced but it has not yet been shared with the Board. See Recommendation 8 of our 2023/24 action plan.

Issue/risk	Recommendation	Agreed management action/timing
b/f 9. National Fraud Initiative (2021/21 external audit report)	In line with the Audit Scotland report published on the 2018/19 exercise, we would encourage the FARC and staff leading the NFI work review the NFI self-appraisal checklist for future exercises. Revised Management Action The matching exercise will be finalised in July and a final report on the NFI exercise will be presented to the Audit and Risk Committee. **Responsible officer:** Assistant Director of Finance (Governance and Shared Services) **Revised Date:** 31 December 2023	**Complete** A final report on the NFI exercise was reported to the board's Audit and Risk Committee in September 2023.
b/f 10. Adherence to deliverables timetable (2020/21 external audit report)	While an agreed audit timetable was put in place, the full consolidated accounts were provided after the agreed date. Further improvements are required, in partnership with the IJBs. Revised Management Action Delays in providing the accounts were in part due to late revisions to the accounting template. A debrief with Audit Scotland will be undertaken along with a local debrief to identify how the process can be improved for the production of the 2023/24 accounts package. **Responsible Officer:** Assistant Director of Finance (Governance and Shared Services)	**Superseded** The annual report and accounts and supplementary working papers package was not complete and was provided after the agreed date. See Recommendation 1 of our 2023/24 action plan.

Issue/risk	Recommendation	Agreed management action/timing
	Revised Date: March 2024	
b/f 11. Financial sustainability – transformational change (2020/21 external audit report)	The Board should continue to prioritise the development of detailed programmes, incorporating the more medium to long term initiatives, with clear action plans, milestones and the associated capacity and resources to deliver. Revised Management Action CMT have committed to delivering two transformational priorities for 2023/24: 1) Right Sizing Bed Based Care for Ayrshire, taking a population health approach to securing the best value models of bed based care in the acute, community and care settings across Ayrshire. 2) Continue and sustain the delivery of our Digital Reform. A dedicated programme of work will be developed to enable the delivery of the ADP, Medium Term plan and Whole System Plan, the latter needing to be in place by December 2023. Right sizing the acute bed based care is underway, a 30% reduction of unfunded beds has been achieved by June 2023, further reductions have been committed to by reducing delayed discharges throughout the system (these are mapped and will be performance managed through the delivery of the	**Superseded** The Board has been slow to transform services. Its future financial plans must demonstrate how its services will be delivered within the funding it will receive. Effective leadership is required to drive the changes needed and progress should be challenged by the Board. See Recommendation 6 of our 2023/24 action plan.

Issue/risk	Recommendation	Agreed management action/timing
	unscheduled care programme). To support the sustainability of any revised bed based we will complete an in-year review of partnership working agreements, through our IJB commissions and directions (this will be overseen by SPOG and reported progress to CMT). **Responsible officer:** Chief Executive **Revised date:** March 2024	
b/f 12. Financial management – savings plans (2020/21 external audit report)	It is imperative when approving budgets at the start of the year that clear plans are in place for the savings required to ensure that there is sufficient lead in time to implement the changes required. Revised Management Action CRES delivery will be monitored and reviewed with a newly formed Finance Improvement and Scrutiny Group. The CRES programme is scoped and in year delivery will be performance managed through this CEO chaired group. The Acute Service Directorate has implemented a new triumvirate leadership model through which specialty teams will work collaboratively to reduce avoidable spend and provide a new operational lens to operational redesign. An Acute Service performance and service improvement structure is in place to	**Superseded** The predicted 2024/25 financial gap is £25.8 million higher than the Scottish Government support cap for 2024/2025 Planned efficiency savings are not enough to close the predicted financial gap in 2024/25 and financial recovery in the medium to longer term will require radical reform of health services. There is currently no approved plans to reduce the Board's residual financial gap towards the brokerage cap set. See Recommendation 6 of our 2023/24 action plan.

Issue/risk	Recommendation	Agreed management action/timing
	capture outcomes from these senior leadership teams. This work will be aligned to business planning cycles for the NHSAA Annual Delivery Plan, Medium Term Plan and the Whole System Plan (expected by December 2023). **Responsible officer:** Chief Executive **Revised date**: March 2024	
b/f 13. Climate change action plan (2021/22 external audit report)	The board should carry out a self-assessment against each of the points in the Audit Scotland report – Addressing climate change in Scotland and develop an action plan to help focus on where further work is required. Agreed Management Action Progress is being made by the Board to complete a self-assessment of the Audit Scotland report. The finalised report will be presented to the Climate Emergency & Sustainability Operational Group meeting in July 2023 for awareness and to enable a wider discussion on the assessment findings and recommendations. An action plan will support the self-check assessment focused on where further work is required. The report and supporting action plan will be presented to the Climate Emergency & Sustainability Strategic Group thereafter for awareness in line with existing governance	**Complete** A self-assessment of the Audit Scotland climate change report has been completed by the board. This was reported to the board's April 2024 Climate Emergency & Sustainability Operational Group. 17 actions have been assessed by the board as complete, 12 in progress and one not started.

Issue/risk	Recommendation	Agreed management action/timing
	Responsible officer: Energy Manager **Revised date:** 30 September 2023	

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £230 thousand.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements.

This error is below our performance materiality level as explained in Exhibit 1. We are satisfied that that this error does not have a material impact on the financial statements.

Narrative	Account areas	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
Accounting Misstatements		**Dr**	**Cr**	**Dr**	**Cr**
		£000	**£000**	**£000**	**£000**
1. Capital expenditure on student houses recognised in the incorrect period.	Trade and other payables (current)			617	
	Property, plant and equipment				617

NHS Ayrshire and Arran

2023/24 Annual Audit Report

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