Report to Ayrshire and Arran Health Board on the 2004/2005 Audit

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Executive Summary

Introduction

As part of our responsibilities as external auditors for Ayrshire and Arran Health Board we are required to submit to you, at the conclusion of each year's audit, an annual report on the key findings from our audit. This report summarises our conclusions and is set out in four sections covering:

- **Risk Assessment** —risks highlighted in our audit planning framework and how these have progressed in the year.
- **Financial Statements** — the findings of our financial statements audit including performance against targets and our opinion on the statement of internal control.
- **Performance Management** —our assessment of the way in which Ayrshire and Arran Health Board secures value for money in distinct areas.
- **Governance** —our assessment of the Board's clinical, staff and corporate governance arrangements.

Risk Assessment

We identified the following significant risks in our Audit Planning Framework document. Our view on the current position is stated below:

- **Sustainable Health Services:** The Board aims to provide sustainable services in an environment of changing demands. Although the risks affecting service sustainability are reduced due to the level of financial stability within NHS Ayrshire and Arran compared to other health boards, this is still a key area of risk. The Kerr Review "*Building a better health service fit for the future*" foresees new healthcare models being adopted with a move away from acute hospital based services to community based health provision. This will be achieved through local hospitals, health centres and Community Health Partnerships (CHPs). The Board will need to closely manage the transition to new service models.
- **Workforce Planning:** There is a risk that the Board may not incorporate sufficient linkages between workforce and service developments. The Board has recently introduced a new Workforce Development Steering Group who are developing a workforce plan by March 2006. This is a positive development and will help manage risks in this area.
- **Finance:** Ayrshire and Arran Health Board achieved its financial targets for the 2004/2005 financial year, with an in-year surplus of £9.4 million and a carry forward surplus of £22.9 million. The high level of surplus may give rise to a risk that the Board is perceived to be under-funding services or processing funding inefficiently.

  We noted that the higher level of under-spend is in fact due to non-recurring funding being unspent for the purposes to which it was intended in-year. This surplus has therefore been carried forward to be spent in 2005/2006 for specific projects and therefore does not necessarily indicate under-funding or inefficiency.

Financial Statements

- We have given an unqualified opinion on the financial statements of Ayrshire and Arran Health Board for 2004/2005, including the regularity of income and expenditure and the Board's statement on internal control.
- As already mentioned, the Board had a net underspend against the revenue resource limit of £22.9 million. This was approved for carry forward by the Scottish Executive Health Department. All of the monies carried forward by the Board are earmarked for specific projects. Achievement of financial targets in 2004/2005 has therefore not been reliant on applying unspent non-recurring funding.
- The Board has forecast that it will continue to meet its financial targets in the future, with a planned carry forward into the 2006/2007 financial year of £9.3 million, which will again relate to earmarked funding for specific projects.

Performance Management

- Ayrshire and Arran Health Board have good performance management arrangements in place, with a new Health and Performance Governance Committee overseeing operations. A corporate performance report is being developed to summarise all performance related information. This will improve performance management arrangements further. As at 31 March 2005, the Board were out-performing waiting times targets for inpatients & day case patients and outpatients.
- Our workforce management performance study has identified the need for a unified workforce information system to collate and analyse workforce information on a system-wide basis. Arrangements are in place that will ensure Ayrshire and Arran Health Board can provide the Scottish Workforce Information Standard System (SWISS) with all required input, but will not provide the level of detailed workforce information that could be expected to support a unified health system.
- The national study "A Review of Bowel Cancer Services" identified specific examples of good practice within Ayrshire and Arran Health Board, while the national follow-up study "Waste Management in Scottish Hospitals" identified that more recycling could be carried out in a number of sites across Ayrshire and Arran Health Board.

Governance

- **Clinical:**

  The Health Governance Committee reported that the Board has maintained a high level of clinical governance activity in both of its divisions, and there has been further development of public health governance. However NHS Quality Improvement Scotland identified that *"strategic development of clinical governance is in line with the principles of single system working but is only partly reflected in organisational frameworks and arrangements for implementation and feedback".*

- **Staff:**

  Our Staff Governance review identified that the Board was unable to provide all of the necessary statistics for the 2004/2005 Staff Governance standard, although the systems of internal control were found to be generally operating to a satisfactory level with clear evidence of progress and improvement in all areas examined.

- **Corporate:**

  The arrangements for implementation of the new General Medical Services Contract within Ayrshire and Arran Health Board were found to be strong. Procedures and controls for the implementation of the Consultants' Contract were also found to be generally satisfactory, although it was noted that little progress had been made by the Board in terms of redesigning contracts to support service developments.

  Ayrshire and Arran Health Board will experience the full effect of Agenda for Change in 2005/2006, and given the significant financial implications, the Board will need to ensure that this is effectively managed. The Board has accrued £2.3 million for Agenda for Change costs in the six months to March 2005, with additional payroll costs of £12.7 million forecast in the 2005/2006 financial year.

Looking Forward

The 2004/2005 audit of Ayrshire and Arran Health Board has identified a number of issues that will continue to impact on the operations of the organisation in future years.

The main challenges identified are:

- continued financial stability —as the current surplus is earmarked for specific projects, the Board will need to ensure emerging cost pressures can be managed to maintain recurring financial balance in the longer term;
- implementing pay modernisation —Agenda for Change, nGMS and modernising medical careers will impact on the Board's services developments and financial health;
- Kerr report —the Board will be expected to make progress towards developing community based health services;
- national shared services —managing the impact of shared services at a local level needs to be assessed and planned for;
- e-Procurement —rolling-out the PECOS system across departments will be resource intensive;
- workforce planning —the development of a workforce plan and unified workforce information systems is important to support operational and strategic management; and
- waiting times —continuing to meet waiting times targets.

These areas and the controls put in place by management to address these issues will be subject to ongoing review in 2005/2006.

1. Introduction

1.1 This report summarises the outcomes from our 2004/2005 audit of Ayrshire and Arran Health Board. The scope of the audit was set out in our Audit Planning Framework, which was approved by the Audit Committee on 29 April 2005. The plan set out our views on the key business risks facing the Board and described the work we planned to carry out on:

- financial statements;
- performance; and
- governance.

1.2 This report completes our audit by providing an overview of the work we carried out and, more importantly, our key findings. We have structured the main body of the report to cover the three topics listed above as well as our view on the risks identified. Inevitably there is some overlap between these topics. We have tried to draw out common themes and issues throughout the report.

1.3 We have issued a range of reports this year covering our governance, performance and financial statements responsibilities in terms of Audit Scotland's Code of Audit Practice. Managers have committed to carry out the recommendations, which are directed at higher areas of risk. Appendix A sets out the key areas highlighted in this report and action planned by the Board to manage these risks. Other higher risk areas and planned management actions have previously been reported to the Audit Committee in other reports we have issued.

1.4 This is the fourth year of a five year audit appointment and Ayrshire and Arran Health Board's first year of operation as a single health system. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Board during the course of our audit work.

2. Risk Assessment

Introduction

2.1 In our audit plan, we identified three main areas of risk for Ayrshire and Arran Health Board. We also described longer term planning issues which will impact on the Board and our audit in the future. In this section, we describe the risks and our views on their current status. We also comment on the longer term planning issues.

Sustainable Health Care Services

2.2 The risks of service sustainability relate to the ability of health boards to provide appropriate, safe, sustainable services in an environment of changing clinical demands. Factors impacting on this risk exposure include: the implementation of new service models, such as out-of-hours; local demographic trends predicting major increases in older people over the next 10 years, compared to an overall drop in population; and a projected increase in the working age population in the same period. As a result, there may be more patients with chronic diseases and less staff to meet increased service demands.

2.3 Service sustainability is less of an issue for Ayrshire and Arran Health Board due to the higher level of financial stability compared to many other boards. However, the ring-fenced and non-recurring elements within Ayrshire and Arran's financial surplus mean that this risk is not completely mitigated.

2.4 The main areas of risk identified in relation to service sustainability during our audit derived from workforce issues and the availability of suitably qualified staff, particularly given the increasing average age of GPs.

2.5 Service sustainability will continue to be a risk in the 2005/2006 financial year, and we will continue to monitor and assess developments in this area.

Workforce Planning

2.6 Changes in clinical practice resulting in more specialisation, a shortage of doctors nationally, shared services development, Agenda for Change and progress in developing regional planning, are all major factors which increase the complexity and risks in workforce planning. A risk was identified during the planning stage of our audit concerning the Board's ability to develop linkages between workforce developments and service developments.

2.7 Ayrshire and Arran Health Board are in the process of developing a local workforce plan. A baseline survey was approved in May 2005 and is to be used as the basis for the plan. This survey will also feed into the regional West of Scotland Workforce Development Group. The Workforce Development Manager's position has both local and regional components and the workforce plans will be closely linked to regional initiatives.

2.8 A Workforce Development Steering Group has recently been re-established following a review of its scope, remit and membership. This group will be responsible for developing the workforce plan, which is due to be completed by March 2006. We will monitor the development of the workforce plan throughout the 2005/2006 audit.

2.9 Links are also being developed from the Divisional workforce information systems to the national Scottish Workforce Information Standard System (SWISS). The lack of a unified system for workforce information across NHS Ayrshire and Arran limits the information that is available to effectively manage and plan services and could potentially have an adverse impact on workforce planning.

(**Risk Area 1**)

Finance

2.10 There are increasing requirements on boards to demonstrate that funding is resulting in improved outcomes for patients and are cost effective. Factors impacting on NHS Ayrshire and Arran's ability to deliver efficiencies or savings to meet increasing demands include cost pressures emerging around Agenda for Change, Consultants' Contract and the nGMS Contract, along with future capital and revenue costs. Agenda for Change, Consultants' Contract and nGMS are discussed in more detail in paragraphs 5.14 to 5.19 of this report.

2.11 Ayrshire and Arran Health Board achieved its financial targets for the 2004/2005 financial year. The capital resource limit has a zero net variance following a revenue to capital transfer, while the revenue resource limit had an in-year saving of £9.4 million, with a cumulative surplus of £22.9 million to be carried forward. This surplus includes a combination of ring-fenced funds and non-recurring funds as detailed at paragraph 3.10.

2.12 The financial strategy submitted by Ayrshire and Arran Health Board to the Scottish Executive Health Department indicates a carry forward into 2006/2007 of £9.3 million and sets out a plan for a continuing recurring balance. Most of the carry forward monies are intended to be spent on non-recurring costs in 2005/2006. They will be charged to the ring-fenced and earmarked projects for which funding was originally received.

2.13 There is a risk, however, that the Board is perceived to be under-funding services or processing funding inefficiently due to the high level of surplus it has to carry forward each year. We noted that the higher levels of under-spend is in fact due to non-recurring funding being unspent for the purposes to which it was intended in-year. This surplus has therefore been carried forward to be spent in 2005/2006 for specific projects and does not necessarily indicate under-funding or inefficiency.

(**Risk Area 2**)

Longer Term Planning Issues

2.14 In our plan, we highlighted five longer term planning issues that would have an impact on the Board in future years:

- shared support services;
- Professor David Kerr's national review of healthcare services;
- community health partnerships;
- modernising medical careers; and
- e-Procurement.

2.15 We have been monitoring developments in these areas during the 2004/2005 audit. In the following paragraphs, we comment on the changes that have taken place since our plan was finalised.

Shared Support Services

2.16 The NHS in Scotland plans to create £10 million recurring savings annually through the introduction of national shared support services. Services will include the transactional elements of finance, procurement, internal audit, payroll services and practitioner services payments.

2.17 The shared services project will significantly reduce the number of staff, although a national commitment has been given that there will be no compulsory redundancies. That said, there are a number of local risks arising from the implementation of the project including:

- the need to assess whether management accounting arrangements will be sufficient to provide support to local managers who are accountable for local budgets;
- the need to ensure that savings generated from single system working locally are not double counted in the national savings target of £10 million; and
- potential difficulties in recruiting staff locally and redeploying others.

2.18 Over the coming year we will maintain a watching brief to see how national developments impact locally.

The Kerr Review

2.19 The Kerr report *'Building a better health service fit for the future'* outlines proposals for the future shape of NHSScotland over the next twenty years. The report recommends that all NHS boards establish a systematic approach to caring for the most vulnerable with long-term conditions especially older people. The report foresees a new healthcare model being adopted with a move away from acute hospital based services to community based health provision. This will be achieved through local hospitals, health centres and Community Health Partnerships (CHPs).

Community Health Partnerships

2.20 The establishment of CHPs is a key element in developing single system working within a community setting. They are being developed within the context of the *'Partnership for Care'* initiative and their development is closely linked to other initiatives such as regional planning. They also build on the success of Local Health Care Co-operatives (LHCCs) and take forward the Joint Future agenda by promoting greater interaction between health bodies, local authorities and the voluntary sector.

2.21 The Community Health Partnerships (Scotland) Regulations (effective from October 2004) supported by CHP statutory guidance required each health board to submit a scheme of establishment to Scottish Ministers for approval. Ayrshire and Arran's scheme of establishment has been approved and is based on three CHPs covering North, East and South Ayrshire.

2.22 Each CHP is currently developing its own development programme which will fit local needs as appropriate. We will monitor the development of these programmes during the 2005/2006 audit.

Modernising Medical Careers

2.23 The national implementation of a structured training programme for junior doctors commenced in August 2004. "Modernising Medical Careers — The next steps", published in April 2004, outlines the principles and structure of the two year foundation programme for graduate doctors followed by specialist and general practice training programmes.

2.24 The service impact of the move of junior doctors to 'supernumerary' status (i.e. a training focus with reduced service input) is applicable from 2006/2007. We will continue to monitor the impact of Modernising Medical Careers throughout the 2005/2006 audit.

e-Procurement

2.25 As part of a national initiative Ayrshire and Arran Health Board went "live" with the PECOS e-procurement system on 24 February 2005. The system is currently being used by a limited number of departments including catering and information management & technology at Ailsa Hospital, and catering, laboratories and medical physics at Crosshouse Hospital.

2.26 The Board plans to expand the use of the PECOS system to other departments, however, inherent problems with the system have caused delays in its implementation. A new version of the software is currently being developed and Ayrshire and Arran Health Board will consider expanding the system to other departments once this is available.

2.27 We will monitor any progress in this area and the impact on internal control during the 2005/2006 audit.

3. Financial Statements

Introduction

3.1 This section sets out our responsibilities for the financial statements under the Code of Audit Practice and identifies relevant matters which we wish to bring to your attention.

Our Responsibilities

3.2 We audit the financial statements and give an opinion on:

- whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question;
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
- the regularity of the expenditure and receipts.

3.3 We also review the Statement on Internal Control by:

- considering the adequacy of the processes put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and
- assessing whether disclosures in the Statement are consistent with our knowledge of the Board.

The Financial Statements

3.4 Our comments on the financial statements of Ayrshire and Arran Health Board for 2004/2005 cover four key areas. These are:

- the independent auditor's report on the financial statements;
- the Board's financial position;
- the issues arising from the audit; and
- Statement on Internal Control.

The Independent Auditor's Report on the Financial Statements

3.5 We have given an unqualified opinion on the financial statements of Ayrshire and Arran Health Board for 2004/2005.

The Board's Financial Position

3.6 In common with other health boards in Scotland, you are set financial targets by the SEHD:

- to remain within the revenue resource limit (RRL),
- to remain within the capital resource limit (CRL); and
- to remain within the cash requirement.

3.7 Your performance against these three financial targets in 2004/2005 is shown in Table 3.1 below:

Table 3.1
2004/2005 Financial Performance

Financial Target	Target	Actual	Variance
	£m	£m	£m
Revenue Resource Limit	509	486	23
Capital Resource Limit	9	9	0
Cash Requirement	463	463	0

3.8 The use of the RRL has weaknesses as an absolute measure of the Board's performance on financial management as it is not fixed for the financial year. In 2004/2005 there were 106 changes to the Board's RRL as notified by the SEHD. These required senior officers to adjust financial plans and outturn projections. The final 2004/2005 RRL and CRL targets were not confirmed until 26 May 2005.

3.9 In the 2004/2005 financial year, the Board had a net under-spend against the RRL in-year of £9.4 million, with a total carry forward of £22.9 million. This compares to in-year net surpluses of £7.9 million in 2003/2004 and £5.6 million in 2002/2003.

3.10 The level of cumulative surplus was due to a number of non-recurring and earmarked allocations received from the Scottish Executive which were unspent for the purposes for which they were intended in-year. A detailed breakdown of the earmarked funds is given in Table 3.2. These allocations will be utilised for the intended purpose in future years. The cumulative surplus of £22.9 million was approved for carry forward by the SEHD.

Table 3.2
Details of Earmarked Resources 2004/2005

Source of Carry Forwards	£ m
Bridging Finance and Resource Transfer	3.9
Capital Charges non-recurring	2.6
Superannuation	2.5
Agenda for Change / Consultants Contract	1.8
GP Prescribing (Net of GMS Overspend)	1.7
Funding for Capital Schemes	1.0
Change & Innovation	0.9
Enhanced Services (new GP contract)	0.8
Waiting Times	0.7
Coronary Heart Disease/Stroke	0.7
Health Improvement Fund	0.6
Sale Proceeds from Ravenspark	0.5
Additional costs of teaching	0.4
Drugs Misuse	0.4
Other Sources	4.4
Total Carry Forward	**22.9**

3.11 The Board's achievement of its financial targets has not been reliant on non-recurring funds. The Board has plans to continue to meet its financial targets in the future, with the financial strategy forecasting the need to achieve efficiency savings of £4.6 million during the 2005/2006 financial year, and a carry forward of earmarked funds into the 2006/2007 financial year of £9.3 million. In future years the Board is forecasting recurrent annual balance.

The Issues Arising from the Audit

3.12 We reported two main issues to the Audit Committee on 21 July 2005:

- ***Agenda for change accrual*** —The Board identified the accrual of costs for the Agenda for Change programme for the period October 2004 to March 2005 using the national methodology which was developed to determine this cost. This has resulted in the Board accruing a figure of some £2.3 million for these costs. The Board provided formal assurances, in a letter of representation, that this methodology, in their judgement, best reflects anticipated costs.

- ***Family Health Services accrual*** — The accrual for family health services expenditure is overstated by £212,000. This was because at the date of preparing the accounts in April 2005 the actual figures were not available. The actual figures, when received, were not considered by management to be significant enough to justify an amendment to the accounts.

3.13 During the year-end audit of the financial statements, we experienced difficulties in completing our audit due to supporting documentation for balances being located across numerous sites, while working papers did not always include the level of detail we would expect.

3.14 It is recommended that procedures and processes for preparation of the financial statements are unified as this will enable the Board to complete this with greater efficiency and increased control. It is also recommended that senior staff review the processes and responsibilities for preparation of supporting documentation for the accounts. This should assist in achieving the revised timescale of 30 June 2006.

(Risk Area 3)

Statement on Internal Control

3.15 The statement on internal control provided by the Accountable Officer reflected the main findings from both external and internal audit work. The statement refers to areas of internal control that need to be strengthened, including:

- the inability of the Board to fully provide all of the mandatory statistics required by the Staff Governance standard;
- the lack of a system wide Health and Safety Strategy and risk assessment; and
- the lack of a system wide procedures manual.

3.16 We will monitor progress on these issues during 2005/2006 to ensure that NHS Ayrshire and Arran maintains and develops its internal control framework.

4. Performance Management

Introduction

4.1 This section covers our assessment of the way in which Ayrshire and Arran Health Board secures value for money in the use of its resources. This year we focussed on three main areas:

- performance management;
- workforce management; and
- national studies.

4.2 Accountable officers have a duty to ensure arrangements are in place to secure Best Value. Draft guidance issued in August 2003 provided accountable officers with a framework to develop Best Value, although allowed them discretion to adopt an alternative approach. In light of this, the Board has set up a Best Value Steering Group which reports to the Finance Committee. We will review the work of this group as part of our audit in 2005/2006.

Performance Management

4.3 A new Health and Performance Governance Committee was introduced in July 2005 to provide a forum for performance management and submitting performance reports to the Board. Audit Scotland will monitor the progress of this committee throughout the 2005/2006 audit.

4.4 A local performance framework has also been prepared from the local health plan, and a corporate performance report is being developed to streamline and summarise all performance related information. In addition a local Waiting Times Group is in operation, meeting on a monthly basis, with an open invitation to the National Waiting Times Unit to attend.

4.5 Interim targets for the end of March 2005, agreed with the National Waiting Times Unit, for patients waiting over 6 months were achieved for both inpatients & day case patients and outpatients as detailed in Table 4.1. This shows that the Board outperformed its targets.

Table 4.1 – Target Waiting Times as at March 2005

	Target No. of Patients Waiting over 6 months	Actual No. of Patients Waiting over 6 months
Inpatients and Day Case Patients	**190**	**165**
Outpatients	**615**	**398**

Workforce Management

4.6 Our review of workforce management covered the collation of workforce information, reporting arrangements, workforce planning and best practice. Our local report to management on this audit will be issued shortly and we have highlighted a number of areas for development. These include:

- Responsibility for collecting workforce information is currently split between the General Hospitals Division (GHD) and Communities Health Division (CHD). There is currently no formalised collation of workforce information for the Board as a whole.

- Both systems do collect and report all necessary information for SWISS. This will allow workforce information for the whole Board area to be collated and reported once SWISS is operational, but it will not provide the level of detailed workforce information that could be expected from a local unified system.

- Reporting mechanisms are such that the full potential of the information gathered is not being realised, and it is only within the CHD that information is available to line managers on a regular basis. The GHD currently does not have the resources to provide regular information reports to line managers, but do provide quarterly reports to senior management.

- A baseline survey of workforce information was approved in May 2005, and this will assist in the development of the workforce plan which is scheduled to be completed by March 2006.

4.7 We concluded that the Board should implement a unified workforce information system to provide detailed, up-to-date workforce information to all managers to assist in the effective use of resources and informed decision-making.

National Studies

4.8 In 2004/2005, there were four national study topics. Some studies were reported locally by either our own staff or by colleagues in Audit Scotland's Performance Audit Group (PAG) while others were commissioned from PAG by the Auditor General and reported nationally:

- staff governance (local report produced by Audit Services);

- a review of bowel cancer services (nationally commissioned report);

- an overview of delayed discharges in Scotland (nationally commissioned report); and

- waste management in Scottish Hospitals — a follow-up report (nationally commissioned report).

4.9 Staff governance was covered as part of our work on governance within Ayrshire and Arran Health Board and we have summarised our conclusions at paragraphs 5.6 to 5.8 of this report.

A review of bowel cancer services

4.10 This national study reviewed how health bodies are implementing the '*Cancer in Scotland'* strategy and examined how bowel cancer services in Scotland are performing against clinical standards and national waiting times targets.

4.11 The national report identified specific examples of good practice in Ayrshire and Arran Health Board. This related to the organisations strategic approach to the development of the clinical nurse specialist role. Also the combination of strong governance with continuous service improvement has led to clinical effectiveness being designed to ensure that it is integrated with the routine care of patients.

4.12 The key message from the national report is that '*high quality bowel cancer care needs good partnership working between GPs and specialist services, effective communication and co-ordination, and efficient use of diagnostic resources'*.

An overview of delayed discharges in Scotland

4.13 The national report highlighted that Ayrshire and Arran Health Board outperformed the 20% reduction in delayed discharges set by the SEHD for the year to April 2004.

4.14 A number of initiatives have been implemented to ensure that delayed discharges target is met. The Ayrshire and Arran Discharge Capacity Group sets standards for each new initiative to enable evaluation later on.

4.15 The main finding from the study was that delayed discharges were a symptom of a wider, systemic problem and could not be treated as a stand-alone issue. Decisions made about services aimed at reducing delayed discharges could have consequences for other parts of the wider health and social care system.

Waste management in Scottish hospitals – a follow up report

4.16 The follow up audit of waste management looked at progress in key areas identified in the 2001 baseline report. The follow-up found that Ayrshire and Arran Health Board need to develop refresher training on waste management for all staff. The report also identified that there was scope for more recycling in hospitals across Ayrshire and Arran Health Board.

4.17 The key message from the national report is that the "*safe handling and disposal of hospital waste reduces health and safety risks for both patients and staff, and contributes to a better environment for the whole community*".

5. Governance

Introduction

5.1 This section sets out our main findings arising from our review of your governance arrangements as they relate to:

- clinical governance;
- staff governance; and
- corporate governance.

5.2 Our findings are set out below along with a summary of findings from our follow-up work on previous audit recommendations.

Clinical governance

5.3 During 2004/2005 the Board operated two divisional management committees - Community Health Division (CHD) and General Hospitals Division (GHD) with responsibility for clinical governance within their respective divisions. Sub-committees were formed to provide assurance that clinical governance was being discharged in relation to the statutory duty for the quality of care. The Board also operates a Health Governance Committee (HGC), looking at performance management across the whole system whilst overseeing public health governance and providing systems assurance for clinical governance activity. The HGC submitted its Annual Report to the Board in June 2005. This stated that a high level of clinical governance activity in both of its divisions has been maintained, and there has been further development of public health governance.

5.4 NHS Quality Improvement Scotland (QIS) undertook a report of Clinical Governance and Risk Management Arrangements in NHS Scotland during the 2004/2005 financial year. A local interim report for Ayrshire and Arran Health Board was published in June 2005 in which NHS QIS concluded that "*strategic development of clinical governance is in line with the principles of single system working but is only partly reflected in organisational frameworks and arrangements for implementation and feedback*".

5.5 The report also said that "*the breadth of work undertaken to consider the support required for the health governance committee was apparent, and reviewers noted that the Board has addressed issues that arose from consultation feedback. It was evident to reviewers that systems for delegation have been developed and that assurance is provided by the divisional management committees*". Ayrshire and Arran Health Board are considered to be complying with the requirements NHS MEL (2000) 29 on Clinical Governance.

Compliance with the NHSScotland Staff Governance Standard

5.6 The NHSScotland Staff Governance Standard introduced the third component of governance, combining with financial and clinical governance to complete the governance framework within which the Board is required to operate. The aim of this standard is to improve the way staff are treated in NHSScotland and to improve accountability for making this happen.

5.7 Ayrshire and Arran Health Board produced a comprehensive system-wide action plan at March 2004, which identified 25 specific actions across the 5 staff governance standards. At the time of our audit, appropriate action had been taken in respect of 7 (28%), with those remaining being carried forward into a revised Action Plan for 2005/2006.

5.8 The Board was unable to produce all of the necessary statistics for 2004/2005. This was due to the fact that the divisions collate the information on different systems and the Board has experienced problems in collating information on a like for like basis. Action is planned to ensure all mandatory statistics are available for the 2005/2006 audit, and the action plan for 2005/2006 has been assessed as "*credible and owned*".

5.9 We will monitor the Board's progress in delivering the 2005/2006 action plan during the financial year ending 31 March 2006.

Corporate governance

5.10 Our work on corporate governance focused on our Code of Audit Practice responsibilities as they relate to systems of internal control; prevention and detection of fraud and irregularity; standards of conduct and your financial position. We have made comment on your financial position in Section 3.

Systems of internal control

5.11 Assurances on the systems of internal control were gained during interim control testing pre-year end. To supplement our control assessment we also significantly relied on the work of internal audit to provide further assurances.

5.12 Internal Audit's annual assurance report to the Audit Committee stated that "*on the basis of Internal Audit work carried out during the year ended 31 March 2005, we conclude that the Board's established internal control procedures were generally adequate to meet control objectives agreed with management for each system reviewed. On the basis of our selective testing of key controls, we conclude that these controls were generally operating satisfactorily during the period under review, although we have made a number of recommendations to improve controls*".

5.13 The findings from our own review of the systems of internal control support the findings of internal audit, with system controls generally operating to a satisfactory level and a number of recommendations for improvements being made.

New General Medical Services Contract

5.14 Financial planning, performance management and information management arrangements for the implementation of the nGMS contract within Ayrshire and Arran Health Board are strong.

5.15 However, we highlighted concerns regarding the lack of adequate funding for the contract. Primary Medical Services expenditure was reviewed by the Board and a shortfall of £2.078 million was identified for Quality Payments in the 2004/2005 financial year. This shortfall is expected to increase in the 2005/2006 financial year as GP quality points scores improve, and the payment per point increases by £45 to £120 per point. However, Ayrshire and Arran Health Board has set aside £2 million of the recurring funding increase in 2005/2006 to fund the new GP contract.

Consultants Contract

5.16 Our view on the Board's progress is based on assurances gained from Internal Audit work. Internal Audit made one "critical recommendation" in their report, relating to the finding that Ayrshire and Arran Health Board "*has made little progress in service redesign and hence in ensuring implementation of best practice service delivery*".

5.17 Internal audit concluded that "*on the basis of our review and evaluation of the implementation of the Consultants' Contract within NHS Ayrshire and Arran, the laid down procedures and controls established by management in accordance with the Scottish Executive Health Department guidance, were generally satisfactory to mitigate the key risks"*.

Agenda for Change

5.18 Ayrshire and Arran Health Board used the national methodology to determine the Agenda for Change accrual for the period October 2004 to March 2005. This methodology derived a figure of £2.3 million. Formal assurance, in a letter of representation, has been provided that this methodology best reflects anticipated costs.

5.19 Ayrshire and Arran Health Board will experience the full effect of Agenda for Change in 2005/2006, with additional costs to payroll for 2005/2006 estimated at £12.7 million. Given the significant financial implications the Board will need to ensure that full implementation is tightly monitored and managed.

BACSTEL – IP

5.20 Our review of BACSTEL-IP examined the procedures and progress for migration to the new system at Ayrshire & Arran Health Board. BACSTEL-IP is the platform for the future of automated banking systems, through a secure and direct online telecommunications access to BACS Ltd. Our audit considered the procurement of, and move to, new software for the facilitation of direct BACS submissions.

5.21 Our review concluded that Ayrshire and Arran Health Board are well prepared for the migration process, with BACS approved software suppliers having been identified and a time-frame put in place for completion by the due date of December 2005.

6. Looking Forward

6.1 This report represents the conclusion of the Board's 2004/2005 audit. A number of issues and factors have been identified throughout this audit that will impact on the Board's future operations. In this concluding section we detail some of the factors that we believe will be prominent in 2005/2006.

6.2 Continued financial stability is a major goal for Ayrshire and Arran Health Board. While the organisation does have a cumulative surplus, the utilisation of the surplus for ring-fenced and earmarked projects gives the Board a challenge. Maintaining recurring financial balance, whilst managing cost pressures within recurring funding is a key risk.

6.3 The issue of service sustainability will continue to have a major impact on future operational planning. The Board will have to implement recommendations made in the Kerr Report, concentrating on service redesign with the continued move towards community based health services through local hospitals, health centres and Community Health Partnerships. Funding to meet service developments and redesign will need to be recovered through cost efficiencies.

6.4 The impact of national shared services on the Board will have to be considered.

6.5 The national e-Procurement initiative will need to be progressed though roll-out of the PECOS system across more departments once the current system has been improved.

6.6 The Board needs to develop organisation-wide workforce information systems to assist in planning and resource management. Performance management would be enhanced by further development of single system working.

6.7 Waiting times targets continue to be an area of focus as the Board aims to meet national targets.

6.8 Accountable officers have a duty to ensure that arrangements are in place to secure Best Value. We intend to focus on this area as part of our audit in 2005/2006.

6.9 While these issues and risks do provide challenges for Ayrshire and Arran Health Board, the organisation is in a strong position to meet these. We will continue to monitor the progress of the Board's operations during the final year of our audit appointment, and look forward to reporting further progress during the coming financial year.

Key Risk Areas & Planned Management Action

Risk Area	Refer Para. No	Risk Exposure	Planned Action	Responsible Officer	Target Date
1		There is no unified workforce management information system in place. Current workforce management systems may not be sufficiently developed to support strategic management and service planning.	Seeking regional funding to extend system wide the former General Hospitals Division workforce management information system. Organisational Development Plan will ensure workforce modernisation is aligned to service priorities.	Chris Lisle	March 2006
2		The Board is carrying forward a £22.9 million surplus to 2005/2006. There is a risk that the Board is perceived to be under-funding services or processing funding inefficiently.	No capital to revenue transfers will be allowed in 2006/07. There is, therefore, advantage in carrying forward around £4 million of non-recurring revenue for this, as well as earmarked funding for specific projects being carried forward. We will, however, restrict the carry-forward into 2006/07 to less than £10 million.	Derek Lindsay	March 2006
3		The lack of unified procedures and processes for the preparation of the financial statements creates the risk of inefficiency and reduced accountability and control. There is a risk that the Board will find it difficult to meet accounts completion targets in 2006.	A review of how successful the first year of consolidated accounts will be undertaken and an action plan prepared for the tighter deadline in 2006.	Derek Lindsay	January 2006

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