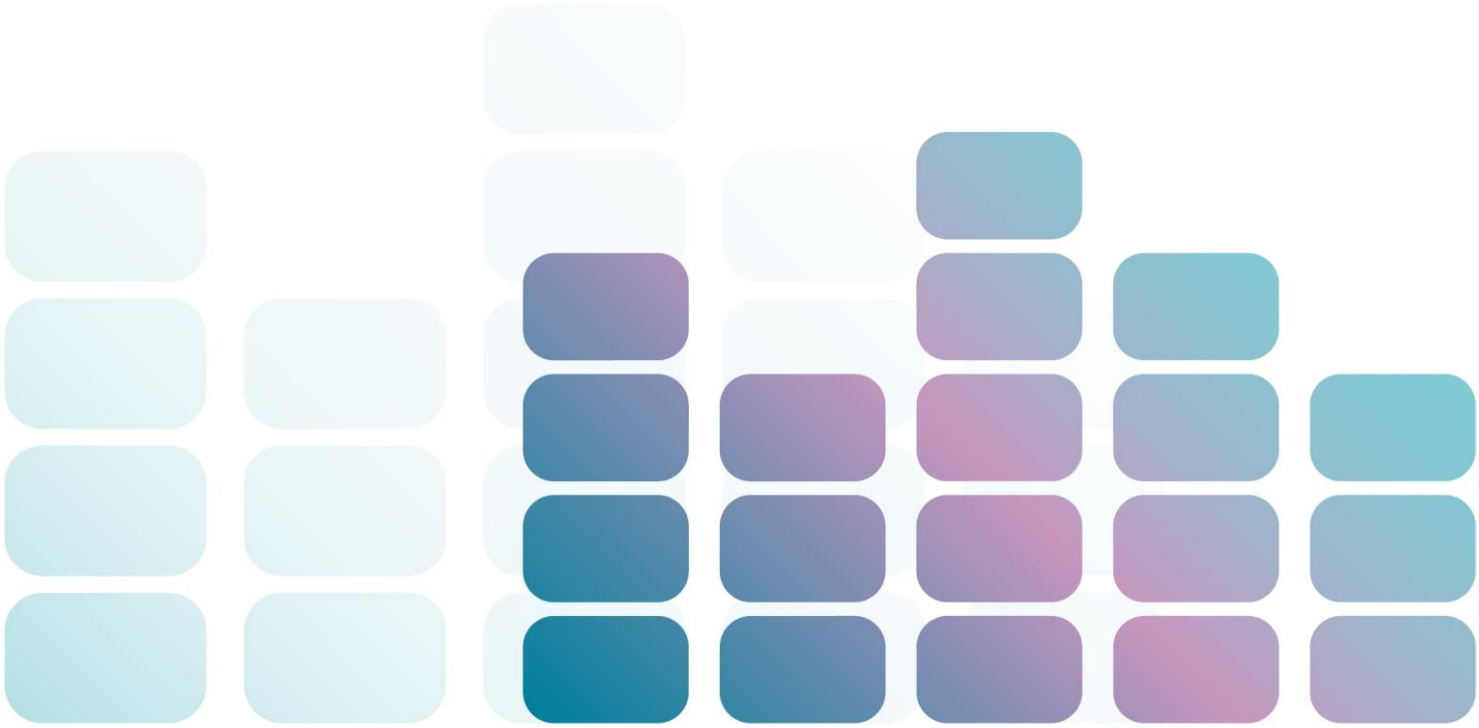
NHS Ayrshire & Arran

2024/25 Annual Audit Report



AUDIT SCOTLAND

Prepared for the Board of NHS Ayrshire and Arran and the Auditor General for Scotland
June 2025

Contents

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Key messages

Audit of the annual report and accounts

1 All audit opinions are unmodified, i.e. the annual report and accounts are free from material misstatement.

2 The Performance Report presented for audit was not prepared in accordance with the mandatory requirements set out in the NHS Accounts Manual. Significant work was required by the board to make the required changes to the Performance Report ahead of the planned sign off of the accounts.

3 A large number of adjustments have been made in the audited accounts to reflect our audit findings. All audit adjustments required to correct the financial statements were processed by the board.

Financial Management

4 The 2024/25 budget was set projecting a deficit position. The board is reporting that it met all its financial targets for 2024/25 and operated within its Revenue Resource Limit (RRL). This was achieved using £51.4 million of additional financial support from the Scottish Government.

5 The board did not meet the Scottish Government 3% recurring efficiency target. A report to the board's Performance Governance Committee explained this was only met with the inclusion of non-recurring savings.

6 Appropriate arrangements are in place for setting a budget and reporting on progress against it. However the reporting of the financial position to the board needs to show a clear distinction between Cash Releasing Efficiency Savings, recurring savings and non-recurring savings.

7 The Internal Audit report entitled Cash Releasing Efficiency Savings (CRES) Plan had an overall rating of red (immediate major improvement required). This had no impact on the year end accounts.

Financial Sustainability

8 The board is not financially sustainable. Its three-year financial plan to 2027/28 records a cumulative financial deficit, after proposed savings, of £112.1 million. The forecast deficit for 2025/26 is £33.1 million. The board has the highest level of outstanding brokerage across NHS Scotland at the end of 2024/25 (£129.9 million).

9 The board is on level 3 of the Scottish Government's escalation framework due to its financial position and is receiving tailored Scottish Government support for its financial recovery.

10 The Scottish Government has set a deficit target of £25 million for the board for 2025/26. The revenue resource limit for 2025/26 amounts to £1,135.4 million, including a national sustainability payment forecast to be £18.2 million non-recurring and £4.5 million recurring. This is substantially less than the year end brokerage of £51.4 million for 2024/25.

11 The Scottish Government is looking for the board to create a financial recovery plan centred around a five year path to balance. The board has not yet prepared sufficiently detailed plans to show how it will achieve financial sustainability in the future. The board's Whole System Plan does not sufficiently demonstrate how services will change and efficiencies will be realised to meet the growing needs to patients within the financial constraints faced.

12 The board needs to continue to seek Scottish Government support for more radical reform if it is to demonstrate financial sustainability.

Vision, Leadership and Governance

13 Board members and the Corporate Management Team (CMT) need to continue to work together, with the Scottish Government, to provide effective leadership to secure the sustainability of its services.

Use of resources to improve outcomes

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

15 Scottish Government analysis shows that NHS Ayrshire and Arran has, for many years, had the longest average length of stay for non-elective spells in hospital, equating to a cost of £22.8 million.

16 Delayed discharges were 224 delays at February 2025, the highest number reported since July 2023.

17 The board's sickness absence rate in 2024/25 was 5.6% (5.7% in 2023/24) well above the 4% national standard.

18 Reliance on temporary staff continues to come at a high cost to the board. Expenditure on agency and other directly engaged staff was £16.3 million (£17.0 million in 2023/24).

Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of NHS Ayrshire and Arran's annual report and accounts and the wider scope areas specified in the Code of Audit Practice (2021).

2. The Annual Audit Report is addressed to NHS Ayrshire and Arran, hereafter referred to as 'the board' and the Auditor General for Scotland and will be published on Audit Scotland's website in due course.

Appointed auditor and independence

3. Fiona Mitchell-Knight FCA, of Audit Scotland, has been appointed as external auditor of the body for the period from 2022/23 until 2026/27. As reported in the Annual Audit Plan, Fiona Mitchell-Knight and the audit team are independent of the body in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from the body, including no provision of non-audit services.

Acknowledgements

4. We would like to thank the board and its staff, particularly those involved in preparation of the annual report and accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement, including the regularity of income and expenditure.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, namely the Performance Report and Governance Statement.
- An opinion on the audited part of the Remuneration and Staff Report.
- Conclusions on the board's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on the board's arrangements for securing Best Value.
- Provision of this Annual Audit Report.

Responsibilities and reporting

6. The Code of Audit Practice sets out the respective responsibilities of the board and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts and concluding on the body's arrangements in place for the wider scope areas and Best Value.

8. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the body from its responsibilities outlined below.

9. The Annual Audit Report includes an agreed action plan at Appendix 1 setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

The board's responsibilities

10. The board has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of an annual report and accounts, comprising financial statements for the board and its group that gives a true and fair view and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

Audit of the annual report and accounts

Main judgements

All audit opinions are unmodified, i.e. the annual report and accounts are free from material misstatement.

The Performance Report presented for audit was not prepared in accordance with the mandatory requirements set out in the NHS Accounts Manual. Significant work was required by the board to make the required changes to the Performance Report ahead of the planned sign off of the accounts.

A large number of adjustments have been made in the audited accounts to reflect our audit findings. All audit adjustments required to correct the financial statements were processed by the board.

Audit opinions on the annual report and accounts are unmodified

11. The board and its group's annual report and accounts are to be approved by the Board on 30 June 2025 and signed by the appointed auditor on the same day. The Independent Auditor's Report is included in the board's annual report and accounts, and this reports that, in the appointed auditor's opinion, these are free from material misstatement.

The audit timetable was met overall but the Performance Report did not initially comply with the reporting manual

12. A version of the unaudited annual report and accounts and working papers were received on 5 May 2025 in accordance with the agreed audit timetable set out in our 2024/25 Annual Audit Plan.

13. The Performance Report initially presented for audit was significantly changed to incorporate previous feedback received from the board's Audit and Risk Committee. We were not made aware of these planned changes at the commencement of the audit. The amended version of the Performance Report included additional infographics improving the readability of the report, but had not been prepared in accordance with the mandatory requirements set out in the Government Financial Reporting Manual (FReM) and NHS Accounts Manual.

14. Significant work was required by the board to make the required changes to the Performance Report ahead of the planned sign off of the accounts. Additional audit effort was expended to review multiple version of the Performance Report and confirm the mandatory requirements were met.

Recommendation 1

The board should ensure the Performance Report is prepared for the start of the audit and include the mandatory requirements set out in the NHS Accounts Manual.

15. In addition to the required changes to the Performance Report, a large number of audit adjustments were required to the financial statements to correct misstatements identified from the audit (see paragraph 35). This is outwith the norm following an audit and has added additional pressure for the audit team and board staff in concluding the audit by the statutory 30 June deadline.

16. Improvements are required in future years to ensure that the audit timetable is adhered to. One factor is the extended process required to incorporate the number of agreed audit adjustments into the financial statements. We have recommended that the board review its arrangements for preparing the annual report and accounts and for clearance of the annual audit report.

Recommendation 2

The board should review its arrangements for preparing the annual report and accounts and for clearance of the annual audit report. This should include improved oversight of accounts preparation and setting clear report clearance timelines.

Audit Fee

17. The 2024/25 fee set during the audit planning stage was £225,600. An additional fee of £20,000 is now being charged to cover the extra audit work required to check the amendments made to the accounts after the audit was complete.

Overall audit materiality for the accounts is £25.4 million

18. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

19. Broadly, the concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their

nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

20. Materiality levels for the audit of the body and its group were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and accounts. Materiality levels were updated and these can be seen in Exhibit 1.

Exhibit 1

2024/25 Materiality levels for the board and its group

Materiality	Board and Group
Materiality – set at 2 per cent of gross expenditure (less the board's contribution to the Integration Joint Boards).	£25.4 million
Performance materiality – set at 60 per cent of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£15.2 million
Reporting threshold – set at 2 per cent of materiality.	£0.5 million

Source: Audit Scotland

Significant findings and key audit matters

21. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for NHS Ayrshire and Arran is the Board.

22. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

23. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

24. The significant findings and key audit matters to report are outlined 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

Significant findings and key audit matters	Outcome
1. Health and Social Care Integration The three Integration Joint Boards' (IJB) activities have been reflected in the board's accounts. £627.855 million has been included in the board's other health care expenditure relating to the board's payments to the IJBs. Income of £586.672 million for services commissioned by the IJBs has been included. The IJBs have been consolidated into the group accounts as joint ventures. £9.681 million has been shown in financial assets, representing the board's share of the IJBs cumulative financial outturns to 31 March 2025. The IJB figures are based on the unaudited accounts for each IJB and the deadline for these accounts to be audited is 30 September. We do not anticipate any material changes to the draft figures used in consolidation.	For information only.

Significant findings and key audit matters	Outcome
2. Prescribing Accrual NHS Ayrshire and Arran's prescribing expenditure is processed through the payments on behalf (POB) process. NHS National Services Scotland (NSS) incur the expenditure, and inform the board of their prescribing costs. The board are informed of costs two months in arrears, and for the purposes of the unaudited accounts, an accounting accrual is processed estimating the costs for February and March each year. During the course of our audit, the board were informed of their actual February and March 2025 prescribing costs. The board's actual prescribing costs were £0.884 million less than the estimate made in the accounting accrual.	The board advised us of this adjustment and have amended the 2024/25 accounts. Independent primary care services expenditure has reduced by £0.884 million and there has been a corresponding reduction of the same amount to trade and other payables. The board's outturn position against its core revenue resource limit (RRL) also improved by £0.884 million.
3. CNORIS Provision As with all other territorial NHS boards in Scotland, NHS Ayrshire and Arran participate in the Clinical Risks and Other Risks Indemnity Scheme (CNORIS). This is a central fund which meets the costs of any medical negligence claims. The board have some claims which have been settled with periodic payment orders (PPOs). For PPO settlements, annual payments are made to the claimant for the duration of their life. These future payments are included in the board's clinical and medical legal claim provision. We would expect the duration of the PPOs to be based on an individual's life expectancy. Our audit work identified that for some PPOs the value of the provision was not clearly linked to life expectancy.	The board have amended the 2024/25 accounts to correct this. There were three PPO claims where an amendment was required. The net impact is that provisions has increased by £0.324 million with one PPO requiring a provision increase, and two requiring a decrease. The board are reimbursed for all costs through CNORIS, and there has therefore been a corresponding increase in trade and other receivables to account for the reimbursement. This had no impact on the board's outturn position.

Significant findings and key audit matters	Outcome
4. Non-Current Asset Impairments The National Adolescent Centre (Foxgrove) is classified in the accounts as an Asset Under Construction (AUC). Accounting standards require AUCs to be held at cost. The board processed a £1.565 million impairment relating to costs incurred by Aecom, the board's cost advisor for the Foxgrove project. This was on the basis that these costs would not increase the capital value of the building. This accounting treatment was not compliant with accounting standards. As the costs incurred by Aecom were directly attributable costs for the Foxgrove project, and AUCs are held at cost, they should not have been impaired. In addition, the board processed a £2.728m impairment relating to houses 4-9 at Arrol Park Resource Centre. These houses were demolished in 2024/25 having been empty for several years. These assets were obsolete, and at the point they became empty with no identified future NHS use they should have been impaired. The impairment was processed in 2024/25, however it should have been processed in a prior year. We accepted that no prior year restatement was required, as the impairment was not material. The board however should strengthen its impairment review processes to ensure all impairments are processed in the year the impairment event occurred.	The board have amended their 2024/25 accounts for the impairment to Foxgrove. No amendment was required to the accounts for the impairment to Arrol Park as the prior period error was not material. The value of Property, Plant and Equipment (PPE) has increased by £1.565 million, and other health care expenditure has reduced by £1.565 million. As the impairment was funded through Annually Managed Expenditure (AME), this had no impact on the board's outturn.

Significant findings and key audit matters	Outcome
5. Untaken Holiday Liability The board is required to calculate the estimated cost of untaken annual leave at 31 March 2025 that can be carried forward and used during 2025/26. The untaken holiday liability included in the board's unaudited annual report and accounts was £2.891 million. We identified that the annual leave data for non-medical staff included a number of anomalies. Following discussion with the board, it was accepted that some of the annual leave data used for non-medical staff could not be considered reliable.	The board have not amended their 2024/25 accounts. We are satisfied any error in the untaken holiday liability is not material to the accounts. The board have agreed to review the annual leave data used for the 2025/26 accounts. **Recommendation 3 – Appendix 1 Action Plan**

Significant findings and key audit matters	Outcome
6. Debtor Impairment Since 2023, the board have been engaged in a dispute with two councils. The dispute relates to £2.3 million of income the board believe is due for two patients, not ordinarily residing in the health board region, who are being cared for in Ayrshire and Arran. Both councils have not settled invoices relating these patients since 2023 and are disputing the legitimacy of these charges. The board have continued to invoice for these payments, and have created a bad debt provision recognising the risk of non-payment. Legal advice has been sought from the Central Legal Office (CLO), but this legal advice has not yet been concluded as further information is being sought before it decides whether or not to support the board's view that it is entitled to this income.	There has been no amendment to the 2024/25 accounts. The CLO have not yet provided conclusive legal advice on the correct treatment of these invoices and are seeking further information from the board. As a result we have been unable to form a judgement on whether the board are entitled to this income and should continue raising these invoices. As such, we have been unable to conclude whether the board's accounting treatment of creating a bad debt provision is appropriate or whether the debt should be written off. A write off would be appropriate if the board is not entitled to this income. As the value of these payments is not material to the accounts this uncertainty has not resulted in a modification to our opinion this year. However this could have future implications for the board's outturn position. Annually Managed Expenditure (AME) is provided for bad debt provisions, but any write off would impact the board's core revenue resource outturn. The board should seek conclusive legal advice on this issue with a view to resolving this dispute in 2025/26. We are advised that both patients are in ward 7A Woodland View which will close by 14 July. **Recommendation 4 – Appendix 1 Action Plan**

Significant findings and key audit matters	Outcome
7. Dental Income The board's dental income is recognised through the POB process, as described in significant finding 2. The board are informed of the dental income it should recognise two months in arrears, and for the purposes of the 2024/25 accounts, an income accounting accrual was required to estimate the income for February 2025 and March 2025. The value of the income accounting accrual was £1.027 million. In error, the board had accounted for this as a reduction in an expenditure accrual within trade and other payables. This should have been recognised as an income accrual within trade and other receivables.	The board have amended their 2024/25 accounts. Trade and other payables has increased by £1.027 million, and there has been a corresponding increase to trade and other receivables of the same amount. This was an accounting error within the Statement of Financial Position and had no impact on the board's outturn position.

Source: Audit Scotland

Qualitative aspects of accounting practices

25. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the body's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

26. The appropriateness of accounting policies adopted by the body was assessed as part of the audit. These were considered to be appropriate to the circumstances of the board, and there were no significant departures from the accounting policies set out in the Government Financial Reporting Manual (FReM).

Accounting estimates

27. Accounting estimates are used in a number of areas in the body's financial statements, including the valuation of land and buildings and the valuation of the board's provisions. Audit work considered the process that management of the body has in place around making accounting estimates, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions and data used to make the accounting estimates, and these were considered to be reasonable.

- There was no evidence of management bias in making the accounting estimates.

Disclosures in the financial statements

28. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity.

The board needs to, in conjunction with other Scottish health boards, update and amend its service level agreements (SLAs) as required

29. We tested a sample of income and expenditure transactions relating to service level agreements (SLAs) between NHS Ayrshire and Arran and other Scottish health boards in 2024/25. Each item tested was agreed to supporting documentation, including underlying SLA agreements and invoices and no issues have been identified relating to the amounts sampled or disclosed in the accounts.

30. In 2023/24, a national issue was raised and subsequently discussed at the NHS Technical Accounting Group (TAG) in relation SLA agreements specifying capacity/activity levels leading to performance obligations under IFRS 15 (Revenue from Contracts with Customers). The board's largest SLA expenditure is with NHS Greater Glasgow and Clyde (NHSGGC), who amended its SLA with the board to specify that the SLA is a block contract to provide access for services in return for a fixed sum consideration, providing access to services continuously and equitably across the year with no true under or over delivered activity associated with this block access payment. This amendment meets the requirements of the NHS Accounts Manual which requires individual boards to agree a contract amendment (IFRS 15 paragraphs 18-21) and be invoiced/make payment on an agreed basis between both parties to the 'contract'; or agree a top slice of equivalent SLA income/expenditure at Scottish Government level.

31. In 2024/25, TAG implemented a short life working group to consider SLA arrangements across remaining boards. No agreed solution has yet been implemented and, as a result, there have been no amendments to NHS Ayrshire and Arran's SLA contracts with other boards. We are satisfied from our testing, that for those SLA agreements based on estimated activity held by the board, the underlying operation of the board's SLA agreements are, in reality, agreements for which access to services is provided in return for a fixed sum consideration and no true under or over delivered activity requiring an accounting adjustment at year-end. However, in order to fully comply with the manual, NHS Ayrshire and Arran, alongside other Scottish boards, should update and amend its SLAs as required.

Group audit

32. The body is part of a group and prepares group financial statements. The group is made up of seven components, including the board which is the parent of the group. As outlined in the Annual Audit Plan, audit work was required on a number of

the group's components for the purposes of the group audit. The audit work performed on the group's components is summarised in Exhibit 3.

Exhibit 3
Summary of audit work on the group's components

Group component	Auditor and audit work required	Summary of audit work performed
NHS Ayrshire and Arran	**Audit Scotland** Full scope audit of the body's annual report and accounts.	The outcome of audit work performed is reported within the Annual Audit Report, with details of significant findings and key audit matters reported in Exhibit 2.
Ayrshire and Arran Health Board Endowment Fund	**William Duncan + Co (Audit) Ltd** Analytical procedures at group level.	Analytical procedures at the group level were performed by the audit team, and no significant issues were identified.
East Ayrshire Integration Joint Board (IJB)	**Audit Scotland** Analytical procedures at group level.	Analytical procedures at the group level were performed by the audit team, and no significant issues were identified.
North Ayrshire Integration Joint Board (IJB)	**Audit Scotland** Analytical procedures at group level.	Analytical procedures at the group level were performed by the audit team, and no significant issues were identified.
South Ayrshire Integration Joint Board (IJB)	**Audit Scotland** Analytical procedures at group level.	Analytical procedures at the group level were performed by the audit team, and no significant issues were identified.
Cumnock SPV Ltd	**Azets Audit Services** Confirming that not consolidating was appropriate on the grounds of materiality.	We agreed with the board's view that the body was not material, and confirmed therefore that it was permissible not to consolidate the body.

Group component	Auditor and audit work required	Summary of audit work performed
Cumnock SPV Holdings Limited	**Azets Audit Services** Confirming that not consolidating was appropriate on the grounds of materiality.	We agreed with the board's view that the body was not material, and confirmed therefore that it was permissible not to consolidate the body.

Source: Audit Scotland

33. ISA (UK) 600 requires auditors to report the following matters if these are identified or encountered during an audit:

- any instances where review of a component auditor's work gave rise to issues and how this was resolved.
- any limitations on the group audit.
- any frauds or suspected frauds involving group or component management.

34. No matters related to the above requirements in ISA (UK) 600 were identified.

Audit adjustments had a net impact on the accounts of £3.8 million

35. A large number of audit adjustments were required to the financial statements to correct misstatements that were identified from the audit. Details of all audit adjustments greater than the reporting threshold of £0.5 million are outlined in Exhibit 4.

Exhibit 4
Audit adjustments

Details	Financial statements lines impacted	Statement of Comprehensive Net Expenditure (SoCNE)		Statement of Financial Position (SoFP)	
Audit adjustments to financial statements		**Dr**	**Cr**	**Dr**	**Cr**
		£000	**£000**	**£000**	**£000**

1. As outlined in Exhibit 2, significant finding 2, an adjustment was required to the prescribing expenditure accrual.

Details	Financial statements lines impacted	Statement of Comprehensive Net Expenditure (SoCNE)	Statement of Financial Position (SoFP)
	Independent Primary Care Services	(884)	
	Trade and Other Payables		884
2. As outlined in Exhibit 2, significant finding 3, an adjustment was required to the CNORIS provision.			
	Provisions		(324)
	Trade and Other Receivables		324
3. As outlined in Exhibit 2, significant finding 4, an adjustment was required to the impairment for Foxgrove.			
	Property, Plant and Equipment		1,565
	Other Health Care Expenditure	(1,565)	
4. As outlined in Exhibit 2, significant finding 7, an adjustment was required for a dental income accrual.			
	Trade and Other Receivables		1,027
	Trade and Other Payables		(1,027)
Net impact on financial statements		**(2,449)**	**3,800** **(1,351)**

Source: Audit Scotland

36. Management of the body processed audit adjustments for all misstatements identified greater than the reporting threshold. As a result, there are no uncorrected misstatement to report.

Significant risks of material misstatement identified in the Annual Audit Plan

37. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in Exhibit 5.

Exhibit 5
Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response	Outcome of audit work
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.	The audit team will: • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to	Audit work performed found: • The design and implementation of controls over journal processing were appropriate. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • No significant issues were identified from testing of journal entries. • No significant issues were identified from transactions outside the normal course of business. • The controls in place for identifying and disclosing related party relationships and transactions were adequate. • No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was

Risk of material misstatement	Planned audit response	Outcome of audit work
	prepare accounting estimates and assess these for evidence of management bias. • Substantive testing of income and expenditure around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.	no evidence of management bias. • No significant issues identified from the testing of income and expenditure transactions around the year-end and there was no evidence of transactions accounted for in the incorrect financial year. • No significant issues identified from the testing of accruals and prepayments. **Conclusion:** no evidence of fraud caused by management override of controls.

Source: Audit Scotland

Prior year recommendations

38. The board has made reasonable progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with the body and are outlined in Appendix 1.

Financial Management

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

Conclusion

The 2024/25 budget was set projecting a deficit position. The board is reporting that it met all its financial targets for 2024/25 and operated within its Revenue Resource Limit (RRL). This was achieved using £51.4 million of additional financial support from the Scottish Government.

The Board did not meet the Scottish Government 3% recurring efficiency target. A report to the board's Performance Governance Committee explained this was only met with the inclusion of non-recurring savings.

Appropriate arrangements are in place for setting a budget and reporting on progress against it. However the reporting of the financial position to the Board needs to show a clear distinction between CRES recurring savings and non-recurring savings.

The Internal Audit report entitled Cash Releasing Efficiency Savings (CRES) Plan had an overall rating of red (immediate major improvement required).

Although NHS Ayrshire and Arran operated within its Revenue Resource Limit (RRL) of £1,197.904 million, this was achieved using £51.4 million of additional financial support from the Scottish Government

39. The Scottish Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within.

40. The budget for 2024/25 was approved by the Board in May 2024. It showed a projected deficit of £53.5 million. As illustrated in Exhibit 6 overleaf, the board reported that it operated within all limits during 2024/25. The break even position against Core RRL was only achieved however as a result of the board receiving additional non-recurring and repayable financial support of £51.4 million from the Scottish Government.

Exhibit 6
Performance against resource limits in 2024/25

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	1,158.184	1,157.072	1.112
Non-core revenue resource limit	39.720	39.720	0
Total revenue resource limit	**1,197.904**	**1,196.792**	**1.112**
Core capital resource limit	12.082	12.075	0.007
Non-core capital resource limit	0.464	0.464	0
Total capital resource limit	**12.546**	**12.539**	**0.007**
Cash requirement	**1,248.925**	**1,248.925**	**0**

Source: NHS Ayrshire and Arran Annual Report and Accounts 2024/25

The Board did not meet the Scottish Government 3% recurring efficiency target. A report to the board's Performance Governance Committee explained this was only met with the inclusion of non-recurring savings

41. The Scottish Government required NHS boards to make recurring efficiency savings of 3% for 2024/25. For NHS Ayrshire & Arran, including the three Integration Joint Boards (IJBs), this equated to £26.5 million of recurring cash releasing efficiency savings (CRES).

42. The board's 2024/25 CRES plan was for savings of £28.3 million which included £4.7 million of non-recurring savings. This did not meet the 3% recurring requirement. In a report to the Performance Governance Committee on 20 May 2025 the board reported that it achieved £26.8 million of CRES and this was £0.3 million more than the Scottish Government target. This represents a significant increase from the £8.9 million of CRES delivered in 2023/24.

43. This report could be clearer that the target was not achieved with recurring savings and that £8.9 million of the board's non-recurring savings in 2024/25 were needed to meet the target savings figure. The 3% Scottish Government target is a recurring efficiency target. Removing non-recurring savings, the board delivered £17.9 million of recurring savings and this was £8.6 million below the Scottish Government requirement. Non-recurring savings do not reduce the board's underlying financial deficit.

CRES reported as delivered by the board in 2024/25 includes schemes which we are unconvinced are efficiency savings

44. The board's 2024/25 CRES plan was revised during the year to remove schemes which were not achievable. The board included £8.439 million of savings linked to the reduction on beds in acute hospitals or full ward closures. By the year end only £1.640 million of these savings were achieved.

45. To replace these savings, the board added the following CRES schemes to their 2024/25 CRES plan midway through the year:

- £0.042 million in discretionary spend controls CRES
- £0.985 million in workforce controls CRES
- £0.550 million relating to capital to resource transfer CRES
- £3.446 million in workforce efficiencies CRES
- £1.146 million in corporate service vacancies CRES.

46. The £0.5 million capital to resource transfer was a Scottish Government approved reallocation of funding from capital to revenue. In our view, this is a movement between budgets and is not an efficiency saving.

47. In addition, workforce efficiencies CRES includes an underspend against funding received by Scottish Government to cover costs associated with the reduced working week and enhanced protected learning time. The Scottish Government did not request this funding to be returned, and the board have included part of this underspend as a non-recurring efficiency saving.

Internal audit rated the board's CRES plan as red

48. In September 2024 an Internal Audit report entitled Cash Releasing Efficiency Savings (CRES) Plan had an overall rating of red (immediate major improvement required). The report contained eight improvement actions which related to the design of controls and processes.

49. Internal Audit's May 2025 assessment of progress in implementing the actions arising from their CRES audit was based on the refreshed process designed by Viridian which has only recently been approved. Internal Audit will consider how effectively this is operating in practice as part of their follow up audit of CRES due to be undertaken in Q4 of 2025/26.

50. Five of the original eight actions have been closed. One is assessed as partially complete (integration of the delivery and reporting of savings across IJBs) and one not yet due (identifying additional support and capacity needed to implement CRES in 2025/26). One further action relating to the closure of unfunded beds has been assessed as "superseded".

The Integration Joint Board outturn had an impact on the Board of £1.712 million

51. North Ayrshire Integration Joint Board (IJB) required additional year-end funding of £3.593 million to breakeven and NHS Ayrshire and Arran funded £1.557 million of this, with the remaining £2.036 million from North Ayrshire Council. The board has not created a debtor in its accounts for repayment.

52. East Ayrshire IJB also required additional year-end funding of £6.021 million to breakeven. The board funded £0.155 million of this, with the remaining £5.866 million from East Ayrshire Council. As with North Ayrshire IJB, the board has not created a debtor in its accounts for repayment.

53. This had a direct outturn impact and increased the board's deficit by £1.712 million in 2024/25.

Internal audit provided a reasonable level of assurance over the board's framework of governance, risk management and control arrangements during 2024/25 with two exceptions

54. The Board's internal audit function is carried out by Azets. Their 2024/25 Annual Audit Report to the June Audit and Risk Committee concludes that NHS Ayrshire and Arran has a framework of governance, risk management and controls that provides reasonableness assurance regarding the effective and efficient achievement of objectives, except in relation to aspects of financial sustainability and the management of GP sustainability payments.

We identified that controls over changes to supplier bank details could be strengthened

55. In our 2023/24 Annual Audit Report, we reported that more robust control procedures should be introduced when a supplier requests a change to their bank details. This is one of the most common areas for fraud to occur. It is best practice to confirm bank detail change requests are legitimate by contacting the supplier by phone or email using the supplier details held on file.

56. There have been limited changes made to strengthen this control in 2024/25. This control should be improved to reduce the board's vulnerability to fraud in this area. We note that the board have participated in the National Fraud Initiative (NFI) exercise in 2024/25, and that no frauds have been identified in this area to date.

Recommendation 5

The board should strengthen its control over changes to supplier bank details to reduce the board's vulnerability to fraud in this area.

There are assurance gaps in the general IT controls for eFinancials and PECOS systems

57. NHS Ayrshire & Arran host the National Single Instance (NSI) eFinancials financial ledger service on behalf of NHS Scotland. Atos UK Ltd (ATOS) are contracted to provide a managed technical service for eFinancials and host the servers upon which the financial ledger sits. There were 22 customer NHS boards which used the system in 2024/25.

58. NHS Ayrshire & Arran procures a Type 2 service audit report of the eFinancials system which examines the design and operating effectiveness of the controls and provides a detailed analysis of the control environment. The 2024/25 eFinancials service audit completed by BDO was unqualified.

59. We have reported in previous Annual Audit Reports that IT general controls, controls over the server, back up of financial ledger data and disaster recovery arrangements are outside the scope of the service audit report. This is unchanged for 2024/25 and there remains an assurance gap. We understand however that this will be resolved for the 2025/26 service audit.

60. NHS Ayrshire & Arran use the PECOS procurement application. The PECOS application is available to all Scottish public sector bodies under the Scottish Government eCommerce shared server license agreement. In November 2024, the hosting arrangements of the PECOS application changed from being held at the Scottish Government's Saughton House data centre to being held and managed externally from the Scottish Government by third-party provider, Elcom.

61. While the Scottish Government own the contractual arrangements with Elcom, it is for individual bodies to ensure themselves there are appropriate application and hosting controls in place at Elcom. NHS Ayrshire & Arran has not received any assurances around the operation of these controls at the third-party provider.

62. NHS Ayrshire & Arran is satisfied that there have been no issues around service performance or availability of information to support the preparation of the financial statements and there are no adverse impacts on the Board's system of internal control or governance arrangements in respect of the PECOS application.

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.

Conclusion

The board is not financially sustainable. Its three-year financial plan to 2027/28 records a cumulative financial deficit, after proposed savings, of £112.1 million. The forecast deficit for 2025/26 is £33.1 million. The Board has the highest level of outstanding brokerage across NHS Scotland at the end of 2024/25 (£129.9 million).

The board is on level 3 of the Scottish Government's escalation framework due to its financial position and is receiving tailored Scottish Government support for its financial recovery.

The Scottish Government has set a deficit target of £25 million for the board for 2025/26. The revenue resource limit for 2025/26 amounts to £1,135.4 million, including a national sustainability payment forecast to be £18.2 million non-recurring and £4.5 million recurring. This is substantially less than the year end brokerage of £51.4 million for 2024/25.

The Scottish Government is looking for the board to create a financial recovery plan centred around a five-year path to balance. The Board has not yet prepared sufficiently detailed plans to achieve financial sustainability in the future.

The Whole System Plan does not sufficiently demonstrate how services will change and efficiencies will be realised to meet the growing needs to patients within the financial constraints faced.

The board needs to continue to seek Scottish Government support for more radical reform if it is to demonstrate financial sustainability.

The board is not financially sustainable. The board's three-year financial plan to 2027/28 records a cumulative financial deficit, after proposed savings, of £112.1 million

63. In our 2024/25 Audit Plan we identified a wider scope risk relating to the board's financial sustainability. Our audit findings from the work done on this area are recorded below.

64. The board is not financially sustainable. The NHS Ayrshire and Arran Board approved its 2025/26 revenue plan on 31 March 2025. This records a deficit budget for 2025/26 of £33.1 million. The board's three-year financial year plan for the period 2025/26 to 2027/28 was submitted to Scottish Government on 17 March 2025 and records a cumulative deficit amounting to £187.9 million. The plan further proposes recurring financial savings of 3% each year until 2027/28 amounting to £75.9 million resulting in a cumulative financial deficit, after the proposed savings, of £112.1 million.

65. In his response to the Plan, the Scottish Government's Director of Health and Social Care Finance said that the forecast position for 2025/26 does not demonstrate sufficient improvement in the Board's financial sustainability. He also added that the recurring savings target of £30.2 million for 2025/26 does meet the Scottish Government target of at least 3% recurring savings. He concluded that he could not approve the three year financial plan and that for 2025/26 the board should not exceed a net financial deficit of £25 million and required an updated plan to be submitted for review by 7 June 2025. The updated revenue plan is also required to show how the Board can get to break even within five years. It must also deliver a minimum 3% recurring savings target.

66. In a response dated 9 April 2025, the Chief Executive explained that the board's forecast deficit for 2025/26 is £33.1 million and that this is inclusive of a comprehensive and challenging in-year CRES target of £30.1 million. She also explained that the board have no clear route to enable an additional £8million cost / spend reduction but that they will continue to work with the Scottish Government to seek and deliver any opportunities to improve the financial forecast.

67. We are advised that Scottish Government has granted an extension to the 7 June deadline until 25 June. At the time of this report's submission we have not had sight of the updated revenue plan but are advised that it will be based on the Chief Executive's report to the Corporate Management Team (CMT) of 13 May (see paragraph 78).

The Scottish Government has set a deficit target of £25 million for the board for 2025/26

68. The revenue resource limit for 2025/26 amounts to £1,135.4 million. This includes a national sustainability payment calculated on a National Resource Allocation Formula (NRAC) basis. The NRAC share for NHS Ayrshire & Arran is forecast to be £18.2 million non-recurring and £4.5 million recurring. This is substantially less than the year end brokerage of £51.4 million for 2024/25.

69. A savings target of £36.8 million has been included for 2025/26 in the revenue plan (including Health and Social Care Partnership Savings of £6.7 million) which in the Board's view exceeds the 3% recurring Cash Releasing Efficiency Savings (CRES) of £30.2 million required by Scottish Government, measured as 3% of its recurring baseline.

Despite the severity of its financial position, there is no evidence that the board can achieve financial sustainability

70. While the board has delivered significant efficiency savings over time (£26.8 million this year, £8.9 million in 2023/24 and £6.5 million in 2022/23), based on the size of its current deficit the Board has not demonstrated that it can achieve financial sustainability. The Board has the highest level of outstanding brokerage across NHS Scotland at the end of 2024/25 (£129.9 million). The board is seeking clarity from the Scottish Government on the repayment expectation for this brokerage.

71. The board's three year plan forecasts a further cumulative deficit amounting to £112.1 million. The scale of financial challenge facing the board in the short, medium and longer-term is unprecedented. The Scottish Government is looking for the board to create a financial recovery plan centred around a five year path to balance. The Chief Executive has said that financial sustainability remains a longer-term aspiration for the board and is working towards year-on-year reductions in the budget gap.

72. Given the extent of the board's financial challenges, it is a concern that the board is relying on the optimistic assumption that it will achieve recurring financial savings of 3% each year until 2027/28, that its forecast financial deficits will continue to be met by Scottish Government and that planned saving schemes will drive the changes needed. There needs to be more active governance around delivering transformational change, innovation, and collaborative working.

73. The Board must work with the Scottish Government to deliver the scale of sustainable transformation and prioritisation of service delivery needed in NHS Ayrshire and Arran.

The board needs to continue to seek Scottish Government support for more radical reform if it is to demonstrate financial sustainability

74. Audit Scotland's Audit Scotland's NHS in Scotland 2024 report reflected the need for short, medium and long-term investment and reform to ensure the future sustainability of the NHS in Scotland. The report noted that funding increases have been insufficient to address the financial challenges NHS boards are now facing, with a record number needing additional funding to break even. The report also noted that NHS boards have deficits forecast over the next three years with reliance on one-off savings and rising costs creating a risk to financial sustainability. The report made clear that reform in the NHS is essential.

75. In 2023/24 we reported that change needs to happen quickly if the board is to make up for lost time in addressing its transformational challenges. We also recommended that more focused and effective leadership is needed to drive the change and to promote a culture of challenge and that the Board should challenge the progress being made.

76. In response, the board confirmed that the future CRES workplan, together with development of the Whole System Plan will provide the milestones for closing the financial gap. Reform milestones were to be costed and aligned to the whole system plan and financial sustainability was to be mapped to the reform milestones. As noted at paragraph 98, none of these actions have progressed.

77. Board members now need to make difficult decisions how the use of limited resources is prioritised going forward. Audit Scotland's May 2025 report 'NHS in Scotland Spotlight: Governance' says NHS boards operate within parameters set by Scottish Government which impacts on how well they can plan and make decisions to deliver the reform needed. It notes that NHS boards' ability to drive reform is constrained by the financial, policy and planning parameters set by the Scottish Government. A new planning framework is being put in place and new national strategies and plans for reform and improvement are due this year. Dealing with this change will be challenging but it should help give boards greater certainty and enable them to work more collaboratively to deliver reform. In the meantime, the board needs to continue to seek Scottish Government support for more radical reform if it is to demonstrate financial sustainability.

78. The Scottish Government has set out that for 2025/26 the board should not exceed a net financial deficit of £25 million and show how they can get to break even within five years. However the Board has approved a deficit budget for 2025/26 of £33.1 million and currently has no strategy to achieve break even. In a report to the CMT of 13 May, the Chief Executive shared a number of areas for discussion relating to longer-term service reform options and reductions in expenditure. However these measures were not fully detailed and costed and could not yet be considered as realistic options to achieving break-even.

79. Further work needs to be progressed as a matter of urgency to set out a realistic recovery plan to address its forecast deficit for 2025/26 and subsequent years through transformation and reform activity and through a broader package of measures, including workforce changes and possible service reduction. This is required as part of the statutory responsibilities of the Accountable Officer with oversight and scrutiny from the Board.

80. Board members will need to make difficult decisions on how the use of limited resources is prioritised going forward within its recurring funding envelope. These may include crisis actions which are solely intended to reduce costs and will have an impact on service delivery and performance against targets. Policy and delivery timelines will require confirmation of support by Scottish Government.

Recommendation 6

As a matter of urgency the board needs to set out a realistic recovery plan to address its forecast deficit for 2025/26. An improvement plan agreed with Scottish Government to show how it can get to break even within five years also needs to be put in place. Attainable milestones require to be included in the plan to track progress.

We are concerned that savings plans for 2025/26 are overly optimistic and will not be achieved

81. During 2024/25 work commenced with Viridian to provide a framework for delivery for future cost improvement programmes. That work has continued for 2025/26 and has identified a number of schemes to support the board's savings target of £36.7 million (including HSCPs).

82. The major savings schemes identified include:

- Service Redesign Surgery (£4.3 million);
- Service Redesign Emergency (£2.0 million);
- Service Redesign Clinical Support (£2.4 million);
- Workforce - Nursing (£2.1 million); and
- Prescribing Switches (£2.6 million).

83. There are currently 162 schemes in the live CRES financial tracker totalling £31.8 million (against the target of £36.7m), of which £18.8 million (59%) are classed as recurring savings and the remaining £13.0 million (41%) are non-recurring This does not align to Scottish Government guidance which requires delivery of 3% recurring savings. Further savings schemes of £4.9 million (13%) are yet to be identified.

84. The savings schemes have been risk assessed; 33% have been assessed as high risk, 50% as medium risk and 17% as low risk.

85. CRES savings delivery is reported in the Financial Monitoring Report (FMR) which goes to CMT and the Board monthly. More detailed reports are presented to the monthly Improvement Programme Steering Group (IPSG).

86. The financial tracker aims to provide a clear evidence base of all the projects and schemes currently being worked on, pipeline projects and any removed schemes. This is updated on a monthly basis with the initial review being undertaken by the workstream improvement groups. At this meeting scheme progress will be discussed, along with the RAG rating, new schemes to close any gaps and mitigation for high-risk schemes.

87. For 2025/26, the bed reduction plan has been replaced with five acute workstreams and three workforce workstreams with a plan to deliver savings of £13 million. Directors are leading on the savings schemes relating to Acute and Workforce with support from Viridian Associates. The board had support from Viridian for the majority of 2024/25 and SG have agreed to fund this for the first quarter of 2025/26, conditional on the Board delivering a 3% recurring saving by 31 March 2026.

88. The Revenue Plan for 2025/2026 includes funding of £0.7 million to create recurring capacity to support delivery of the CRES programme. Until these posts are in place, Viridian have been contracted to support the CRES programme in 2025/26 and co-ordinate an operational PMO within acute services.

89. For 2025/26, the board are also developing a 3-year transformation programme for Acute based on previous work from Buchan+Associates as well as new areas for transformational change. In addition, the Board has developed a 'Realistic Care Improvement Programme' to help ensure savings are delivered. The Programme, running in parallel with the CRES programme, will identify 'major change' opportunities for escalation to CMT, via the IPSG, for progression. The programme will be supported by Viridian Associates and an operational delivery unit.

90. The work being undertaken and supported by Viridian Associates has potential to make a significant contribution to the 2025/26 savings programme. However, as noted at paragraph 43, in 2024/25 the board achieved only £17.9 million of recurring CRES against a target of £24.1 million. The brokerage limit for 2024/25 was not exceeded but only because of non-recurring measures such as the overfunding of Agenda for Change which did not require to be returned (£8.9 million) and a capital to revenue transfer (£0.5 million). Officers have told us that substantial progress has been made in achieving planned savings for 2025/26 in Acute (the largest area of overspend) but this is not yet reflected in financial monitoring reports.

There is significant uncertainty around recurrent savings of £6.6 million attributed to the three IJBs

91. Through the IPSG there is a work stream for community based savings. The board's savings target of £36.7 million for 2025/26 includes total savings of £6.6 million attributed to the three IJBs. Each IJB approves their own savings proposals as part of their individual revenue budget plans, however these count towards the board's 3% CRES target, and are included in the monthly financial tracker and other financial reports.

92. We are aware that there are variances between IJB savings included in the tracker and approved IJB budgets. For example North Ayrshire IJB has submitted plans for £4.4 million savings but has approved health savings of only £1.1 million. Officers have explained that these variances are a result of timing differences relating to when IJB budgets were set.

93. For North Ayrshire IJB, the largest element (£2.5 million of the total savings) relates to cost reduction of overspends in 2024/25 to live within health budgets in

2025/26. For South Ayrshire IJB, their £2.0 million savings proposals include a £1.3 million reduction in beds at Biggart Hospital (rated red) and £0.7 million relating to service reviews. East Ayrshire IJB savings proposals of £1.9 million include £0.5 million relating to general staff turnover and £0.7 million relating to 'previously approved but unachieved savings'.

94. There is considerable uncertainty around a significant proportion of these savings. For example the reduction in North Ayrshire IJB service expenditure is not included in the IJB's Transformation Plan, nor will it be monitored as part of its budget monitoring process. In addition, savings from a reduction in beds at Biggart Hospital is dependent on an increase in community capacity, and previously approved but unachieved savings in East Ayrshire in 2024/25 will remain challenging to deliver fully in 2025/26.

Recommendation 7

Current processes relating to incorporating IJB savings into the financial tracker require to be improved. Clear alignment is needed between the tracker and IJBs' transformation/savings plans

The Whole System Plan does not demonstrate how services will change and efficiencies will be realised to meet the growing needs of patients within the financial constraints it faces

95. On 12 February 2024, Scottish Government issued DL (2024) 02 NHS Scotland: Whole System Infrastructure Planning which required that all Boards prepare a Do Minimum Business Continuity Option / Business Continuity Plan (BCP) and submit to SGHD by the end of January 2025. This would be used to inform the allocation of what capital funding is made available. In addition, Boards were asked to prepare a Whole System Plan (WSP) for submission in March 2026, setting out service development strategies over a longer term.

96. The WSP Programme Initial Agreement (PIA), which should incorporate the Preferred Way Forward Option, had a subsequent target date for submission of 31 January 2026 however the board submitted the whole-system PIA document in draft in January 2025.

97. At this stage, only the BCP option has been developed which provides Scottish Government with a maintenance only business continuity investment plan based on a risk-based assessment of the Boards existing infrastructure. The PIA notes that further work will be undertaken to assess the financial implications of the other whole-system PIA options. The PIA also notes that the programmes aligned to Caring for Ayrshire aim to improve how the board deliver health and care services in the future, focusing on making them financially sustainable. However the PIA does not demonstrate how services will change and efficiencies will be realised to meet the growing needs of patients within the financial constraints it faces.

98. In 2023/24 we recommended that a detailed timeline should be created through the Whole System Plan with attainable milestones to track progress towards financial sustainability. The board accepted our recommendation with a completion date of 31 March 2026. At this stage, however, the board has no clear strategic plan to address its forecast deficits. Based on the updates provided by management and a number of discussions during this audit, we consider that this action is now superseded by Recommendation 6 (Appendix 1).

Some major capital projects have been delayed or are no longer going ahead as planned

99. The National Adolescent Centre, commonly called Foxgrove, is a 12 bed medium secure adolescent centre which is to be located in Irvine. The Full Business Case estimated the cost of the project was £18.7 million and it would be operational by the end of 2023.

100. The project is expected to overspend by over £5 million with the outturn cost at project completion forecast at £23.738 million. The project has also been delayed due to risks relating to defects. The build is now expected to be completed by August 2025, a delay of almost two years.

101. The Carrick Glen National Treatment Centre (NTC) was scheduled to open in 2025 however following the 2024/25 Scottish Government budget in December 2023, it was put on hold for at least two years, until 2027. The Board declared the Carrick Glen NTC as a surplus asset at a Board meeting on 3 February 2025.

The backlog maintenance cost for the Board now stands at £89.0 million

102. In 2023/24 we reported that the backlog maintenance cost for the Board's estate was £74.6 million at 31 March 2024 . That figure has now increased to £89.0 million at 31 March 2025, an increase of almost 20%. The Board's has no ability to develop new replacement buildings using capital from Scottish Government and this will increase the rate of decay across the estate without significant intervention.

103. Intervention by the board is planned in two forms; the first being a "do minimum maintenance only" investment plan. This will focus additional money from Scottish Government on maintaining infrastructure and facilities in order to continue to deliver services. The second will be ensuring that only the essential elements of the estate are retained, consolidating the use of the estate and disposing of any sites that are under performing, avoiding backlog maintenance expenditure and minimising operating costs. Work remains ongoing to identify properties for disposal.

104. We will continue to monitor the Distributed Working and Estates Rationalisation Group's review of the estate and opportunities identified for rationalisation.

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.

Conclusion

Board members, the CMT and the Scottish Government need to continue to work together to provide effective leadership to secure the sustainability of its services.

Financial challenges in the IJBs impact on the board's financial position.

The staff register of interests may not be complete.

The Annual Delivery Plan 2024/25 was approved by the Board in August 2024

105. All NHS Boards were required to submit, to Scottish Government, a Delivery Plan 2024/25. The board's final draft Delivery Plan was submitted to Scottish Government on 22 March 2024. On 9 July 2024, Scottish Government recommended that the plan be presented to the Board for approval. The Plan was approved by the Board and the three IJBs in August 2024.

106. For 2024/25, a new NHS Board Delivery Framework was developed which set out 14 agreed indicators for which delivery against plans are reported, monitored and discussed with Boards. This includes both quarterly progress reporting against the NHS Board Delivery Plans, as well as support for ministerial and executive level discussions with Boards. The indicators include Waiting Times, Treatment Time Guarantee, Length of Stay, Delayed Discharges and Sickness Absence.

Board members and the CMT need to continue to work together to provide effective leadership to secure the sustainability of its services

107. The board has delivered significant efficiency savings overtime but progress in reforming services has historically been too slow. As reported above, in 2023/24 we recommended that more focussed and effective leadership is needed to drive the change and to promote a culture of challenge. The Board should challenge the progress being made.

108. The Chief Executive has been working around a vacancy in the Acute Director role between November 2023 and August 2024. To help with the board's leadership capacity, -she worked with the Scottish Government to secure external support (Viridian Associates) from August 2024 to support the delivery of CRES and other transformational work.

The staff register of interests may not be complete

109. Each Directorate at the board is responsible for maintaining a Register of Gifts, Hospitality and Interests with individual staff members responsible for making declarations in accordance with the board's Standards of Business Conduct for NHS Staff. Staff registers are collated annually and held by the Head of Corporate Governance.

110. The Association for British Pharmaceutical Industry (ABPI) publishes information annually on monies pharmaceutical companies have paid to individuals employed by organisations, including NHS Ayrshire and Arran. This information is published in June for the preceding calendar year. A report by the Head of Corporate Governance to the March 2024 Audit and Risk Committee (ARC) disclosed that of the 32 payments totalling £57,000 made to staff employed by the board in 2022, there had been no disclosures on staff register of interests.

111. The ARC were advised that a review of the 2023 ABPI disclosures and staff register of interests would be completed by the Head of Corporate Governance by August 2024 and then reported to the Committee. We have been advised that this review has not yet taken place due to resource challenges, but is now scheduled to be undertaken alongside the 2024 disclosures . In 2023, there were 42 payments totalling £53,000 made to staff employed by the board.

112. There is a risk that staff register of interests may not be complete. The Head of Corporate Governance is planning to complete a review of the 2023 and 2024 ABPI disclosures and staff register with a report to the ARC in September 2025.

Overall the governance arrangements operated effectively in the year

113. 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 and minutes from the IJBs are presented to Board meetings as appropriate. Non-executive Board members are also members of selected committees and are represented on each of the IJB Boards. From review of Board and committee minutes and papers, we found that there was normally clear and transparent reporting and decision making however at paragraphs 46 and 47 we report that CRES reported as delivered by the board in 2024/25 includes schemes which are not recurring efficiency savings. There has been no significant change to the board's governance arrangements during 2024/25.

114. 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.

The updated Blueprint for Good Governance improvement plan records that all areas identified for improvement in the Board's governance arrangements have been completed

115. In 2023/24 we reported that the Audit and Risk Committee had undertaken a self-assessment exercise against the Blueprint for Good Governance using the checklist from the Scottish Government Audit Committee handbook.

116. The improvement plan approved by the Board in March 2024 set out six high level improvement actions assigned to an appropriate Director/Executive Lead and Non-Executive Member, including:

- 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.

117. An updated plan submitted to the May 2025 ARC records the actions in two groups with detail of actions/improvement recorded against these. All actions/improvements have been marked as complete by 31 March 2025.

118. The updated improvement plan notes that delivery of actions/improvements themselves cannot automatically be regarded as effective, as Board members will be required to assess whether the intended good governance outcome has been achieved. This assessment will be delivered through the next Board self-assessment process which is expected in 2025/26.

119. The board has marked itself positively in relation to the action relating to improved information to support financial and delivery plan decision making. This action has been marked as 'complete' with a Board workshop planned for later in 2025 to enable a stocktake of the financial and delivery plan position. However at paragrahs 97 and 98 we record that current configuration of the NHS Board's services will generally remain as they are and that the board has no clear strategic plan to address its forecast deficits.

120. Audit Scotland's May 2025 report 'NHS in Scotland Spotlight: Governance' notes that while the Blueprint is a useful resource for driving improvement in

governance, it is not clear if the self-assessment process is sufficient to identify those boards where things are not working as well as they should. External validation could help in identifying boards where governance is not effective.

121. The report recommends that in 2025/26, the Scottish Government and NHS Boards should implement an external review and validation of the Blueprint for Good Governance self-assessment process across NHS boards, to support further improvement in governance, make sure that evidence and information is assessed in a consistent way, and that opportunities for learning and sharing good practice are maximised across NHS Scotland.

Financial challenges in the IJBs impact on the board's financial position

122. We have previously reported that IJBs, with the support of council and NHS board partner bodies, should be clear about how and when they intend to achieve their priorities and outcomes, in line with their available resources; and ultimately how they intend to progress to sustainable, preventative and community-based services.

123. To support the board's financial recovery IJBs need to operate within their delegated budgets however there are a number of risks and challenges faced by the IJBs from the anticipated budget pressures. For example:

- The board continue to meet the increased costs of energy, e-health and all drugs (including primary care prescribing) in line with the approved integration scheme (see paragraph 124 below)
- IJBs are stopping or reducing services to deliver from within reduced financial allocations. The board acknowledge that whilst its IJBs are not in a positive financial position, further reductions of service in the community has the potential to create cost pressures in other parts of the system
- In relation to the set aside budget, the integration schemes set out that IJBs should contribute financially if they are responsible for increased use and risk sharing in these areas but the monitoring of large hospital activity is complex and requires significant work to be undertaken to monitor budgets and changes in activity levels (see paragraph 124 below)
- In 2024/25, North IJB notified the Board of a £1.557 million overspend in excess of its budget and after recovery plan which in the absence of any contingency reserve of its own, required to be included in the board's outturn position
- A request for additional funding of £300,000 from South Ayrshire IJB to alleviate cost pressures to the board relating to delayed discharges in its area was refused
- The board has not included a risk share from IJBs in its 2025/26 revenue plan resulting in the risk of a higher deficit next year

- There is significant uncertainty around recurrent savings of £6.6 million for 2025/26 attributed to the three HSCPs (see paragraphs 92 to 94)

- The Integration Scheme for East and North Ayrshire IJBs was last updated in 2018. South Ayrshire carried out their review in the following year. There is a legal duty on councils and health boards to review the Integration Schemes at least every 5 years to consider whether any changes are necessary or desirable.

124. Work to rebalance the financial risk between the Health Board and Integration Joint Boards in some areas remains ongoing:

- In 2023/24 we reported 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 was expected to be enacted operationally during 2024/25. However the board has also requested the development of a joint strategic commissioning plan to enable the setting of directions for Unscheduled Care, aligned with the Set Aside resources, which has not yet been approved by the three IJBs.

- The transfer of responsibility of primary care prescribing would require all parties to the integration schemes to agree to this change as part of the ongoing review process

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

125. 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.

126. 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.

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.

Conclusion

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

Scottish Government analysis shows that NHS Ayrshire and Arran has, for many years, had the longest average length of stay for non-elective spells in hospital, equating to a cost of £22.76 million.

Delayed discharges have been increasing since October 2024, reaching 224 delays at February 2025, the highest number reported since July 2023. The greatest proportion of bed days due to a delay are now from North Ayrshire HSCP.

The board's sickness absence rate in 2024/25 was 5.6%, a slight improvement on 5.7% in 2023/24 but is still well above the 4% national standard.

Reliance on temporary staff continues to come at a high cost to the board. Expenditure on agency and other directly engaged staff was £16.3 million (£17.0 million in 2023/24).

Appropriate arrangements are in place for performance monitoring and reporting

127. 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 Annual Delivery Plan (ADP).

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

128. The 2024/25 annual report and accounts include the position at the end of March 2025 on the board's performance against its national waiting time standards. The performance report records that in relation to the Emergency Department (ED) 4-hour wait, between July and November 2024 compliance improved, reaching 70.4% in November 2024. The latest available benchmarking data for March 2025 shows compliance for NHS Ayrshire & Arran (66.4%) was lower than the national average (69.6%).

129. The number of ED 12 hour breaches continued to increase in early 2024/25 before falling to a low of 582 in November 2024. However there were 965 waits at ED over 12 hours in December 2024 although by March 2025 that number had fallen to 836. Nationally, ED 12hr breaches for NHS Ayrshire & Arran expressed as a proportion of total 12hr breaches across Scotland was 15.9% at March 2025, down from a high of 26.6% in July 2023. The board notes that this proportion remains higher than expected given that the NHS Ayrshire and Arran population is around 6.9% of the total population in Scotland.

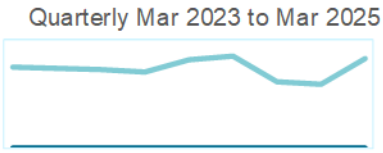
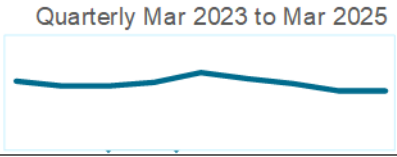
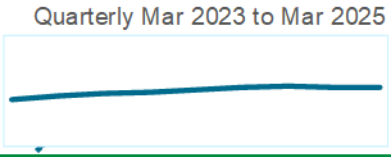
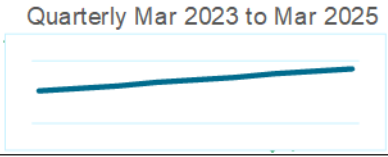
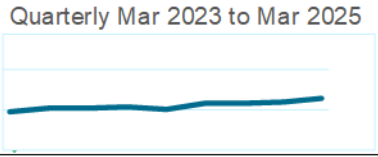
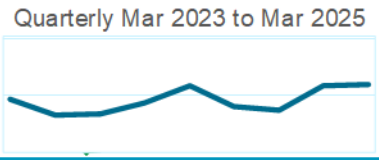
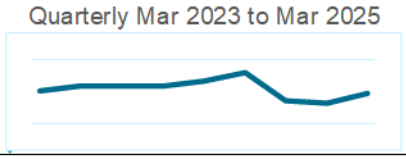
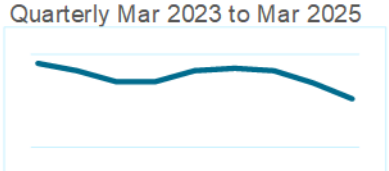
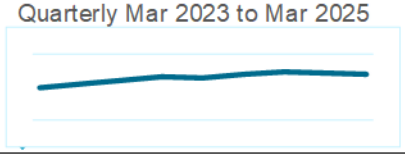
130. While performance against waiting time standards is not currently the board's only focus for performance monitoring, they provide context for the delivery of health services. Exhibit 7 provides a comparison of quarterly activity and waiting times over the past two years and Exhibit 8 provides a comparison of current waiting times compared to prior years.

131. The largest increase in Exhibit 7 is the number of people waiting more than 12 weeks for a new outpatient appointment. This has increased from 23,982 in March 2023 to 34,717 in March 2025. In addition, although the number of inpatients or day case that were seen within 12 weeks (TTG) has increased by 17.3% to 4.581 in the two years to March 2025, Exhibit 8 shows that the proportion of inpatients or day case that were seen within 12 weeks has remained almost static over the same period at 58.2%.

132. Compliance against the 95% ED 4-Hour National standard/target (unscheduled attendances only) was 64.6% in March 2025, higher than the 63.6% recorded at the same time the previous year (March 2024).

133. On average, 28 patients waited over 12 hours to be discharged, admitted, or transferred, within EDs per day in March 2025. This was a fall from a high of 32 per day in December 2024 but did not meet the Delivery Plan trajectory of 10 or fewer per day by March 2025.

Exhibit 7
Trends in demand and activity per acute services

Demand				% change
Number waiting for diagnostic tests	7,429		8,319	12.0%
Number of patients waiting for an inpatient or day case admission	8,455		8,097	-4.2%
Number of patients waiting for a new outpatient appointment	42,454		53,918	27.0%
Activity				
Planned operations	3,918		4,554	16.2%
TTG 12 wks	3,906		4,581	17.3%
Number of new outpatient appointments 12 wks	24,635		25,984	5.5%
Length of waits				
Number waiting longer than 6 weeks for diagnostic tests	2,575		2,340	-9.1%
Number of patients waiting longer than 12 weeks for an inpatient or day case admission	5,804		5,039	-13.2%
Number of patients waiting longer than 12 weeks for a new outpatient appointment	23,982		34,717	44.8%

Source: Public Health Scotland

Exhibit 8
Performance against key waiting time standards

Target/standard	March 2020	March 2021	March 2022	March 2023	March 2024	March 2025
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%	70.2%[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%	67.8%[1]
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%	58.2%
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%	61.4%
A & E attendees Proportion of A & E attendees who were admitted, transferred, or discharged within 4 hours (target 95%)	80.6%	81.2%	71.6%	66.0%	65.9%	65.7%
Cancer 31 Days RTT	99.2%	98%	97.4%	97.5%	99.0%	95.2%[1]

Proportion of patients who started treatment within 31 days of decision to treat (target 95%)						
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%	99.3%[1]
Psychological Therapies Waiting time within 18 weeks (target 90%)	75.9%	88.5%	90.2%	89.4%	88.1%	93.0%

Note. 1: Where March 2025 data is not yet available, the most recent validated data is used. Data for 18 Weeks RTT, Cancer and Drug and Alcohol is at December 2024.

Source: Public Health Scotland

Average Length of Stay remains above Delivery Plan targets

134. Scottish Government analysis shows that NHS Ayrshire and Arran has, for many years, had the longest average length of stay (LoS) for non-elective spells in hospital. In July 2023 this was quantified 93,661 bed days above the expected length of stay, which at a rate of £243 per bed day (direct costs excluding overhead, labs etc.) equates to £22.8 million. The additional beds opened for these patients often need to be staffed by agency nurses as they do not have established staffing. The average LoS continues to remain above target:

- The average length of stay in ED for daytime and overnight arrivals were 747 and 759 minutes respectively at end of March 2025 and failed to meet the Delivery Plan Trajectory of 361 and 406 minutes
- Occupancy levels in the acute hospital sites reached 129.3% at the end of March 2025. This was above the Delivery Plan reduction trajectory of less than 99.8%.
- The average length of stay for Emergency inpatients reached a high of 10.4 days in February 2025, before falling to 9 days in March 2025 but failing to meet the Delivery Plan trajectory of 6.7 days or less.

135. The numbers of patients with a length of stay of more than 14 days who are not in delay reached 237 in January 2025 before reducing to 218 at the end of March 2025. This compares to a Delivery Plan trajectory of 185 or less. With the support of Viridian, implementation of "SAFER" methodology to improve flow is being rolled out. The board see these flow measures as essential to deliver significant improvement.

The greatest proportion of beds days due to a delay are now from North Ayrshire HSCP

136. Total numbers of delayed discharges have been increasing month on month since October 2024, reaching 224 at February 2025, the highest number reported since July 2023. The majority of delays reported in February 2025 were within South Ayrshire HSCP 102 delays (46%), followed by 86 in North Ayrshire HSCP (38%) and 36 in East Ayrshire HSCP (16%). Compared to February 2024, both North and South Ayrshire HSCPs reported a higher number delays.

137. Compared to the same period last year, the numbers of bed days occupied due to a delayed discharge have decreased in East Ayrshire HSCP, down from 1,095 in February 2024 to 813 in February 2025 (-25.8%). Occupied bed days have increased in North Ayrshire HSCP from 1,556 to 2,658 (+70.8%) and decreased marginally in South Ayrshire HSCP from 2,259 to 2,255 (-0.2%). The greatest proportion of beds days due to a delay are now from North Ayrshire HSCP.

138. In East Ayrshire HSCP, there were 27 beds occupied per day on average in February 2025, an improvement on their trajectory of 37 or less for the month. In North Ayrshire HSCP, there were 87 beds occupied per day in February 2025, failing to meet their trajectory of maintaining at no more than 56. In South Ayrshire HSCP, there were 74 beds occupied on average per day in February 2025, failing to meet their set trajectory of 25 or less.

139. The board has sought commitment from the IJBs for 2025/26 to improve patient flow through bed based care in Acute, Community and Mental health care settings. However as noted at paragraph 123, IJBs are stopping or reducing services to meet reduced financial allocations.

The sickness absence rate of 5.6% is well above the 4% national standard. Reliance on temporary staff continues to come at a high cost to the board

140. In 2024/25, nursing pay budgets were £13.5 million overspent, mainly due to £7.9 million of nursing agency spend in acute services (£8.85 million 23/24). Medical pay was overspent by £7.7 million mainly due to £5.8 million spend on agency doctors. The reduction in nurse agency spend in 2024/25 is partly due to elimination of non-framework and partly the closure of some unfunded beds.

141. 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 £16.3 million in 2023/24 (£17.0 million in 2023/24).

142. Action taken by the board to reduce reliance on non-core staff includes:

- Vacancy control panels in all directorates

- Nursing and AHP review – workforce group dedicated to reducing agency and any additionality
- Acute workforce review. Inclusive of options for working over 7 days
- Dedicated workforce group in place to review workforce gaps
- E-Rostering rollout.

143. 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. The board's sickness absence rate in 2024/25 was 5.6% a slight improvement on the 2023/24 rate of 5.7% but still well above the 4% national standard.

The 2024/25 best value self-assessment is currently ongoing and will be reported to the ARC later in the year

144. Following a Best Value self-assessment in 2024 an action plan was prepared. The action points were 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 detailed 20 actions, 19 of which were rated as amber with one (renewed procurement strategy) rated red. Each action point included key actions planned together with an allocated lead.

145. In May 2025 an update report on each of the action points in the 2023/24 action plan was shared with the ARC. The report shows that ten of the actions have been assessed as green with five ongoing shown as amber. Of the five, three have been classed as ongoing due to review of the Integration Scheme, one relates to the board's financial position and one relates to cascading of the board's Communication and Engagement Strategy to staff.

146. The 2024/25 self-assessment is currently ongoing and aims to provide an update on those areas assessed as green in the previous year's action plan as well as further review of those areas classed as amber or ongoing. This will be reported to the ARC later in the year. From 2026 the process will be to complete an annual Best Value self-assessment for submission to the ARC in May each year, to support the Board's governance statement. This process represents good practice in demonstrating a clear commitment to continuous improvement.

Appendix 1

Action plan 2024/25

2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. The Performance Report did not initially comply with the NHS Accounts Manual Significant work was required by the board to make the required changes to the Performance Report ahead of the planned sign off of the accounts. Additional audit effort was expended to review multiple version of the Performance Report and confirm the mandatory requirements were met. **Risk:** The Board fails to deliver unaudited financial statements of the required standard on time.	The board should ensure the Performance Report is prepared for the start of the audit and includes the mandatory requirements set out in the NHS Accounts Manual. **(Paragraph 14)**	**Accepted** It is recognised the initial draft of the Performance Report required refinement in collaboration with the audit team to comply with the NHS Accounts Manual. While there will typically be a degree of revisions required as part of the normal iterative process to finalise, for future reports we will seek to ensure the mandatory requirements are contained within the report before the audit commences. **Director for Transformation & Sustainability** **June 2025**

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
2. The number of adjustments made in the audited accounts to reflect our audit findings is outwith the norm A large number of audit adjustments were required to the financial statements to correct misstatements identified from the audit. This is outwith the norm following an audit and has added additional pressure for the audit team and board staff in concluding the audit by the statutory 30 June deadline. One factor is the extended process required to incorporate the number of agreed audit adjustments into the financial statements. **Risk:** The Board fails to deliver unaudited financial statements of the required standard on time.	The board should review its arrangements for preparing the annual report and accounts and for clearance of the annual audit report. This should include improved oversight of accounts preparation and setting clear report clearance timelines. **(Paragraph 16)**	**Accepted** The timescale of 5 May to provide auditors with a complete set of accounts is extremely tight and if further quality control checks are to be built in prior to this then the handover date will require to be later. The clearance process has been protracted given the clearance meeting was 10 June, therefore will meet with Audit Scotland to agree improvements to clearance process in future years. **Director of Finance** **May 2026**
3. Untaken holiday liability Our review of the board's approach to the calculation of the untaken holiday liability identified that the annual leave data for non-medical staff included a number of anomalies. Following discussion with the board, officers accepted that some of the annual leave data used for non-medical staff could not be considered reliable. **Risk:** The untaken holiday liability is inaccurately accounted for in the board's financial statements.	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. **(Exhibit 2)**	**Accepted** The Optima e-rostering system provided information for medical staff annual leave accrual in 2024/25. It is anticipated that this source will also be available for the non-medical staff annual leave accrual in 2025/26. **Director of Finance** **April 2026**

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
4. Debtor impairment Since 2023, the board have been engaged in a dispute with two IJBs relating to £2.3 million of income the board believe is due for patients not ordinarily residing in the board's area. Both IJBs dispute the legitimacy of these charges. The invoiced amounts have been impaired rather than written off. Legal advice has not conclusively supported the board's view that it is entitled to this income. **Risk:** The board's accounting treatment may be incorrect if the board is not entitled to recognise this income.	The board should obtain conclusive legal advice on this issue with a view to resolving this dispute in 2025/26. **(Exhibit 2)**	**Accepted** NHSAA have on behalf of North Ayrshire IJB invoiced two Local Authorities for the cost of care for patients and have entered into discussions with both in relation to non-payment. Legal advice is being actively sought via the CLO. A prudent approach has been adopted through the accounts with a BDP, which also doesn't compromise the position of NHSAA by writing off debt which, at this time, and subject to legal advice, we continue to believe is due to be recovered. **Director NAHSCP** **September 2025**
5. Controls over changes to supplier bank details We previously reported that more robust control procedures should be introduced when a supplier requests a change to their bank details however there have been limited changes made to strengthen this control in 2024/25. **Risk:** The board does not independently verify the change of bank details with the supplier before actioning which can lead to a fraudulent change being made.	The board should strengthen its control over changes to supplier bank details to reduce the board's vulnerability to fraud in this area. **(Paragraph 56)**	**Accepted** Details of agreed action – A confirmatory phone call to an existing phone number for the customer will request an e-mail confirmation be sent. **Assistant Director of Finance** **July 2025**

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
6. The board needs to continue to seek Scottish Government support for more radical reform if it is to demonstrate financial sustainability The Scottish Government has set out that for 2025/26 the board should not exceed a net financial deficit of £25 million and show how they can get to break even within five years. However the Board has approved a deficit budget for 2025/26 of £33.1 million and currently has no strategy to achieve break even within five years. **Risk:** The board is unable to meet its statutory financial target to deliver a balanced outturn or deliver the transformational change at the pace that is required.	As a matter of urgency the board needs to set out a realistic recovery plan to address its forecast deficit for 2025/26. An improvement plan agreed with Scottish Government to show how it can get to break even within five years also needs to be put in place. Attainable milestones require to be included in the plan to track progress. **(Paragraph 80)**	**Accepted** The Board continues to work with the Scottish Government to finalise a revenue plan for 2025/26. We will also continue to work with the Scottish Government to develop and agree a longer term plan to reprioritise and redesign service delivery, including delivery of efficiencies and cost reductions, as part of a path to break-even over five years. It is important to continue to manage the risks associated with the current financial position and the actions required to reach financial sustainability. **Chief Executive** **July 2025**

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
7. There is significant uncertainty around recurrent savings of £6.6 million attributed to the three IJBs There are variances between IJB savings included in the tracker and approved IJB budgets. In addition, the planned reduction in North Ayrshire service expenditure is not included in the IJB's Transformation Plan, nor will it be monitored as part of its budget monitoring process. For South Ayrshire, savings from a reduction in beds at Biggart Hospital is dependent on an increase in community capacity, and previously approved but unachieved savings in East Ayrshire in 2024/25 will remain challenging to deliver fully in 2025/26. **Risk:** IJB savings plans for 2025/26 will not be achieved and this impact the board's 2025/26 outturn.	Current processes relating to incorporating IJB savings into the financial tracker require to be improved. Clear alignment is needed between the tracker and IJBs' transformation/savings plans. **(Paragraph 94)**	**Accepted** Agree that there is a requirement for increased transparency and consistency of reporting between the IJBs and NHS AA for delegated finances for health services. More information on HSCP health budgets will be included in Financial Management Reports to ensure the Health Board are fully aware of the projected outturn position for the HSCPs. **Director of Finance** **July 2025**

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 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. Original Management Response 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. **Responsible officer:** Director of Finance **Agreed date:** 31 March 2025	**Superseded** We received a substantially complete annual report and accounts on 5 May 2025 in accordance with the agreed audit timetable. However the board should ensure the Performance Report is prepared for the start of the audit and includes the mandatory requirements set out in the NHS Accounts Manual. In addition, the board should review its arrangements for preparing the annual report and accounts and for clearance of the annual audit report. **See Recommendations 1 and 2 of our 2024/25 action plan**

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 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. Original Management Response 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.' **Responsible officer:** Director of Finance **Agreed date:** 30 April 2025	**Complete** The board used the services of Peter Dymoke Consulting in 2024/25 to review the accounting treatment for its service concession arrangements. In addition to the errors we identified in the prior year, Peter Dymoke identified errors of £5.459 million following this review. The impact on the 2024/25 accounts has been a reduction in the board's long term liabilities of £5.459 million and increase in the General Fund of £5.459 million. A restatement was not deemed to be required under the requirements of IAS 8, as the prior period adjustment was not material.

b/f 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.

Original Management Response

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.

Responsible officer: Director of Human Resources

Agreed date: 31 March 2025

Work in Progress

Following our 2024/25 audit, it was identified that this was an issue within a number of NHS territorial board.

A short life working group has been set up within the NHS Technical Accounting Group (TAG) to review this issue on a national basis.

In addition to the discussions at TAG, the board are engaging with the Scottish Government and Central Legal Office to resolve this issue.

Revised Action

During 2024/2025 NHS Ayrshire and Arran contacted all outward secondees individually including the outward secondment line manager.

During 2024/2025 there has been the conclusion of some agreements and individual review of secondments and circumstances for the remaining outward secondees with agreed terminations of the secondment and no employment liabilities for NHS Ayrshire and Arran.

The agreed end date for the remaining outward secondments, which are active, will be contingent upon agreements with the secondment organisation given continued requirements for the secondment roles during 2025

HR Director.

30 March 2026

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 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. Original Management Response The Board will continue to engage with NHS NSS (who provide an assurance report on IT services) to seek to address the assurance gap. **Responsible officer:** Director of Finance **Agreed date:** 31 March 2025	**Partially Complete** An agreement has been reached with BDO to extend the scope of the existing eFinancials service auditor report to include assurance over general IT controls. The board have advised that discussions with ATOS, who provide a managed technical service for eFinancials, remain ongoing. The board, ATOS and BDO have agreed to continue discussions in 2025 to address the assurance gap for 2025/26. **Revised Action** The service auditor (BDO) have now signed the Atos non-disclosure agreement and plan to expand scope for 2025/26 audit. **Director of Finance** **April 2026**

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 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. Original Management Response 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. **Responsible officer:** Director of Transformation and Sustainability. **Agreed date:** 31 January 2026	**Superseded** The Whole System Plan does not demonstrate how services will change and efficiencies will be realised to meet the growing needs of patients within the financial constraints it faces. **See Recommendation 6 of our 2024/25 action plan.**

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 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 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.	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 challenged by the Board. Original Management Response 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. **Responsible officer:** Chief Executive **Agreed date:** 31 December 2024	**Superseded** The board has not prepared detailed plans to show how it will achieve financial sustainability in the future. The board's Whole System Plan does not sufficiently demonstrate how services will change and efficiencies will be realised to meet the growing needs to patients within the financial constraints faced. **See Recommendation 6 of our 2024/25 action plan.**

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 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. Original Management Response Plans are in place to test the disaster recovery and business continuity plans. **Responsible officer:** Chief Executive **Agreed date:** 31 December 2024.	**Complete** The board's resilience team conducted stress tests of the business continuity arrangements in 2024. Internal Audit reported some limited testing within services or directorates of their own business continuity plans and have recommended some improvements in this area. A tabletop exercise to test the Digital Services DRP and BCP was conducted on the 17 December 2024. A report was prepared outlining the key outcomes, lessons learned and recommendations for improving the DRP and BCP. The latest 2024 Network and Information Systems Report (NISR) reported that the board's compliance status with business continuity requirements is 91%, an improvement from the 69% compliance status in 2023.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 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. **Risk:** The board does not meet its responsibility to promote Best value.	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. Original Management Response 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. The format of future Best Value assessments will be developed further and will be shared with board members in quarter 4 of 2024/25. **Responsible officer:** Chief Executive **Agreed date:** 31 January 2024.	**Complete** The results of the board's initial Best Value self-assessment was shared with the Audit and Risk Committee in January 2025. The 2024/25 self-assessment is planned for September 2025. In future years, we recommend that the annual self-assessment is completed and shared with the Audit and Risk Committee in May to inform the Annual Governance Statement. This has been agreed by the board. A Best Value board workshop is planned for 2025.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 9. Fixed Assets (2022/23 Annual Audit Report) 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 fixed asset disclosures in the accounts. **Risk:** 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.	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 auditors reconciling to annual accounts. **Responsible officer:** Assistant Director of Finance (Governance and Shared Services) **Agreed date:** 31 March 2024	**Complete** In 2023/24 and 2024/25, the board have made some incremental improvements to its fixed asset accounting processes. Some processes remain manual and contain inefficiencies, and the board should continue to review how it can improve its fixed accounting processes. Given the improvements made, we have considered this action complete.

NHS Ayrshire and Arran

2024/25 Annual Audit Report

AUDIT SCOTLAND