Ayrshire and Arran Health Board

Annual report on the 2011/12 audit

AUDIT SCOTLAND

Prepared for Ayrshire and Arran Health Board and the Auditor General for Scotland
July 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds

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Key messages

2011/12

The Scottish public sector faces significant challenges in balancing budgets while also delivering on its commitments. In 2011/12 we assessed the key strategic and financial risks being faced by Ayrshire and Arran Health Board. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

We have given an unqualified audit report on the financial statements of Ayrshire and Arran Health Board for 2011/12. We also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

The board achieved all of its financial targets in 2011/12 and returned a cumulative surplus of £3.005 million against its total Revenue Resource Limit which is fully earmarked for specific purposes. This is marginally ahead of the £3.0 million carry forward agreed in the Local Delivery Plan but represents a reduction of approximately £2.0 million compared to the cumulative surplus of £5.0 million at 31 March 2011.

The cost challenges facing the board in 2011/12 were significant and the board's cost savings plan was pivotal to the board achieving financial balance. For 2011/12 the board was able to set a balanced budget based on £17.9 million efficiency savings, which equated to a little over 3% savings. Achievement of the financial outturn required in-year management of a combination of overspends, and other movements. Hospital, Community and Family Health Services were overspent by £4.3 million principally due to primary care prescribing costs, while Support Services were underspent by £7.5 million. The prescribing costs overspend was of significant concern to the board and action was taken throughout 2011/12 to mitigate the impact. At the year end the reported prescribing overspend remained significant at £4.9 million which was an improvement on the projected overspend of £5.76 million.

The board's financial planning arrangements include regular monitoring, reporting and updating of information to allow potential risks to the financial position be addressed promptly.

The board has a well developed framework in place for monitoring and reporting performance. In 2011/12 the board has met or exceeded a number of challenging performance targets set by the Scottish Government e.g. at April 2012 no patients breached the 6 week target for delayed discharges. However some performance targets were not fully achieved e.g. sickness absence in 2011/12 for the board was 5.3% compared with the 4% national target. In those cases the board has established actions to improve performance.

The board has arrangements in place to consider national performance reports issued by Audit Scotland, with local action plans in place to address any recommendations for improvement. Furthermore, Ayrshire and Arran Health Board is committed to best value and has arrangements in place to help ensure continuous performance improvement. As part of

this, the board has a rolling programme of Best Value reviews and the Sustainable Futures Portfolio has been developed to ensure the organisation is making continuous improvements in the context of a decreasing income allocation. There is a need however for the board to develop a framework based approach to planning and policy to provide clarity in relation to achievement of the board's overall strategic objectives and provide linkage to the range of corporate, clinical and service specific strategies and plans in place.

In 2011/12, the board had sound governance arrangements in place which included a number of standing committees overseeing key aspects of governance. These included an Audit Committee, Staff Governance Committee and Clinical Governance Committee. The board also had an effective internal audit function and anti-fraud arrangements.

The board's internal control environment is generally strong. In February 2012, however, the board was criticised by the Scottish Information Commissioner for withholding a request for critical incident and significant adverse event reports from a staff member. A subsequent review by Health Improvement Scotland (HIS) identified significant control weaknesses in the management and operation of critical incident and significant adverse event reporting at the board. These weaknesses relate to poor records management and processes for recording adverse events and a lack of accountability for following up action plans and involving staff in learning from them.

Outlook

The financial position going forward is becoming even more challenging than previous years with limited increases in funding, increasing cost pressures in respect of prescribing growth and utility costs, and challenging savings targets. In 2012/13 the board plans to reduce its carry forward level from £3.0 million to £2.0 million. To achieve continuing financial balance the board will require to deliver £13.1 million of recurring cost savings in 2012/13. This represents a major challenge for the board and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage. The significant financial challenges will make maintaining or improving on the performance targets set by the Scottish Government even more challenging

In June 2012 the board produced an improvement plan to address the 17 recommendations set out in the HIS review of the management of critical incident and significant adverse event reporting. The plan sets a clear and challenging direction and the board recognise the need to regularly monitor progress to ensure that the outlined improvements are delivered.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of Ayrshire and Arran Health Board. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.

2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of Ayrshire and Arran Health Board.

3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that Ayrshire and Arran Health Board understands its risks and has arrangements in place to manage these risks. The board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

4. This report is addressed to the board and the Auditor General for Scotland and should form a key part of discussions with the Audit Committee, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.

5. This report will be published on our website after consideration by the board. The information in this report may be used for the Auditor General's annual overview of the NHS in Scotland's financial performance later this year. The overview report is published and presented to the Public Audit Committee of the Scottish Parliament.

6. The management of the board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
   - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
   - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
   - the regularity of the expenditure and income.

9. Auditors review and report on, as appropriate, other information published with the financial statements, including the Director's Report, governance statement and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion in that the financial statements of Ayrshire and Arran Health Board for 2011/12 give a true and fair view of the state of the body's affairs and of its net operating cost for the year.

11. Ayrshire and Arran Health Board is required to follow the 2011/12 Government Financial Reporting Manual (the FReM) and we confirm that financial statements have been properly prepared in accordance with the FReM.

12. We have also reviewed the board's governance statement and concluded that it complies with Scottish Government guidance.

Regularity

13. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and income shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

Accounting issues

14. As agreed, the unaudited accounts were provided to us on 14 May 2012 supported by a comprehensive working papers package. The good standard of the supporting papers and the timely responses from Ayrshire and Arran Health Board staff allowed us to conclude our

audit within the agreed timetable and provide our proposed opinion to the Audit Committee on 20 June 2012 as outlined in our Annual Audit Plan.

15. Several errors were identified during the audit, where if adjustments were made these would have a net effect of decreasing by £380,000 net operating costs for the year shown in the Statement of Comprehensive Net Expenditure. The net impact on the balance sheet would be to increase net assets by £380,000. These errors, while more than clearly trivial, were immaterial to the accounts as a whole. Officers in Finance decided not to adjust the accounts for these errors and we concurred on this.

16. As required by auditing standards we reported to the Audit Committee on 20 June 2012 the main issues arising from our audit of the financial statements. The main points highlighted in the Report to those Charged with Governance (ISA 260) were as follows:

Equal Pay Claims

17. The National Health Service in Scotland has received in excess of 10,000 claims relating to equal pay legislation and 1,710 of these relate to Ayrshire and Arran Health Board. These have been referred for the attention of the NHS Scotland Central Legal Office (CLO) to co-ordinate the legal response to this issue.

18. Discussions have been held between Audit Scotland, their partner firms, the Scottish Government, the CLO and board representatives to ascertain the appropriate accounting treatment of equal pay claims in 2011/12. Given the CLO's advice that, although some liability is probable, it is not possible to estimate the impact of the claims, it has been agreed that disclosure as an unquantified contingent liability remains appropriate for the 2011/12 financial statements of affected NHS boards. There is a risk that these liabilities could have an impact on the board's financial position.

Risk Area 1

North Ayrshire Community Hospital

19. Agreement was reached between NHS Ayrshire and Arran and Scottish Government Health & Social Directorate that the reduction in the asset values relating to the planned demolition of the nine existing pavilions to facilitate the new build would be included in the 2011/12 accounts. This resulted in the board reducing the value (impairing) of all nine pavilions from a value of £5.470 million to zero at 31 March 2012.

20. However these pavilions were still in operational use at 31 March 2012 and to comply with the NHS Scotland Capital Accounting Manual an asset should not be impaired to a zero value if it still has a value in use. Officers have calculated an estimated remaining value until disposal of £317,000 for the nine pavilions, however they decided not to adjust the accounts for this error and we concur on this.

21. In addition to the points recorded in the Report to those Charged with Governance, we identified several other issues worthy of note, including:

East Ayrshire Community Hospital Dental project

22. The East Ayrshire Community Hospital (EACH) dental project was aborted in August 2011due to a contractual dispute with the PPP contract company's funder. The funder had demanded an increase in their banker's margin which could not be resolved by the deadline set for agreement of the contract variation.

23. It was intended that the project would provide a new dental facility for the board in the Cumnock and surrounding area. A joint report by the Director of Information & Clinical Support Services and the Director of Finance was submitted to the November 2011 Audit Committee and updated the Committee on the history of the EACH dental project, financial governance in terms of approved allocations / expenditure commitments, and resulting financial implications following the decision not to proceed with the project.

24. Abortive costs for the EACH dental project included within the 2011/12 Annual Accounts amount to £611,654. These costs have been charged against revenue funds as non value adding expenditure in the operating cost statement. The abortive costs are predominantly associated with design fees however approximately £120,000 related to contractor mobilisation costs. Formal approval was received from SGHD for the abortive costs to be accounted for as an impairment in 2011/12.

25. The board has clarified with the PPP contract company and its funder that reinstatement of services back to their original state in terms of the range of patient services and numbers of beds will not necessitate a change of use variation and a range of options and costs have been considered to reinstate the wards back to their original condition. It is understood this will involve £225,000 of reinstatement work costs being met by the Board (£235,000 balance of reinstatement costs met by the PPP contract company), plus £665,000 costs of enhancement work to better meet service requirements also being met by the Board. The Chief Executive has requested that a review of governance arrangements surrounding this aborted project be undertaken by internal audit during 2012/13.

HMRC Accrual

26. The board's 2011/12 financial statements include an accrual of £200,000 relating to leased cars fuel benefit for the periods 2005/06 - 2009/10. The accrual has arisen because the board did not include fuel benefit-in-kind in its P11D submissions for these periods and an underpayment of tax and Class 1A NIC has occurred. Whilst the tax is an employee liability, HMRC have in the first instance, requested that this is met on their behalf by the board. HMRC has provided three computations showing the best case, worst case and also an estimated rate of 20 per cent. The amount accrued by the board is the midpoint of the three computations and the board currently await a decision from HMRC regarding the actual amount payable. The board will require to consider whether it will recover these costs from the employees involved.

Changes in accounting requirements for 2011/12

Donated Assets

27. The 2011/12 FReM required boards to change the accounting treatment for donated assets which led to the removal of the donated asset reserve from their accounts. This requirement was a change in accounting policy which was reflected in the 2011/12 financial statements of Ayrshire and Arran Health Board with appropriate amendments made to prior year comparatives.

Transfer of Prisoner Healthcare

28. Responsibility for the healthcare of prisoners transferred from the Scottish Prison Service to health boards from 1 November 2011. The transfer was reflected in the accounts to comply with the FReM. Costs of £1.4 million were reflected in the 2011/12 accounts for prisoner healthcare.

Heritage assets

29. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. From 2011/12 boards are required to separately disclose any heritage assets. During 2011/12, Ayrshire and Arran Health Board conducted a review of non-current assets which identified that no such assets are held by the board.

Outlook

Endowments

30. As a result of an agreed derogation from the FReM NHS Scotland boards were not required to consolidate endowment funds within their 2011/12 financial statements, in terms of IAS 27, Consolidated and Separate Financial Statements. The Treasury and Scottish Government have delayed the consolidation of NHS Endowment Funds until financial year 2013/14.

Financial position

31. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

32. Auditors consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

33. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

The board's financial position as at 31 March 2012

34. Ayrshire and Arran Health Board is required to work within the resource limits and cash requirement set by the Scottish Government Health and Social Care Directorates (SGHSCD). In 2011/12, the SGHSCD required NHS boards to differentiate between core and non-core expenditure for both revenue and capital.

35. The board achieved all its financial targets in 2011/12 as outlined in Table 1 below:

Table 1: 2011/12 Financial Targets Performance £'000s

Financial Target	Target	Actual	Variance
Revenue Resource			
Core	631,256	628,251	**3,005**
Non Core	28,861	28,861	-
Capital resource			
Core	3,804	3,804	-
Non Core	0	0	-
Cash position			
Cash requirement	682,000	681,771	**229**

36. Ayrshire and Arran Health Board achieved a cumulative surplus of £3.005 million against its total Revenue Resource Limit which is fully earmarked for specific purposes including the Change Fund (for Health and Social Care). This is marginally ahead of the £3.0 million carry

forward agreed in the Local Delivery Plan (LDP) but represents a reduction of approximately £2.0 million compared to the cumulative surplus of £5.0 million at 31 March 2011.

37. Achievement of the financial outturn required in-year required management of a combination of overspends, and other movements. Hospital, Community and Family Health Services were overspent by £4.3 million principally due to primary care prescribing costs, while Support Services were underspent by £7.5 million. The prescribing costs overspend was of significant concern to the board and action was taken throughout 2011/12 to mitigate the impact. At the year end the reported prescribing overspend remained significant at £4.9 million which was an improvement on the projected overspend of £5.76 million.

38. Whilst the board has achieved a minor carry forward in 2011/12 the board's cumulative surplus has seen a reduction from £13.0 million in 2006/07 to the current figure of around £3.0 million. The board's 2012/13 LDP envisages a further gradual reduction of the carry forward which it is estimated will be reduced to zero by 2014/15.

Capital Resource Limit

39. The board broke even against its total Capital Resource Limit (CRL) in 2011/12 with total capital expenditure of £3.804 million, funded wholly from core capital allocations. Significant areas of capital expenditure in 2011/12 included £0.94 million on the installation of a new Patient Management System. This represented a major step forward in the development of an electronic patient health record by enabling patient information to be recorded accurately in real time, at the point of patient care. The board also invested a significant amount (34 per cent) of overall capital expenditure in 2011/12 on Electromedical Replacement Equipment. A further £1.75 million was spent on the board's other 'major projects' including the Ayrshire central hospital project, ward refurbishments at Crosshouse Hospital and car park facilities at Ayr and Community Outpatient services.

40. The board's initial capital allocation was £11.2 million however due to delays in a number of the planned capital projects this capital allocation was re-profiled in agreement with SGHSCD. The re-profiling reduced the current year allocation and approved brokerage of £7.9 million into 2012/13 to provide capital funding for a number of major capital projects including the Building for Better Care, and North Ayrshire Community Hospital project where delays were linked to OBC approval by the SGHSCD. In addition the collapse of the East Ayrshire Community Hospital dental scheme meant that the budgeted £2 million was not spent. There is a risk that delays with capital projects may prevent the board from achieving the requirements of both national strategies and its own LDP.

Risk area 2

Workforce planning

41. At the end of the 2010/11 financial year the board underwent a Voluntary Severance Scheme (VSS) exercise involving 21 staff who had been in the redeployment pool. The board did not anticipate any further VSS exercises in 2011/12 as it hoped to manage staffing levels through natural wastage. The 2011/12 financial statements however include £174,000 which relate to

two exit packages awarded during 2011/12. These exit packages were reviewed by the audit team to ensure their validity. No issues were identified from our audit testing. The board confirmed that in one case the exit package had been deferred from the 2010/11 exercise whilst the other case was identified through internal re-organisation.

42. It is important for Ayrshire and Arran Health Board to have effective workforce planning arrangements in place in order to secure best value and meet challenging performance targets. Work is ongoing by the board to deliver an affordable workforce plan in line with the financial savings plan however in the absence of a fully developed business/ service planning framework there is a risk that workforce plans are not properly aligned to service and financial plans. This matter is discussed further in the 'Best Value, use of resources and performance' section below.

Financial planning to support priority setting and cost reductions

Financial sustainability and the 2012/13 budget

43. Uplifts in financial settlements have been reducing in recent years. In 2009/10 there was a general uplift of 3.15 per cent; in 2010/11 there was a corresponding figure of 2.55 per cent, while in 2011/12 the baseline revenue funding uplift was 2.1 per cent. This pattern has continued into 2012/13, with the board's baseline revenue funding uplift confirmed as 1.0 per cent. The board has received a total 'notional' funding uplift of approximately 2.3 per cent mainly as a result of receiving £5.114 million for access support, £0.785 million earmarked funding for the Change Fund for health, and transfer of prisoner healthcare funding of £1.634 million. The remaining available balance in 2012/13 to meet cost pressures related to pay, prescribing and supplies is £5.737 million.

44. The cost challenges facing the board are significant and in some cases there is an element of uncertainty about further potential increases in costs. In 2011/12 the board's cost savings plan was pivotal to the board achieving financial balance and the planning assumptions in 2011/12 and 2012/13 for the organisation required 4 per cent per annum efficiency savings. For 2011/12 the board was able to set a balanced budget based on £17.9 million efficiency savings, which equated to a little over 3 per cent savings.

45. In 2012/13 the board plans to reduce its carry forward level from £3.0 million to £2.0 million. The board's ability to achieve financial balance is again largely dependent on successfully developing and implementing a comprehensive cost savings plan. In 2012/13 the board has identified £21.5 million of unavoidable cost pressures which when offset against the uncommitted element of the funding uplift for 2012/13 will require the board to achieve efficiency savings of some £15.3 million. However by restricting the list of prioritised top ten clinical developments for funding to the top five (at a cost of £1.358 million) this reduced cost pressures to £19.97 million and the required efficiency savings to £14.05 million. In May 2012 the board agreed to a proposal to fund £19.17 million of cost pressures through cash releasing efficiency savings which were identified across all directorates. Total departmental savings of around £13.1 million ranged from less than one per cent (Integrated Care &

Emergency and Integrated Care & Partner) to more than nine per cent (Finance) with 85 per cent of these savings classified as 'quantified and firm'.

46. The initial 2012/13 budget therefore included a shortfall in efficiency savings of around £1.6 million. This was approved with the proviso that the £1.4 million of clinical developments would not progress until additional efficiency savings were identified. While the additional efficiency savings have now been identified, delivery of all required savings represents a major challenge to the board; expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

47. As well as reduced uplifts in funding, the board continues to face significant cost pressures due to the anticipated increases in workforce costs and supplies during 2012/13. The board experienced a significant cost pressure in 2011/12 in relation to the rate of growth in drugs and prescribing costs and has responded by including an uplift of £10.9 million in the 2012/13 financial plan to cover increasing costs in this area.

48. The delivery of the cost savings plan in 2012/13 will be more challenging than it has been in recent years. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. Failure to achieve planned cost savings will impact on the board's ability to achieve its planned surplus.

Risk Area 3

49. The board's financial planning arrangements include regular monitoring, reporting and updating of information to allow potential risks to be addressed properly. It is therefore important that the board continues to closely monitor costs in order to take any required remedial action through supplementary cost saving schemes. The board's 2010/11 Annual Audit report identified that financial reports focused primarily on historical and financial information and recommended that financial reporting was enhanced to clarify the link between movements and the impact of service decisions. Reports to the board now reflect emergent and future cost pressures to aid future financial planning.

Outlook

Significant financial risks beyond 2012/13

50. The board recognise that it will be required to achieve cash savings of up to £15.2 million per annum in future years in order to achieve financial balance. The majority of the cost savings in each year are expected to be generated from recurring sources. These levels of savings will be challenging as the majority of readily achievable savings initiatives have already been identified.

51. Furthermore the board's financial plan (contained within the 2012/13 LDP) assumes funding uplifts will be in the range of 2.6% to 2.8% for the period 2013/14 to 2016/17. This combined with growing cost pressures, will make the delivery of cost savings even more important.

Risk Area 3

Pension costs

52. Following the advice of the Scottish Government, the board has reflected in note 24 a Scottish NHS required future contributions from employing authorities of £370 million in its 2011/12 financial statements for the NHS Superannuation Scheme arising from the most recent actuarial valuation.

53. Whilst an actuarial valuation was carried out at 31 March 2008, the publication of this valuation has been placed on hold by HM Treasury pending the outcome of public sector pension reforms. Given periodic actuarial valuations are key to determining the adequacy of employer and employee contributions to the Scheme, publication of the latest actuarial valuation will bring clarity as to the adequacy of current contributions to meet the future commitments of the Scheme.

Governance and accountability

54. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

55. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

56. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
    - corporate governance and systems of internal control
    - the prevention and detection of fraud and irregularity
    - standards of conduct and arrangements for the prevention and detection of corruption.

57. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

58. The corporate governance framework within Ayrshire and Arran Health Board is centred on the board which is supported by a number of standing committees that are accountable to it:
    - Audit Committee
    - Staff Governance Committee
    - Clinical Governance Committee
    - Health and Performance Governance Committee

The following paragraphs provide a brief comment on the main standing committees:

59. The Audit Committee assists the board in ensuring that activities, including Patients Private Funds and Endowment Funds, are managed within the law and regulations governing the NHS. It also ensures that there is an effective system of internal control which is maintained to give reasonable assurance that assets are safeguarded, waste or inefficiency avoided and reliable financial information is produced and that value for money is continuously sought. The Committee is assisted by both internal and external audit and senior officials are invited, as appropriate, to respond to auditors' reports.

60. A new standing item on the agenda for the Audit Committee in 2011/12 was a report on any internal audit recommendations which were rated as high risk for which appropriate action had not been completed by the target implementation date specified by the relevant manager. The Committee also received a report on the work of the West of Scotland Regional Planning Group which had been considering a number of areas where a regional approach may be appropriate, one of these being the provision of internal audit services.

61. The Clinical Governance Committee assists the board in delivering its statutory responsibility for the provision of quality healthcare. In particular, the Committee seeks to give assurance to the board that appropriate systems are in place, which ensure that clinical governance and clinical risk management arrangements are working effectively to safeguard and improve the quality of clinical care. In 2011/12, further to the recognition that there was a need to streamline committee-reporting processes across directorates and for governance processes to be more deeply embedded, the Committee endorsed a proposal to introduce a standardised approach across Healthcare Directorate clinical governance groups as the first phase of providing clarity and in strengthening assurance arrangements.

62. The purpose of the Staff Governance Committee is to provide assurance to the board that Ayrshire and Arran Health Board meets its obligations in relation to staff governance under the National Health Service Reform (Scotland) Act 2004 and the Staff Governance Standard. In particular, the Committee seeks to ensure that staff governance mechanisms are in place that establish responsibility for performance against the Staff Governance Standard and ensure progress towards its achievement. In 2011/12 the Committee agreed that an overarching Workforce Planning Programme board would be established to replace and build on the work of the current workforce planning groups and to ensure a more integrated and cohesive approach to workforce planning.

63. The Health and Performance Governance Committee has delegated responsibility from the NHS board to ensure that systems and procedures are in place to monitor, manage and improve organisational performance. The Committee reviews health improvement and performance against the HEAT targets and is sighted on other performance indicators which may not be formally reported through this mechanism. Concern about the board's 2011/12 performance in relation to the '18 Week Referral to Treatment' and 'Stage of Treatment' targets resulted in escalation action to the board, as required by the Committee's remit.

64. At board level there were a number of key changes in 2011/12 principally due to the planned retirement of the chief executive which coincided with the end of the chairman's appointment term. The new chief executive, John Burns, took up his post on 1 February 2012. In addition, Martin Cheyne, having been a non-executive for the previous eight years, was appointed chairman. This appointment is for four years and will run from 1 January 2012 to 31 December 2015.

65. With the appointment of a new chief executive, the board is currently reviewing its management structures and governance arrangements. It is intended that this work will be completed and a report submitted to the board for approval during 2012/13. In addition the new chairman has provided the members with an opportunity to review the style and content

of the board meeting and has sought comments from fellow board members on the style, timing and format of future board meetings.

Risk area 4

66. The appointment term of three non-executive directors also came to an end on the 31 March 2012. There were however delays in the appointment of their replacements. Although interviews for the positions were held on 21 March 2012, the appointments were not announced until late June 2012 (these appointments were made by Scottish Government and approved by the Cabinet Secretary for Health, Wellbeing & Cities Strategy). This delay in appointment was compounded by the three local authority representatives on the board having to resign on 30 April prior to the Council elections in May 2012. The appointees from the new Council administrations took up post on 1 June 2012; however during May 2012 there were difficulties in ensuring Committees of the board were quorate.

Patient safety and clinical governance

67. Patient safety is at the heart of clinical governance and risk management and a number of national arrangements and initiatives are in place to assist boards in this area. NHS Healthcare Improvement Scotland (NHS HIS) has lead responsibility for reviewing boards' performance in relation to patient safety, and for working with boards to improve patient safety. The remit of the Healthcare Environment Inspectorate (part of HIS) is to reduce the risk of HAIs in acute hospitals through assessment, inspection and reporting of boards' performance against HAI standards.

68. There were two unannounced Healthcare Environment Inspectorate (HEI) inspections carried out in 2011/12 in Ayrshire and Arran Health Board hospitals. The first inspection took place in Arran War Memorial Hospital, during May 2011. The subsequent report found that NHS Ayrshire and Arran is working to comply with the majority of the standards to protect patients, staff and visitors from the risk of acquiring an infection. This inspection however resulted in three requirements and five recommendations.

69. The second unannounced inspection was carried out at Crosshouse Hospital in January 2012. The report of this visit was published on the 6 March and it concluded that overall, there is evidence that Ayrshire and Arran Health Board is making good progress towards complying with the NHS QIS HAI standards to protect patients, staff and visitors from the risk of acquiring an infection. This inspection resulted in five requirements and five recommendations. The board has developed an action plan in response to each HEI inspection report.

70. The board has an Infection Control Team which contributes to meeting the associated HEAT targets to reduce HAIs so that by March 2013: staphylococcus aureus bacteraemia (SAB) cases are 0.26 or less per 1,000 acute occupied bed days; and the rate of Clostridium difficile infections (CDI) in patients 65 and over is 0.39 cases or less per total occupied bed days. At March 2012, the board has reported that both these standards are currently outwith 5 per cent of target. For SAB; the focus has been on the community acquired and community onset / healthcare associated cases as there are increases in the number of cases. And for CDI an

improvement programme of work is now underway in the Care of the Elderly Directorate to encourage compliance with formulary.

Partnership Working

71. Partnership working in the NHS covers a number of areas, including partnerships with staff groups, local authorities, the voluntary sector, private healthcare providers and regional planning with other NHS boards. Single Outcome Agreements (SOAs) are developed by the Community Planning Partnerships (CPPs) every 3 years, and the delivery mechanism is through the Community Health Partnerships (CHPs). The board has established three CHPs to provide care and public health services in a local setting to meet the needs of the local population. It is also the intention that CHPs will contribute to one of the key principles set out in the Scottish Government's Better Health, Better Care publication which emphasises the need for 'ensuring better, local and faster access to health care'.

72. Ayrshire and Arran Health Board CHPs continue to develop to ensure that they provide effective scrutiny and challenge on performance. Each CHP is held to account through both its own governance committee and the board to ensure that they continue to provide assurance to the NHS board and the respective Councils that systems, procedures and resources are in place to monitor, manage and deliver on the key outcomes identified for CHPs, and to ensure targets are prioritised and measurable.

73. The three CHPs are each chaired by an Ayrshire and Arran Health Board non-executive board member who is also the respective council representative. The May 2012 council election has resulted in a recent change to the chairman for both North and East Ayrshire CHPs.

74. In 2011/12 the CHPs carried out a self-assessment exercise which reflected the directions of travel indicated by the Christie Commission report with its emphasis on a shift to preventative spending, integration and increased focus on tackling inequalities. The results of the survey give a snapshot of views about the successes of the CHPs and the challenges they face, particularly with the increased focus on the integration of health and social care. These findings will be used to inform discussions in the context of the future of CHPs.

75. This is very much a developing area at a national level, and the Scottish Government's plans for integrating health and social care are further discussed in the outlook paragraphs of this section of our report.

Internal control

76. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

77. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report

for 2011/12, PricewaterhouseCoopers, the board's internal auditors, provided their opinion that, based on the internal audit work undertaken during the year, there were no significant concerns that required specific mention in the annual governance statement.

78. As part of our audit we reviewed the high level controls in a number of Ayrshire and Arran Health Board systems that impact on the financial statements. This audit work covered a number of areas including cash income and banking, trade payables, trade receivables, family health services, payroll and general ledger. Our overall conclusion was that Ayrshire and Arran Health Board had adequate systems of internal control in place in 2011/12. We identified some areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed-up at a future date to confirm that the agreed improvements have been made.

Internal Audit

79. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit). We carried out a review of internal audit in December 2011 and concluded that the internal audit service operates in accordance with Government Internal Audit Standards and has sound documentation standards and reporting procedures in place. We placed reliance on internal audit work in a number of areas in relation to accounts payable, accounts receivable and treasury management. This not only avoided duplication of effort but also enabled us to focus on other risk areas.

Governance statement

80. The governance statement, provided by the board's Accountable Officer, reflects the main findings from both internal and external audit work, and highlights the process by which the accountable officer obtains assurances over the adequacy and effectiveness of the system of internal control. This is a new format of disclosure for 2011/12 as specified by the SGHSCD. The new format includes the requirement for an overt assurance that arrangements have been made to ensure Best value.

81. The 2011/12 governance statement highlighted the findings of the Scottish Information Commissioners Decision notice (issued in February 2012) in relation to records management of Significant Adverse Events Reports. The statement also affirms the boards commitment to the implementation of the improvement plan in response to the recommendations contained in the subsequent Health Improvement Scotland review commissioned by the Cabinet Secretary for Health, Wellbeing & Cities Strategy (refer to paragraphs 82 - 86 below). Overall it was concluded by the board that the expected standards for good governance, risk management and control, along with the appropriate arrangements for Best Value are in place. The results of our own audit work confirm this assessment.

Management of significant adverse events

82. On 21 February 2012, the Scottish Information Commissioner published a Decision Notice which criticised the board's response to an appeal under the Freedom of Information (Scotland) Act 2002. Specifically, the board was criticised for withholding a request for critical incident and significant adverse event reports from a staff member.

83. In response, the Cabinet Secretary for Health, Wellbeing and Cities Strategy immediately instructed NHS Healthcare Improvement Scotland (HIS) to carry out, a review of the clinical governance systems and processes in Ayrshire and Arran Health Board, in particular those that relate to their management of critical incidents, adverse events, action planning and local learning.

84. The report arising from the HIS investigation was published on 11June 2012 and identified that the way the board has managed significant adverse event reviews has fallen short of the standards set out in its own policy. The board acknowledges that poor records management and processes for recording adverse events were responsible for the shortcomings and that there is need to ensure that there are clear lines of accountability for following up action plans and involving staff in learning from them.

85. The board's improvement plan, published on the 12 June 2012, sets out the action required by the board to fulfil the 17 recommendations in the report. The outcomes from the improvement plan fall into four categories:

- Culture - By October 2012 there will be an improved open, just and inclusive approach to learning from adverse events
- Learning and improvement – By October 2012 staff will feel more informed, involved and supported to own and deliver learning and improvements, both locally and organisationally, from adverse events
- Governance, assurance and accountability - All board members and staff will be more actively engaged in governance and assurance activities by October 2012
- Business management control systems - A supporting business control system for adverse event review identification, learning and improvement will be in place for every aspect of every review by October 2012

86. The board needs to regularly monitor progress on the improvement plan to ensure that the outlined improvements are delivered.

Risk Area 5

Transfer of Prisoner Healthcare

87. As reported above, from 1 November 2011 responsibility for the provision of healthcare services to prisoners transferred from the Scottish Prison Service to individual health boards. Within the Ayrshire and Arran area, the board became responsible for providing healthcare at the private HMP Kilmarnock which accounts for approximately 9 per cent of the Scottish prison population and has an associated cost of £1.4 million in 2011/12.

88. The board's Internal Audit recently carried out a review of the transfer of prison healthcare services to Ayrshire and Arran Health Board which assessed the controls and arrangements in place. The report did not identify any areas of concerns around the transfer however a number of issues were raised in relation to the financial shortfall and lack of sustainable staffing arrangements.

ICT service review

89. As part of our 2011/12 audit we carried out an ICT service review within Ayrshire and Arran Health Board. The audit work was based on an established computer services review methodology developed by Audit Scotland and it provides a high-level risk based assessment of ICT services in five key areas; governance & delivery, strategy, access controls & compliance, asset protection and business continuity. The report arising from this review was issued in June 2012 and highlighted a number of good practice areas, including:

- sound practices and policies in place to manage user access to systems controlled by the board
- business continuity arrangements have been developed for the back-up of data
- there is a change management process to ensure that effective control is exercised through a change advisory board

90. The review also identified a number of areas where the board is exposed to a degree of risk, including:

- the strategic use of Information and Communications Technology is central to the board's delivery of services and a local eHealth & Information Services Strategy is in place to reflect the national strategy and changing needs. As part of the eHealth Delivery Plan certain associated strategies are due to be developed and or reviewed
- the current business continuity plan (BCP) and disaster recovery (DR) arrangements are part of an ongoing process. The IT BCP plan is currently being updated in line with corporate business continuity plans and DR arrangements are being developed with the Golden Jubilee Hospital.

91. An action plan has been agreed with officers to ensure that arrangements are put in place to address the risk areas identified from the review.

Use of Government Procurement Cards and Other Credit Cards

92. Across the public sector government procurement cards have been used to reduce the costs relating to the purchase of small items and some internet based purchases where a credit card is the most effective way of making payment. A recent significant fraud, in another public body, which in part resulted from misuse of the government procurement card highlighted that bodies need to ensure that their processes for the use of these cards are fit for purpose.

93. As part of our audit, we carried out a high level review of the use of such cards within the board and the controls applied to them. We identified that that during 2011/12 the only procurement cards used by the board were fuel cards and debit cards which were used to

purchase £0.445 million of fuel and £0.019 million of goods and services. Our review also included an assessment of the adequacy of the internal controls in operation for the procurement card system and sample testing. We concluded that the controls within the procurement card system were operating effectively and no significant issues were identified.

Prevention and detection of fraud and irregularities

94. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

95. Ayrshire and Arran Health Board has a range of measures in place to prevent and detect fraud, including Standing Financial Instructions, a Code of Conduct for staff and a range of policies that are available to staff via the AthenA intranet. The board has also entered into a formal partnership agreement with NHSScotland Counter Fraud Services (CFS) and a Fraud Liaison Officer is in place to ensure reports are circulated to appropriate managers and to the Audit Committee.

96. The board's internal audit function has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud. Additionally, the board has agreed a formal protocol covering a programme of Payment Verification checks with the Practitioner Services Division of NHS National Services Scotland.

97. In our opinion the board's arrangements for the prevention of fraud and irregularities are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

NFI in Scotland

98. Ayrshire and Arran Health Board participate in the National Fraud Initiative (NFI). This is a counter-fraud exercise that uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error. Where matches are identified, public bodies are required to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved.

99. The most recent data matching exercise collected data from participants in October 2010 and the national findings were published by Audit Scotland in May 2012. Specific arrangements are monitored at a local level as part of the ongoing audit process. Based on the 2010/11 exercise, the outgoing auditors concluded that the board's arrangements in relation to NFI are adequate.

100. Participants should now be preparing for the 2012/13 exercise where data will be requested by October 2012. The national report published in May 2012 includes a self-appraisal checklist that all participants were recommended to use prior to NFI 2012/13.

Standards of conduct and arrangements for the prevention and detection of corruption

101. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in Ayrshire and Arran Health Board are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

Partnership Working

102. This is very much a developing area at a national level. In December 2011 the Cabinet Secretary for Health, Wellbeing & Cities Strategy announced the Scottish Government's plans to integrate adult health and social care across local government and the NHS. The main proposals are as follows:

- Community Health Partnerships will be replaced by Health and Social Care Partnerships (HSCPs). The partnership will be the joint responsibility of the NHS and local authorities, and will work with the third and independent sectors.
- HSCPs will be accountable to Ministers, leaders of local authorities and the public for delivering new nationally agreed outcomes. These will initially focus on improving older people's care.
- NHS boards and local authorities will be required to produce integrated budgets for older people's services.
- The role of clinicians and social care professionals in the planning of services for older people will be strengthened.

103. A smaller proportion of resources, money and staff, will be directed towards institutional care and more resources will be invested in community provision. The Scottish Government launched a consultation on the integration of adult health and social care on 8 May 2012. The consultation sets out proposals to inform and change the way that the NHS and Local Authorities work together and in partnership with the third and independent sectors. The board recognise that the agreement of joint business and service priorities is essential to implementing these changes. The chief executives of the three local authorities and Ayrshire and Arran Health Board continue to discuss the implications of these proposals. We will continue to monitor progress in this area.

NHS Waiting Times

104. The Auditor General has asked Audit Scotland to examine the use of patient unavailability codes in the management of NHS waiting times. This follows the recent critical review into

NHS Lothian's reported misuse of patient unavailability codes and recognises the importance of this for patients and the public and the need for independent assurance.

105. Audit Scotland will examine how these codes were being used by health boards in Scotland during the past year. Audit Scotland will also prepare a report on its findings which the Auditor General will present to Parliament after its summer 2012 recess. In addition, boards' internal auditors have been requested by the SGHSCD to carry out a review of waiting times as part of their 2012/13 internal audit plans. The results of this work are to be reported by 17 December 2012.

The Equality Act 2010

106. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of 'Specific Duties' which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013. We will consider progress made by the board in implementing these requirements as part our 2012/13 audit.

Best Value, use of resources and performance

107. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

108. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.

109. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

110. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. Audit Scotland has prepared a series of Best Value toolkits to facilitate its reviews in these areas.

111. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

112. This section includes a commentary on the Best Value / performance management arrangements within Ayrshire and Arran Health Board. We also note any headline performance outcomes / measures used by Ayrshire and Arran Health Board and any comment on any relevant national reports and the board's response to these.

Management arrangements

Best Value

113. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.

114. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of Best Value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

115. The five themes and two cross-cutting themes are:

- vision and leadership
- effective partnership
- governance and accountability
- use of resources
- performance management
- equality (cross-cutting)
- sustainability (cross-cutting)

116. Ayrshire and Arran Health Board is committed to best value and has arrangements in place to help ensure continuous performance improvement. The strategic focus is on achieving continuous improvement in performance and outcomes. As part of this, directors and managers are encouraged to review, identify and improve the efficient and effective use of resources. The board has a rolling programme of Best Value reviews and the Sustainable Futures Portfolio has been developed to ensure the organisation is making continuous improvements in the context of a decreasing income allocation.

Best Value Review - Vision and Leadership

117. As part of our 2011/12 audit, we undertook an assessment of the 'Vision and Leadership' Best Value theme at Ayrshire and Arran Health Board. This was carried out using the Audit Scotland Best Value toolkit matrix containing structured questions applied as part of our audit process. The aim of this review was to assess the adequacy of the board's arrangements in the strategic area of 'Vision and Leadership'. We focused our work around two key aspects:

- How effectively has the board established a clear vision and sense of purpose which reflects local needs, the views of local people, national priorities, and will secure improved outcomes.
- How well can the board demonstrate open and inclusive leadership, which is focused on securing continuous improvement in staff performance, partnership working, and outcomes for citizens.

118. A checklist of questions was used to consider how well the board is dealing with these issues. The questions cover the two key aspects above and were used in our discussions with management. The responses and supporting evidence formed the basis of our main findings.

Clinical and service specific strategies

119. The board's vision for the future is underpinned by three key strategy documents covering acute, mental health and primary care:

- The 'Building for Better Care' is the board's acute strategy which was commissioned in response to changes in the make-up of the local population, their healthcare needs and the changing shape of healthcare provision regionally and nationally. The planned developments support a range of enhancements to 'Front Door' services which include a

single point of access to unscheduled care, and also combined Medical and Surgical Assessment Units at Ayr and Crosshouse hospitals.

- The 'Your Health – we're in it together' vision for primary care was endorsed by the NHS Board in December 2009. It includes far-reaching recommendations designed to put the public at the heart of healthcare. As part of the board's continued commitment to involve the public in the design, delivery and evaluation of primary care services, a number of public events were held allowing members of the public to provide their own views and insights.
- 'Mind your health' is the board's mental health strategy. A key development essential to the modernisation of the board's mental health services is the North Ayrshire Community Hospital project. Following delays to the North Ayrshire Community Hospital project, the OBC has recently been approved by the SGHD. The Non-Profit Distribution (NPD) model is the preferred route for this new build.

120. The board also has a number of service specific strategies including Maternity, Sexual Health, Neurology and Island Services which drive directorate business planning.

Engagement with key stakeholders

121. Our review established that overall, the board has a good understanding of the demographics within its boundaries and works closely with its three local authority partners to identify the health and social care needs of the resident population, although gaps attributed to linking with health related data were identified.

122. Our review also found evidence of engagement with partners in developing a clear vision and setting a range of objectives. In addition to the CPP arrangements, a Patients Public Panel and a number of Public Partnership Forums are in place to help support community engagement. This framework is key to ensuring that views of service users and stakeholders are considered.

123. A recent initiative 'Care Counts' is the first in a series of events organised by the board for the public and other stakeholders to hear about the challenges facing Ayrshire and Arran Health Board and share thinking on how the organisation delivers services. Preparations are in hand for the next phase of events to allow for more interaction from those attending.

124. Single Outcome Agreements are developed by the CPP every 3 years and the delivery mechanism is through the CHPs. As a partner, Ayrshire and Arran Health Board has agreed on a set of indicators which provide a measure of its contribution to the overall delivery of better outcomes for local people across the three local authority areas. The Outcome Modelling approach being used throughout Ayrshire and Arran Health Board is helpful in encouraging and supporting community planning partners in measuring shared health outcomes for local people delivered through SOAs and each partner's respective contributions to them.

Corporate and business planning framework

125. Our review established that board meets regularly to consider the plans and strategic direction of the organisation. Executive and non-executive leadership are also involved in regular strategic days which are used as a mechanism for setting direction and organisational strategy.

126. In April 2010 the board adopted a set of mission, vision and strategic objectives to assist in moving the organisation from 'good to great':

- Mission: 'Achieve the healthiest life possible for the people of Ayrshire and Arran'.
- Vision: 'A leaner, fitter, healthier organisation'.
- Strategy: the transformation of the organisation into optimal, integrated care pathways which are clinically safe, effective and efficient.

127. The overall aim of the mission, vision and strategic objectives is to ensure superior performance and to make a distinctive impact over a longer period of time by continuously improving health and the quality of services while at the same time controlling costs. These also echo the Scottish Government's five strategic objectives - wealthier and fairer, smarter, healthier, safer and stronger, and greener.

128. The board produces a Local Delivery Plan (LDP) annually which is structured around a hierarchy of four key ministerial objectives: health improvement, efficiency, access, and treatment (HEAT) and a range of supporting measures. The LDP is the 'performance contract' between the SGHD and the board, based on identified targets. These are agreed with the SGHD and form the basis for performance monitoring.

129. The Board's framework for the production of plans uses an outcomes approach based on evidenced need. This requires to be more fully developed. Indeed, whilst many of the directorates within Ayrshire and Arran Health Board had business plans in place for 2011/12, these were driven by service specific strategies with no central timeframe for completion or review. The board's managerial leadership is committed to continuous improvement through its general aim of taking the organisation from 'good to great' however this strategy lacks clarity in relation to achievement of the board's overall strategic objectives. Indeed the range of corporate, clinical and service specific strategies and plans in place appear fragmented in the absence of a clearly defined overarching corporate strategy. In addition, corporate and directorate strategies/ plans were found to lack a 'golden thread' link with the risk that service, workforce and financial plans are not properly aligned. The Board is currently undertaking a stocktake of current plans and strategies and this will form part of a Board development day in September 2012.

Risk area 6

130. Executive directors' personal objectives set annually are SMART and include reference to four corporate objectives (which cover all aspects of the 'good to great' vision and objectives). .In addition each director sets four individual objectives. These measures and targets should be cascaded down through the management structure to ensure that individual manager's objectives tie in with the corporate objectives.

Resources

131. In September 2010, the 'Sustainable Futures Portfolio' was developed to ensure a sustainable futures in light of the challenges and to motivate the organisation in making continuous improvements in the context of a decreasing income allocation. The identified opportunities and actions were themed into five main programmes aimed at the delivery of a 10% cost reductions over a three year period:

- Efficient Use of Technology and Estates
- Right Staff in the Right Place
- Right Care in the Right Place
- Standardising Clinical Services
- Standardising Support Services

132. In autumn 2011, further programmes were initiated, focusing on demand (Right Use) and disinvestment (Right Services).

133. Within Ayrshire and Arran Health Board, the Integrated Care Modernisation Board (ICMB) agreed in July 2009 to undertake a Best Value rolling programme to examine all services and functions. Since 2009, Directors have undertaken work to identify and implement best value in their respective areas, with subsequent reporting to the Directors Team. Following each Best Value Review completed, a formal report is prepared which outlines the recommendations from the review. These are presented to the relevant project management Group, along with an action plan.

134. In addition, the board also recently initiated Demand, Capacity, Activity and Queue (DCAQ) analysis for a number of specialties (including neurology, dermatology, gynaecology and urology).

135. Ayrshire and Arran Health Board and its three partner local authorities are one of four test sites developing a transparent Integrated Resource Framework (IRF). This aims to provide information about current spend by locality across specific care groups within and across health and social care systems to facilitate the need to shift the balance of care from acute settings to community-based services in response to the shared strategic objective both within the NHS and across health and adult social care.

Performance and scrutiny

136. The board has an established scrutiny process in place linked to its performance management framework. The board's performance management system monitors progress against HEAT targets using a traffic light system. 'At a glance' scorecards have also been developed and these are considered by the Health and Performance Governance Committee.

137. A set of indicators are routinely reported to Directors' Team in the format of quarterly reports. These indicators were revised in January 2012 in light of changes to HEAT targets and standards, Quality Outcome measures and the Quality Ambitions as well as the KPIs determined within the Sustainable Futures Portfolio Programmes. At that time it was

recognised by the board that implementation of a consistent scrutiny model would be both beneficial and possible. The proposed approach was to include a management scorecard and comprise:

- A comprehensive report across all directorates on an agreed suite of pan-organisational indicators.
- A quarterly slot at the Directors' Team where the Chief Executive can constructively challenge directors on their area's performance against these key indicators.
- An agreed set of remedial actions to improve performance that will be followed up at the next meeting.

138. In addition, each Director will bring a comprehensive performance report to the Director's Team covering their individual areas of responsibility and scorecards will be extracted from continuous and formal performance monitoring, reporting and scrutiny within the directorates. This is an important development for the board and we will continue to monitor progress in this area in 2012/13.

The Role of Boards – follow-up audit

139. In addition to the local Best Value work reported above, a follow up audit was carried out by all NHS auditors in 2011/12 to assess the progress that each board has made to improve the performance and operation of its board against the recommendations made in Audit Scotland's national performance report 'The Role of Boards' (September 2010).

140. In carrying out the study we used a checklist based on the key issues identified in the national report and the checklist was discussed with the Director of Finance who provided supporting evidence as appropriate. Our final report to the board, issued in June 2012, concluded that good progress has been made within Ayrshire and Arran Health Board in this area. In particular it was noted that:

- Ayrshire and Arran Health Board faces a number of challenges, both as a result of local and national issues. The board recognise that maintaining an effective governance framework is essential to help face these challenges and to ensure that the best outcomes are delivered for the public
- the board continues to receive regular and detailed performance and financial information which provides a good basis to facilitate scrutiny and challenge, as well as identifying the key risk factors which may impact on achievement of financial and non-financial outcomes
- the board is currently reviewing its management and governance arrangements to ensure that the best structures are in place to deliver the above outcomes
- as reported above, delays in the appointment of three non-executive directors coupled with the three local authority representatives on the board having to resign on 30 April (prior to the Council elections in May 2012) resulted in difficulties during May 2012 in ensuring Committees of the board were quorate

- member training and development needs are also under review and a local programme will be put in place to ensure that all the necessary skills and expertise are in place for the Board to perform its functions.

141. We will continue to monitor the board's progress throughout the audit appointment to maintain an up to date picture of the operation of the board and the ongoing developments noted above. Whilst our review highlighted the need to confirm the appointment of the three non-executive directors to the board we note that the appointments were announced in late June 2012.

Overview of performance targets in 2011/12

142. The Health and Performance Governance Committee receives regular board performance reports on progress towards achieving the key performance targets set by the Scottish Government (HEAT targets and standards) and local targets. The board demonstrated good performance against a number of challenging HEAT targets by the end of March 2012 including the alcohol brief interventions and cardiovascular health checks targets. However some targets, including percentage drug and alcohol treatment Referral to Treatment and reduction in the rates of attendance at A&E, were not fully achieved. The board performance reports provide details of the actions being taken by the board to improve performance in these areas.

143. As with other health boards in Scotland, the board faces a major challenge in achieving the national sickness absence target of 4%. Sickness absence in 2011/12 for the board was 5.3% (5.1% in 2010/11) and the actions to address this are outlined in the board's Governance Statement. In 2011/12 the Staff Governance Committee received details of various initiatives aimed at addressing staff absence, including a new Stress Policy, a Single Point of Contact for Occupational Health services, and the nomination of 'champions' to act as a knowledgeable point of contact between Human Resources and service managers. The board recognise the need to make progress in this area, both to assist staff who are too ill to return to work and to avoid unnecessary pressures on staff who have to cover for absent colleagues. Funding was sourced to appoint a new Promoting Attendance Officer on a fixed term basis, after the post was vacated in November 2011.

Risk Area 7

144. The board's performance in the current priority areas of waiting times, delayed discharges and healthcare associated infections are also monitored closely. Waiting times have been falling over recent years as the board has achieved successive Government targets. The Government target is that from December 2011 the total maximum journey will be 18 weeks from referral to treatment.

145. As reported above, concern about the board's 2011/12 performance in relation to the 18 Week Referral to Treatment Targets (RTT) had resulted in escalation action to the board. A key issue in the board's RTT performance was linked to the implementation of a new Patient Management System (PMS) which took place during 2011/12. A number of waiting list management challenges had occurred as a result of transferring onto this new scheme

including difficulties in booking patients onto the new system and accessing an accurate picture of waiting lists. Following an extensive review of the access position conducted over November/December 2011, it was identified that a recovery plan would be required to enable the delivery of the 90% 18 weeks RTT for 31 March 2012. At the end of December 2011 the board was achieving the target, and this performance was maintained through to March 2012.

146. The current position on delayed discharges as at census day April 2012 was that only 6 people were waiting over 4 weeks and no patients breached the 6 week target. During the production of the board's Local Delivery Plan for 2012/13, the new delayed discharge HEAT target was incorporated which requires that 'no people will wait more than 28 days to be discharged from hospital into a more appropriate care setting, once treatment is complete from April 2013'. The board carries out regular monitoring, reviewing the over 6 week, over 4 week and over 2 week positions. The board and its' three local authority partners continue to work with families to support an appropriate move into care with interim placements where necessary and weekly meetings are held which focus on individual patient needs to ensure ongoing improvement.

National performance reports

147. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. The findings and key messages of these studies are published in national reports.

148. The board has a formal process to ensure that the findings of national reports relevant to the board are considered in detail to identify their potential impact and the board's progress in addressing recommendations locally. These reports are considered in detail by the Audit Committee to identify which officer at the board will assess the impact of the national report at a local level. Reports in the last year that may be of relevance to the board include:

Table 2: A selection of National performance reports 2011/12

- Transport for Health and Social Care (Aug 2011)
- Scotland's Public Finances – Addressing the Challenges (Aug 2011)
- A Review of Telehealth in Scotland (Oct 2011)
- Overview of the NHS in Scotland's performance 2010/11 (Dec 2011)
- Cardiology services (Feb 2012)
- Commissioning social care (Mar 2012)

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Transport for Health and Social Care

149. This report looked at the efficiency and effectiveness of transport arranged by the ambulance service, NHS boards and local authorities to take people to and from health appointments and

social care services such as day centres. It also assessed how well agencies work together to plan and deliver transport for health and social care to meet local needs and identified examples of good practice and potential savings.

150. The report identified that transport services for health and social care are fragmented and there is a lack of leadership, ownership and monitoring of the services provided. The Scottish Government, Regional Transport Partnerships, local authorities, NHS boards and the ambulance service are not working together effectively to deliver transport for health and social care or making best use of available resources.

151. The report was considered by the Audit Committee in November 2011 at which time it was agreed that the Director of Information and Clinical Support Services would complete the self assessment checklist/action plan contained in the report in conjunction with the Shared Services Group which consists of representatives from each of the three Councils. The completed checklist was presented to the Audit Committee meeting on 25th April 2012 and highlighted that transport for health and social care services eligibility criteria are not uniformly applied. However the board are working with the Ayrshire and Arran Health Board Scottish Ambulance Service (SAS) to support the smooth implementation of the SAS Scheduled Care Improvement Programme. The first phase introduces a centralised booking centre service giving patients direct access and ensuring uniform application of eligibility criteria, as well as close liaison with other service providers to address the needs of patients who live in remote and rural areas where public transport is limited.

Scotland's Public Finances – Addressing the Challenges

152. The report highlighted that Scotland's public sector budget in 2011/12 for running costs and day-to-day spending is £27.5 billion, a drop of 6 per cent or £1.7 billion in real terms from £29.2 billion in 2010/11. Public bodies have budgeted for this in 2011/12, but they need to make significant savings during the year and there is a risk they won't achieve this due to cost pressures being greater than expected or unforeseen events. Public bodies are facing increasing pressures and demands, such as Scotland's ageing population, the effects of the recent recession, and the public sector's maintenance backlog. Meanwhile budgets will continue to drop; the planned 2014/15 budget of £25.9 billion will be 11 per cent, or £3.3 billion, smaller than in 2010/11. Pay restraint and reducing workforces are the most common approaches being taken by public bodies to reduce costs over the next few years. Many bodies, including Ayrshire and Arran Health Board, are already going through the process of reducing staff numbers through recruitment freezes and voluntary severance schemes, and further reductions are planned. The impact of the financial pressures on the board is reflected earlier in this report.

153. This report was considered at the Audit Committee meeting on 8 November 2011 and the Finance Committee meeting on 5 December 2011.

A Review of Telehealth in Scotland

154. This report highlighted the potential role of technology in improving the quality, delivery and efficiency of healthcare services. Since 2006, around 70 telehealth initiatives have been introduced but most of these are on a small scale. Given the fact that health services are facing a growing demand, new models of care such as telehealth should be considered to help manage this increasing demand. If targeted appropriately, telehealth offers the potential to help NHS boards deliver a range of clinical services more efficiently and effectively. Telehealth also offers a range of potential benefits for patients such as reducing travel, receiving a quicker diagnosis and avoiding hospital admissions. Patient experience is broadly positive with high levels of satisfaction and the experience is also a positive one for staff at NHS boards.

155. All NHS boards are making use of telehealth but initiatives are generally small-scale. Ayrshire and Arran Health Board are piloting a home-monitoring initiative for patients with chronic heart failure. Small-scale pilots have been the easiest way for NHS boards to implement telehealth initiatives as they often do not require the full redesign of services, only a small number of staff need to be trained, and upfront costs are reduced. However, the smaller scope can limit the reliability of any findings on the effectiveness or benefits of the initiative.

156. We are currently carrying out a follow up exercise on this study to establish the impact it has had in each health board and whether areas for improvement are being addressed.

Overview of the NHS in Scotland's performance 2010/11

157. The report indicated that healthy life expectancy in Scotland has increased and rates of deaths from coronary heart disease, stroke and cancer continue to fall. However, overall life expectancy in Scotland remains lower than that of most other western European countries and there remain significant health inequalities and long-standing health-related problems such as obesity, smoking, and drug and alcohol misuse. The NHS in Scotland spent £12 billion in 2010/11 and all health bodies met their financial targets. However, ten of the fourteen territorial NHS boards reported underlying recurring deficits. The service faces pressures from an ageing population, rising public demand and expectations, increased costs and reducing staff. Although the budget for the NHS in Scotland in 2011/12 is £232 million higher than 2010/11, this is a reduction in real terms due to inflation.

158. NHS boards have strategies to make the service more efficient and effective and to help improve the quality of services it provides. Although information on hospital activity is good, the NHS in Scotland continues to find it difficult to measure productivity due to weaknesses in data and difficulties in linking costs, activity and quality. This is needed to identify how to improve services and the nation’s health with the same or fewer resources. The Director of Finance has reviewed the key messages identified in the report to ensure they are reflected in the 2012/13 planning process and the report was discussed at the 1 February 2012 Audit Committee meeting.

Cardiology services

159. The report highlighted that there has been significant progress in tackling heart disease and developing services. Death rates have dropped by some 40 per cent during the past ten years while more patients are getting better treatments and waiting times have fallen. However, Scotland still has the highest rate of heart disease in Western Europe and the NHS in Scotland needs to ensure all patients get the services they need.

160. The specific actions recommended in the report are being taken forward by the board's Managed Clinical Network who are completing the self-assessment checklist and reporting back to the Clinical Governance Committee.

Commissioning social care

161. This report looked at how well the public sector plans for, organises and delivers social care. Social care services range from supporting people with basic personal care such as washing and dressing to helping them with every aspect of their daily lives. People depending on these services include older people, vulnerable children, people with disabilities, and people with mental health problems, addictions or HIV/Aids.

162. The report stated that planning social care is complex and is becoming harder as demands are rising and budget constraints are tightening. A major change was the introduction of self-directed support that aims to give people a bigger say in the services they receive. This will require a new approach from local authorities and NHS boards that must do more to involve both the people receiving services and the service provider organisations. If services are to improve better information is required on the needs of the population, on the costs, quality and impact of the services provided.

163. The report's recommendations included local authorities and NHS boards working together to invest in preventative services that can help to delay or avoid people needing more intensive support, and monitoring the impact of these services.

164. This report was tabled for inclusion in the Audit Committee agenda on the 20 June 2012 however discussion was deferred to the next meeting when it could be considered in the wider context of the Health and Social Care agenda.

Outlook

Performance

165. Over recent years the board has invested substantial resources in order to achieve challenging performance targets set by the Scottish Government. The significant financial challenges that will be faced in 2012/13 and beyond may require the board to prioritise its resources. This will make maintaining or improving performance even more challenging.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Internal Audit Reliance Letter	21 December 2011	1 February 2012
Annual Audit Plan	24 January 2012	1 February 2012
The Role of Boards – Follow-up audit	27 June 2012	22 August 2012
Internal Controls Management Letter	30 April 2012	22 August 2012
Report to Audit Committee in terms of ISA 260	13 June 2012	20 June 2012
Independent auditor's report on the financial statements	13 June 2012	20 June 2012
ICT Service Review	29 June 2012	22 August 2012
Annual Report on the 2011/12 Audit	27 July 2012	22 August 2012

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	18	**Equal pay** Ayrshire and Arran Health Board (and other boards) has not been able to quantify the extent of its liability for Equal Pay claims. There is a risk that these liabilities will have a significant impact on the board's financial position.	Maintaining link with Scottish Government Finance Department to keep up to date on SGHSCD/CLO progress.	Director of Finance	Ongoing
2	40	**Capital projects** There is a risk that slippage in the capital schemes, which are essential to the modernisation of healthcare services, could prevent the board from achieving the requirements of both national strategies and its own LDP.	The SGHSCD confirmation of the central capital funding contribution towards the BfBC project (as reflected in the LDP approved), will enable a revised OBC (single covering both Ayr and Crosshouse sites) to be submitted to SGHSCD for approval in December 2012. The SGHSCD approval of the NACH OBC on 31 May 2012 for the NPD procurement route, will enable the FBC to be progressed for a planned submission to SGHSCD for approval in December 2013. Progress on both major	Director of Information and Clinical Support Services	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			projects is being regularly monitored to meet the Board's capital governance requirements and national arrangements for key stage reviews		
3	48/51	**2012/13 Savings target** The board faces a wide range of financial challenges in delivering the LDP and Quality Improvement agenda. There is a risk that it may not be able to make its savings targets in 2012/13. The longer term financial plan remains at risk of not being affordable and is a significant challenge to the board moving forward.	Monthly monitoring of agreed efficiency savings for 2012/13 will be undertaken and reported to ensure any slippage is addressed.	Director of Finance	Ongoing
4	65	**New governance arrangements** The board is currently reviewing its governance arrangements to ensure they are effective and promoting the achievement of Best Value.	Review and revise corporate governance policy and procedure for NHS Ayrshire and Arran to bring together all aspects of governance under a single code	Chief Executive	December 2012
5	86	**Management of significant adverse events** Until the improvement plan to address the weaknesses in the management of significant adverse events has been	The executive Medical Director has raised the issue with Integrated Care Directors, Associate medical Directors and Associate Nurse Directors to highlight current	Medical Director	October 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		delivered there is a risk that that records management along with processes for recording adverse events and accountability remain inadequate.	procedures for recording adverse events and ensure staff are aware of the procedure, in particular for escalation. The process for records management has been reinforced with the points raised put in place in the interim by local management.		
6	129	**Planning and Policy Framework** In the absence of a fully developed framework based approach to planning and policy the board may lack a collective and clear direction in critical areas of activity. There is also a risk that service, workforce and financial plans are not properly aligned.	The Board has commenced a stocktake of current plans and strategies. The risk identified will be considered as part of this review.	Director of Policy, Planning and Performance	31/3/2013
7	143	**Sickness absence** There is a risk that the board may not achieve the sickness absence target of 4%. This would impact on the achievement of the board's financial and non-financial performance targets, such as waiting times targets.	A 10 point project plan has been established between promoting attendance lead and partnership representative. This plan forms the basis for progressing actions in relation to promoting attendance, and reporting through APF and Staff Governance routes.	Director of Organisational and Human Resources Development	Ongoing