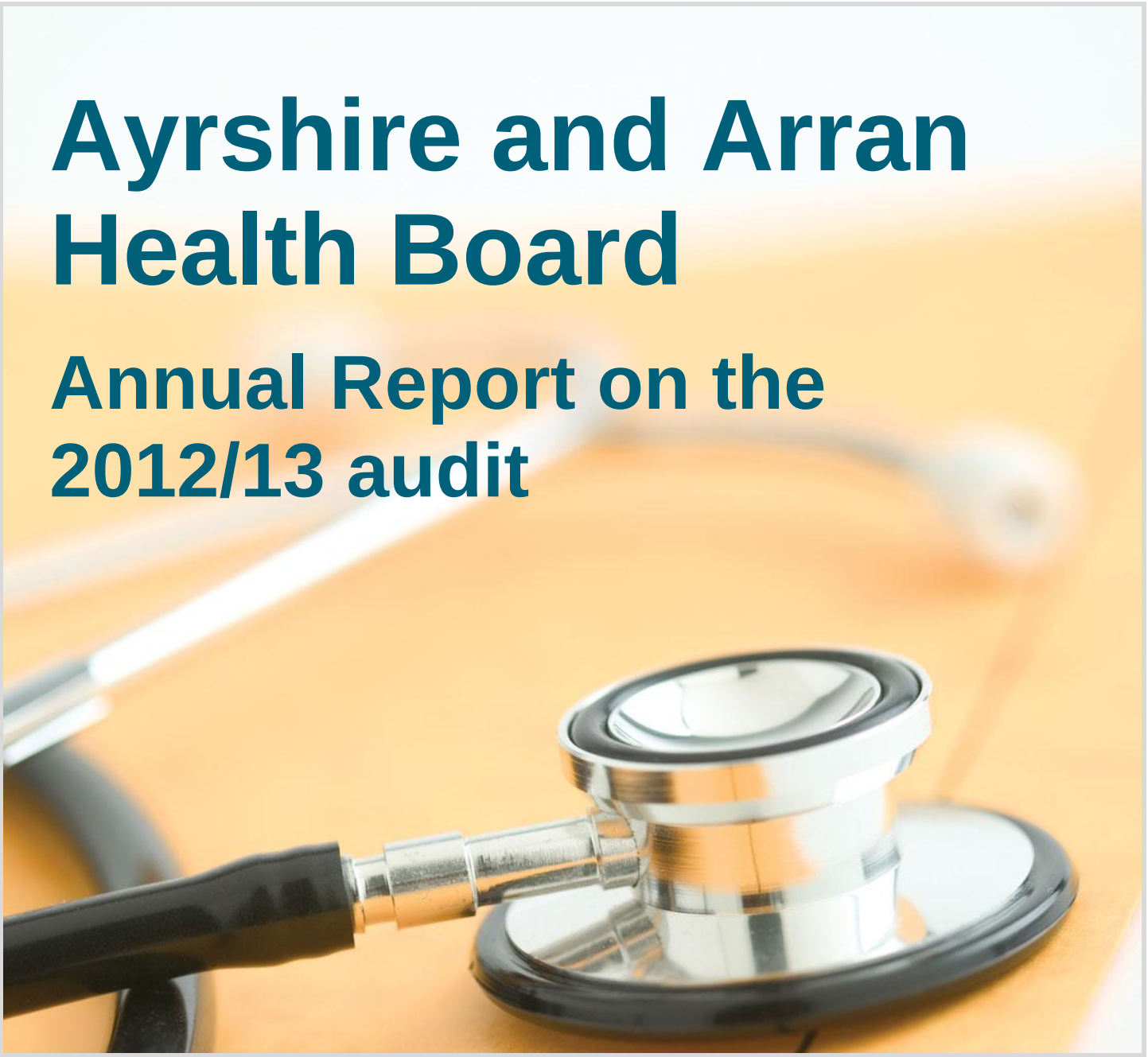
Ayrshire and Arran Health Board

Annual Report on the 2012/13 audit



AUDIT SCOTLAND

Prepared for Ayrshire and Arran Health Board and the Auditor General for Scotland
July 2013

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

2012/13 Key Facts

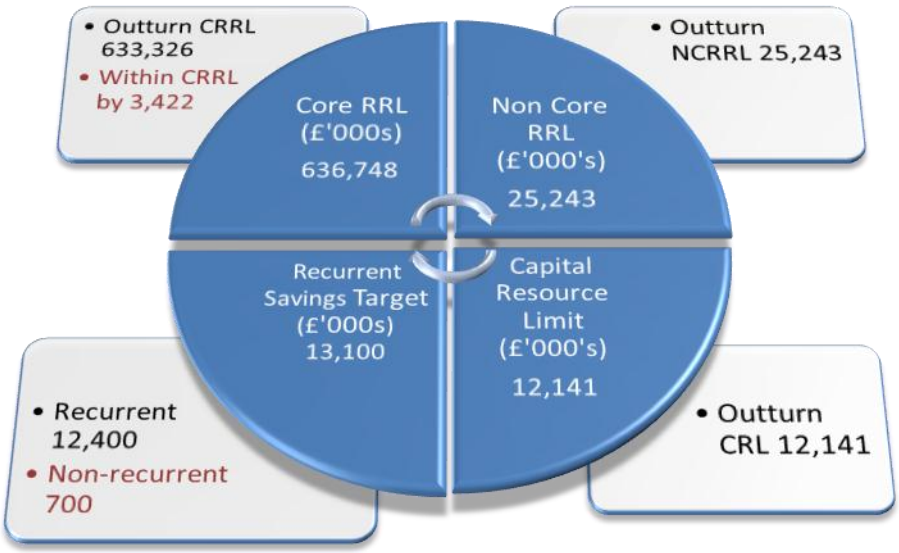
The Scottish public sector is experiencing significant financial challenges in providing expected levels of service within the agreed financial framework. In 2012/13 we assessed the key strategic and financial risks being faced by Ayrshire and Arran Health Board. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our findings.

Financial Statements

We have given an unqualified audit report on the financial statements of Ayrshire and Arran Health Board for 2012/13. 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.

Financial position and use of resources

The board achieved all of its financial targets in 2012/13 and returned a cumulative surplus against its total Revenue Resource Limit (RRL) of £3.4 million. Total efficiency savings of £13.1 million were delivered in line with planned efficiencies for 2012/13 however £0.7 million of these savings were on a non recurring basis. The key financial messages are summarised in the exhibit below:



The board had planned a carry forward of £2.0 million for 2012/13. However during the year, the required contribution to the national risk share for clinical negligence reduced from £2.8

million to £1.4 million and the SGHSCD approved an increase in the carry forward flexibility to £3.4 million. This carry forward is fully earmarked for specific purposes, including £1.4 million to fund waiting times initiatives.

During 2012/13 the board considered options to reallocate emerging budget underspends and approximately £4.0 million was re-allocated to non-recurring expenditure. This included significant investment locally to support the achievement of the treatment time guarantee for orthopaedics and financial support for a voluntary redundancy scheme for staff within the redeployment pool.

Board capital expenditure in 2012/13 was £12.141 million. During 2012/13 the board identified slippage in projects totalling £3.2 million which has been re-profiled to 2013/14. As a result there was a corresponding reduction in the agreed drawdown of brokerage funds from SGHSCD.

Governance and accountability

In 2012/13, the board overall had a sound governance framework in place which included a number of standing committees overseeing key aspects of governance. The board also had an effective internal audit function and sound anti-fraud arrangements. However during the year there were a number of occasions when the governance committees were not quorate. As a result, the quality of scrutiny and governance may have been weakened.

Performance and best value

The board has a well developed framework in place for monitoring and reporting performance. The board is committed to best value and has arrangements in place to help ensure continuous performance improvement through its Demand, Capacity, Activity and Queue (DCAQ) methodology which is used to identify better use of existing resources and promote higher efficiency. The board has also established two key areas of development as top organisational priorities to improve quality and efficiency, the Transforming Outpatient Services and the Unscheduled Care projects.

In 2012/13 the board reported that it achieved Green status in eleven of the nineteen HEAT performance targets. Additionally, of the eleven National standards monitored by the board seven had a status of Green however all but one of the nine Local standards monitored had a status of Red. A key area in which the board did not achieve its performance target related to access times. In particular there were 57 cases where the statutory 12 week Treatment Time guarantee was breached.

A local review of waiting times carried out by internal audit identified some areas for improvement. The board has provided written assurance to the Scottish Government that identified improvement actions have either been implemented or are in progress.

Outlook

The financial position going forward is becoming more challenging than previous years with limited increases in funding, increasing cost pressures and challenging savings targets. To achieve continuing financial balance the board will require to deliver £12.1 million of recurring cost savings in 2013/14. The board plans a reduced carry-forward level of £2.0 million in 2013/14, whilst no carry forward is anticipated for 2014/15 or beyond, reflecting the tightening financial position. This will make maintaining or improving on the performance targets set by the Scottish Government even more challenging. In this context the maintenance of access targets is a particular challenge. The new 12 week Treatment Time Guarantee, which is now a legal requirement (from 1 October 2012), requires significant resources to achieve and sustain. Managers are aware of the implications of the guarantee and additional capacity has been put in place to meet demand.

The creation of the shadow Health and Social Care Transition Integration Boards for each of the three board partnership areas by April 2014 will include NHS board non-executive membership as part of the governance arrangements. Given existing challenges by the board to ensure that governance committees are quorate these additional demands could place further strain on the board's non-executive members.

Introduction

1. This report is the summary of our findings arising from the 2012/13 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 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 2012/13 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 are required to follow the 2012/13 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 addressed this requirement 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. The unaudited accounts were provided to us on 6 May 2013 supported by a working papers package. The satisfactory standard of working papers and timely responses from finance staff allowed us to conclude our audit within the agreed timetable and provide our proposed opinion to the Audit Committee on 12 June 2013 as outlined in our Annual Audit Plan.

15. A number of presentational and monetary adjustments were made to the financial statements as is usual during the course of our audit.

16. We reported to the Audit Committee on the 12 June 2013 that a small number of errors were identified during the audit, which the board decided not to reflect in the revised financials statements. If these adjustments had been made net operating costs in the Statement of Comprehensive Net Expenditure would have decreased by £422,000 and net assets increased in the Balance Sheet by £422,000.

17. Subsequent to the Audit Committee meeting, but prior to the date authorised for issue of the accounts, the board were notified of a decision by the Scottish Terms and Conditions Committee that public holidays should be received by staff while on maternity leave. To ensure compliance with the relevant legislation, this should be applied by the board from 1 April 2008. The board estimate the associated five year cost at £462,000. As this amount is not material to the financial statements the board decided not to change them to include this liability.

18. As required by auditing standards we reported to the Audit Committee on 12 June 2013 the main issues arising from our audit of the financial statements. These were:

Equal Pay claims

19. The National Health Service in Scotland has received in excess of 9,000 equal pay claims and by the end of March 2013 there remained 1,592 grievances registered against 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.

20. The Scottish Government Health & Social Care Directorates (SGHSCD), the CLO and Audit Scotland met in March 2013 to review the accounting treatment and disclosure requirements for the 2012/13 accounts. The CLO continues to advise that it is not possible to provide any financial quantification of Equal Pay claims at this stage because of the lack of information available. Given the CLO's advice, the SGHSCD have notified NHS boards that the appropriate accounting treatment is to disclose the claims as a contingent liability although with an expanded disclosure recognising the developments over the last couple of years.

21. As with other boards, Ayrshire and Arran Health Board have not been able to quantify the extent of its liability for Equal Pay claims and have disclosed a contingent liability. There is a risk that as these claims progress they could have an impact on the board's financial position.

Risk Area 1

Pension costs

22. Following national guidance from the Scottish Government, Note 24 of the accounts: Pension Costs reflects a Scotland-wide net liability of £370 million for the NHS Superannuation Scheme arising from the most recent actuarial valuation for the year 31 March 2004. A more recent actuarial valuation was carried out at 31 March 2008, but 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 costs.

PFI disclosures

23. Several errors were found on the PFI working paper relating to disclosures at note 23 - Commitments under PFI contracts. The impact of these errors is a net overstatement of accruals by £0.311 million which also has a bearing on the figures disclosed in note 16 - Trade and Other Payables. It is understood that this error may have been in existence since the creation of the model used to calculate charges. The board do not propose to adjust the financial statements for this error until 2013/14. Working papers will be reviewed to ensure that the correct figures are disclosed for future years.

Outlook

Endowments

24. As a result of an agreed derogation from the FReM NHS Scotland boards were not required to consolidate endowment funds within their 2012/13 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. The consolidation process will be reviewed as part of our audit of the 2013/14 financial statements.

Financial position

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

26. 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.

27. 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 2013

28. 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 2012/13, the SGHSCD required NHS boards to differentiate between core and non-core expenditure for both revenue and capital. The board achieved all its financial targets in 2012/13 as outlined in the table below:

Table 1: 2012/13 Financial Targets Performance £'000s

Financial Target	Target	Actual	Variance
Revenue Resource			
Core	636,748	633,326	3,422
Non Core	25,243	25,243	0
Capital resource			
Core	12,141	12,141	0
Non Core	0	0	0
Cash position			
Cash requirement	697,000	696,327	673

29. The board has achieved a cumulative surplus of £3.422 million in 2012/13. The 2012/13 agreed financial plan included a planned carry forward of £2.0 million into 2013/14. However during the year the required contribution to the national risk share for clinical negligence reduced from £2.8 million to £1.4 million. As the board had already put plans in place to utilise

underspends in other areas, approval was obtained from the SGHSCD to increase the carry forward flexibility to £3.4 million. This carry forward is fully earmarked for specific purposes, including £1.4 million to fund waiting times initiatives.

30. During 2012/13 the outturn projection at the board showed a number of areas of emergent underspends, the most significant relating to General Practitioner and hospital prescribing (due to drugs coming off patent earlier than expected) and the release of a £1.5 million accrual in the 2011/12 accounts as a result of the national on-call agreement. A mid-year review process identified that the board's projected year end underspend was in excess of £6.0 million. In December 2012 the Corporate Management Team and Finance Committee considered options to reallocate the underspent budgets and approximately £4.0 million was re allocated to non-recurring expenditure in 2012/13. This included significant investment locally to support the achievement of the treatment time guarantee for orthopaedics and financial support for a voluntary redundancy scheme for staff within the redeployment pool.

31. Overall the board has been successful in achieving the required efficiency savings target of £13.1 million however efficiency schemes with an annual target of £0.7 million have experienced some delay and as a result have been achieved non recurrently in year.

32. The board's cumulative surplus has seen a reduction from £13.0 million in 2006/07 to the current figure of around £3.4 million. The board's 2013/14 Local Delivery Plan (LDP) envisages a further gradual reduction of the carry forward to zero by 2014/15.

Capital Resource Limit

33. The board broke even against its total Capital Resource Limit (CRL) in 2012/13 with total capital expenditure of £12.141 million. The total capital allocation was made up of core capital funding to the value of £12.691 million less deductions for property sales to the value of £0.55 million.

34. During 2012/13 the board had planned a 'capital to revenue' transfer to address backlog maintenance. However due to national limitations at UK Treasury level, the board instead allocated revenue funding of £1.7 million to cover non value adding expenditure on a number of planned schemes. This released £1.7 million of capital funds which have been applied to cover the purchase of a third CT Scanner and the ehealth infrastructure refresh.

35. The board also invested a significant amount (22 per cent) of overall capital expenditure in 2012/13 on Electromedical Replacement Equipment. A further £6.7 million was spent on the board's other 'major projects' including the Ayrshire Central Hospital project, Building for Better Care, and Ayr and Community Outpatient services.

36. During 2012/13 the board identified slippage in projects totalling £3.2 million which has been re-profiled to 2013/14. This reduced the anticipated drawdown of brokerage facilities from the SGHSCD. Slippage was attributed to three principal projects which include delays with the Ayr Community Health/ Out-Patient project due to re-design to incorporate the renal component, delay in approval of North Ayrshire Community Hospital (NACH) Outline Business Case and re-scheduling of work on the refurbishment element, and Dental priorities elsewhere in the

board area requiring to be undertaken in 2013/14. There is a risk that delays with capital projects may prevent the board from achieving the requirements of its clinical strategies.

Risk Area 2

37. The board's capital programme is reliant on the proceeds from its asset disposal programme. During 2012/13 approximately £0.9 million of receipts were deferred until 2013/14. The board is anticipating significant capital receipts in future years associated with the NACH site disposal. Due to current economic conditions there is now greater unpredictability around the realisable value of disposal properties and the timing of potential receipts. To ensure a deliverable and sustainable capital programme from a funding perspective the board must continue to demonstrate prudence in forecasting disposal proceeds.

Risk Area 3

Financial planning to support priority setting and cost reductions

38. The board's LDP for 2013/14 aligns the board's strategic priorities with its financial plans. 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.

Outlook

Financial sustainability and the 2013/14 budget

39. Uplifts in financial settlements have been reducing in recent years. Looking forward, the indications are that funding uplifts are likely to be around 2.8 % in 2013/14 and 2.6% in 2014/15. Given the current economic conditions and the impact of national spending priorities, these pressures will have an impact on long term financial planning and the control of pay and non-pay costs.

40. The board's ability to achieve financial balance in 2013/14 is dependent on it achieving £12.138 million of recurring cost savings for 2013/14 - equivalent to 2% of the board's baseline revenue allocation. In addition to these cash releasing efficiency savings the board's Financial Plan for 2013/14 also identifies a further £6.0 million of non-recurring productivity related savings, taking total savings to 3%.

41. Achievement of efficiency savings of this scale represents a major challenge to 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 cost savings are to be achieved through a number of means, including service redesign, more efficient procurement practices and a continued focus on GP prescribing costs. Particular pressures relate to the rate of growth in anticipated prescribing costs and volume, along with anticipated increases in workforce costs and supplies during 2013/14. The board's 2013/14 Financial Plan includes provisions to cover issues such as clinical staffing (£3.1 million) and increased prescribing and drugs costs (£6.7 million).

42. All additional expenditure will require to be met from the board's existing resources and as a result any significant fluctuations in these costs will present a major challenge to the board achieving financial balance during the coming year. 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 financial targets. Reflecting these pressures, the board plans a reduced carry-forward level of £2.0 million in 2013/14 however no carry forward is anticipated for 2014/15 or beyond, reflecting the tightening financial position.

Risk Area 4

Governance and accountability

43. 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.

44. 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.

45. 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.

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

Corporate governance

Processes and committees

47. Following the appointment of a new Chairman and Chief Executive in the early part of 2012, the board undertook a review of its management and governance arrangements to ensure that the best structures are in place to deliver outcomes and also bring together all aspects of governance under a single code.

48. The board approved its Code of Corporate Governance in March 2013. This incorporates all strands of corporate governance in one document and sets out how Ayrshire and Arran Health Board will conduct its business. The Code of Corporate Governance has been developed using existing national and local policies and it is intended that this will be updated annually.

49. The corporate governance framework within Ayrshire and Arran Health Board is centred on the board, supported by a number of governance committees. In December 2012, the board revised the remit of several its governance committees. As part of this review the remits of the Finance Committee and Health and Performance Governance Committee transferred to the Performance Governance Committee. The Clinical Governance Committee was replaced by the Healthcare Governance Committee which has a remit that will address the wider Quality Strategy. The board also approved the introduction of an Information Governance Committee

with a remit which includes Caldicott Principles, Freedom of Information and Data Protection. The role of Audit and Staff Governance remained with the core responsibilities unchanged.

50. In the early part of 2012/13, the board experienced a number of changes to the non-executive membership of the board. Three of the non-executive director's appointments ended on the 31 March 2012, however new non-executive members did not take up post until July 2012. 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. This placed demands on the existing non-executive members to ensure that the governance committees were quorate.

51. Despite the new appointments, the board continued to experience challenges during 2012/13 to ensure that governance committees were quorate. Committee attendance reported in the 2012/13 annual governance committee reports highlighted several meetings where attendance fell below the required minimum. By way of example, in 2012/13 the Audit Committee was inquorate twice and required to co-opt members on three separate occasions. In addition, the Health and Performance Governance Committee met formally on three occasions and on one occasion was not quorate.

52. The creation of the shadow Health and Social Care Transition Integration Boards for each of the three partnership areas by April 2014 will include NHS board non-executive membership as part of the governance arrangements (refer paragraphs 57-58). There is a risk that these additional commitments could place further strain on the board's non-executive members. This may result in a lack of external challenge, governance issues may not be effectively and timeously scrutinised and management not held accountable for decisions.

Risk Area 5

Patient safety and clinical governance

53. Overall, clinical governance is within the remit of the Healthcare Governance Committee. The Committee provides assurance to the board that the principles and standards of clinical governance are applied to health improvement and protection across Ayrshire and Arran.

54. The Healthcare Environment Inspectorate has a key role in helping NHS boards reduce the risk of Hospital Associated Infection (HAI) in acute hospitals through assessment, inspection and reporting of boards' performance against HAI standards. In this year HAI has carried out two unannounced visits to Ayr and Crosshouse University Hospitals. The first inspection took place at Crosshouse during January 2013. The report identified that Ayrshire and Arran Health Board is making good progress against standards to protect patients, staff and visitors from the risk of acquiring an infection. The inspectorate reported three requirements and five recommendations.

55. The second unannounced inspection was carried out at Ayr in February 2013. The report of this visit was published in April 2013 and noted that overall, there is evidence that NHS Ayrshire & Arran is complying with the majority of NHS QIS HAI standards to protect patients, staff and visitors from the risk of acquiring an infection. The inspectorate reported four

requirements and three recommendations and concluded that there are areas for improvement, including that staff must adhere to standard infection control precautions for the disposal and handling of sharps including syringes and needles, which the board must address as a matter of priority. An action plan for areas of improvement has been developed by the board.

Partnership working

56. Partnership working is promoted by the Scottish Government as a means of making service delivery more efficient and cost effective. The board's three Community Health Partnerships (CHP) are held to account through both its own governance committee and the Performance Governance Committee which monitors the performance of the CHPs in delivering the strategic intent of the board.

57. Plans to integrate adult health and social care in Scotland, which aim to improve the quality and consistency of care for older people, are progressing within the board. The Public Services (Joint Working) (Scotland) Bill was published on 28 May 2013 by the Scottish Government. The board held a workshop on 17 June 2013 at which board members received an overview of the implications of this legislation which require that NHS Board and partner local authorities adopt a model to ensure that adult health and social care services are integrated by 1 April 2015. At the board meeting on the 24 June 2013 the board considered the preferred model of care and approved the arrangements to progress the integration of health and social care.

58. The main focus of these new arrangements is to deliver improved outcomes and more efficient and effective services for the people of Ayrshire and Arran. The agreed model requires that a Transition Integration Board is established for each partnership area as soon as practicable. This will be followed by a Shadow Integration Board from 1 April 2014 with the Integration Joint Board being established by 1 April 2015, or when the Bill receives Royal Assent. This model also requires the appointment of a Chief Officer for each partnership to take this work forward.

59. Ayrshire and Arran Health Board was one of four pilot boards for the Integrated Resource Framework (IRF). To date, the IRF process has identified total Health resource with the Local Authority Social Care resource. The board recognises that there are issues with the methodology and assumptions being made and that there needs to be consideration and agreement on the extent to which the 'total resource' should be identified. Thereafter, the budgets which could be pooled require to be identified.

60. Ayrshire and Arran Health Board is one of the main community planning partners in the Community Planning Partnerships (CPP) with the three Ayrshire councils. An audit of North Ayrshire CPP was carried out by Audit Scotland in September 2012. The report noted that while partners have been improving how they work with each other, there is still substantial distance to go before partners can demonstrate effective sharing of resources. As pressures on budgets and demands on services increase, CPP partners need to better align their

combined resources to secure efficiencies. To date the board has not formally considered the findings of this report.

Internal control

61. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. 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. The extent of this work is also informed by their assessment of risk and the activities of internal audit.

62. 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, payroll, general ledger and trade receivables. Our overall conclusion was that Ayrshire and Arran Health Board had adequate systems of internal control in place in 2012/13 and there were no significant issues which required specific action by management.

Internal Audit

63. 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 reviewed the work of the board's internal auditors PricewaterhouseCoopers (PwC) 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.

64. As a result we were able to place reliance on the work of internal audit, for the purposes of our financial statements audit in a number of areas including trade payables, family health services and capital accounting. This not only avoided duplication of effort but also enabled us to focus on other areas of risk.

65. In their annual report for 2012/13 PwC provided their opinion based on the internal audit work undertaken during the year. Overall they concluded that there is generally sound system of internal control designed to meet the organisation’s objectives however control weaknesses were identified in several areas. In particular two reports (Information Governance – Policies and procedures, and Review of waiting times) were identified which had an overall ‘critical’ or 'high' risk classification. As a result these issues have been reported in the board's Governance Statement.

Governance Statement

66. The 2012/13 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. Additionally, the governance statement includes the requirement for an overt assurance that arrangements have been made to ensure best value.

67. Disclosures in the governance statement were made on :

- progress made by the board in response to the findings of the Scottish Information Commissioners Decision notice relating to records management of Significant Adverse Events Reports (refer to paragraphs 69-70 below)
- weaknesses identified in the information governance arrangements (refer to paragraph 71 below)
- breaches by the board relating to the new legally enforceable 12 week Treatment Time Guarantee which came into force in October 2012 (refer to paragraph 128 below).

68. Overall it was concluded by the board that the expected standards for good governance, risk management and control and that appropriate arrangements for best value are in place. Our audit has confirmed that we concur with this assessment.

Management of significant adverse events

69. In February 2012, 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 Healthcare Improvement Scotland (HIS) identified significant control weaknesses in the management and operation of critical incident and significant adverse event reporting at the board.

70. In June 2012 the board produced an improvement plan to address the seventeen recommendations set out in the HIS review of the management of critical incident and significant adverse event reporting. A summary of the response to the HIS report recommendations was submitted to the Director General, Health and Social Care at Scottish Government by the Chief Executive. A comprehensive report was also submitted to HIS who have confirmed that they will visit during 2013 to review progress made. Work to conclude the implementation of HIS recommendations remains a priority for the board.

Information Governance - Review of policies and procedures

71. In 2012/13 internal audit carried out a review of Information Governance arrangements with respect to policies and procedures within Ayrshire and Arran Health Board. Work in particular was focused on the areas of Clinical and HR as two of the higher risk areas under which there is a significant volume of policy and procedural documentation. The findings reported to the Audit Committee in June 2013 identified a number of high risk areas. These include definition and review, storage and accessibility of policies, and inconsistency in application of current guidance in relation to version control. A detailed improvement plan setting out a number of actions and agreed dates for implementation has been approved by the Corporate Management Team (CMT).

Patient Management System

72. In May 2011 the board introduced an advanced healthcare information system, Patient Management System (PMS) which replaced four separate patient management systems. In December 2011 the board reported that 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. In August 2012 the board reported that it still had some unresolved issues regarding Phase 1 of the project. An internal audit review of PMS Phase 1 implementation identified a number of key issues that require to be addressed for Phase 2 implementation. The recommendations contained within the audit report formed the basis of agreed actions to progress to Phase 2.

ICT Application Review

73. As part of our 2012/13 audit we carried out application system reviews of the project management arrangements for the implementation of the new payroll system and the move to a Single Instance of the National Finance System (NSI). The audit work was based on an established methodology developed by Audit Scotland. A management letter outlining our findings for each system was issued in June 2013.

74. Overall our review found that both the ePayroll and NSI projects were well based and adopted sound project management principles, for both central and local aspects of the project. Projects followed the principles of Prince2: i.e. it had a business case, organisational structure, plans, quality control, risk management and recognised the need for change management and progress monitoring. It was noted that the board were able to contribute directly and through a number of related NHS working groups.

75. The review also identified a number of areas where the board is exposed to a degree of risk at both a national and local level, including:

ePayroll

- the loss of the interface between the HR system (Empower) and SSPS which negated the need for keying of engagement, change and termination information by payroll staff - regular reconciliations between the two systems have now been introduced.
- the board did not complete a full parallel run as part of the national project to confirm complete accuracy of all pay records.

NSI

- the decision was taken to forego the contractual option offered by ATOS for a formal Disaster Recovery (DR) protocol for the Single Instance of the national finance system. The NSI Project Board and Directors of Finance did however require to be assured that the business of NHSS Boards could continue should a DR event happen.
- ATOS Origin Alliance (AOA) continue to provide the infrastructure support for the servers that host the system under the National IT Contract. The Service Level Agreement (SLA) for managing the NSI is still 'work in progress' although the understanding of the service

to be delivered is well understood by the boards as it has been laid out in the Statement of Systems Support Service Requirements.

76. Based on our review and testing of selected aspects of the project management for both ePayroll and NSI our overall conclusion is that that the internal control environment remains sound. This allowed us to take planned assurance on these systems for the audit of the financial statements in 2012/13.

Prevention and detection of fraud and irregularities

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

78. 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 number of other policies that are available to staff via the intranet including 'whistleblowing'. 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.

79. 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. In addition, the board has agreed a formal protocol covering a programme of payment verification checks within the Practitioner Services Division of NHS National Services Scotland.

80. We concluded that the board's arrangements were adequate in relation to the prevention and detection of fraud and irregularities, although it should be noted that no system can eliminate the risk of fraud entirely.

NFI in Scotland

81. Ayrshire and Arran Health Board participate in the National Fraud Initiative (NFI). The NFI 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.

82. NFI allows public bodies to investigate these matches and, if fraud or error, has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

83. The most recent data matching exercise collected data from participants in October 2012 with matches identified for follow-up in February 2013. The investigation so far has identified matches in both the creditors and payroll systems. All of the recommended matches are currently being investigated and to date, no instances of fraud have been identified.

84. In addition, the board completed a self-appraisal checklist which accompanied the national report on NFI (published in May 2012). This exercise highlighted that the board is proactive in investigating and following-up data matches. In addition, the Audit Committee receives regular reports on anti-fraud activities including NFI updates.

85. Overall, we concluded that the board has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

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

86. 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.

87. The board has a Code of Conduct for Board Members that is based on the Ethical Standards in Public Life etc. (Scotland) Act 2000. This includes a register of interests. The board also has a Policy on Standards of Personal Business Conduct which applies to all employees. This policy is incorporated in the Code of Corporate Governance approved by the board in March 2013.

88. In consultation with staff the board has recently updated and issued the Whistleblowing Policy. In addition, the board has included a specific paragraph on the Bribery Act 2010 and its requirements in the Standing Financial Instructions. We have concluded that the arrangements for the prevention and detection of corruption in Ayrshire and Arran are satisfactory, and we are not aware of any specific issues that we need to identify in this report.

Equality Act 2010

89. 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 of everyday business. To ensure commitment to this agenda the board has established an Equalities Delivery Group (EDG) which provides strategic direction and executive leadership. This group is chaired by the Chief Executive with membership comprising of director level representation.

90. In March 2013 the board produced a mainstreaming report which shows the progress by the board towards embedding the Public Sector Equality Duty since its introduction on 5 April 2011.

91. In line with the legislative requirements to publish a variety of equalities information by 30 April 2013 the board has developed a set of equality outcomes which detail how it is going to focus its equalities work over the next four years. The board's equality outcomes are aligned with existing NHS and Scottish Government policy priorities, as well as evidence from local engagement, and integrated into current performance management systems. The board must publish a report on the progress made to achieve them no later than 30 April 2015.

Outlook

Partnership Working

92. The Scottish Government has re-emphasised the central role that community planning should play in driving the reform of public services. Indeed, the 'Statement of Ambition' published by the Scottish Government and the Convention of Scottish Local Authorities sets out high expectations of community planning and puts the community planning process at the core of public service reform by providing the foundation for effective partnership working, within which wider reform initiatives will happen.

93. In March 2013, Audit Scotland published a national report on improving community planning in Scotland. This recognises that partnership working within a community planning framework is still evolving and it highlighted that community planning has had little influence over mainstream public sector budgets and other resources used to date. We will continue to monitor progress in this area.

Arrangements for the prevention and detection of fraud and corruption

94. The threat from fraud and financial crime is increasing as fiscal pressures continue to emerge. The Scottish Government considers therefore, that steps need to be taken to reinforce the counter fraud message, including the placing of a more direct responsibility on Accountable Officers for their organisation's approach to countering fraud and in achieving measurable outcomes from actions to prevent fraud occurring.

95. Under CEL 11 (2013) - updating CEL 3(2008) - Strategy to combat financial crime in NHS Scotland - there will now be a requirement for the board to take a more proactive, measurable approach to counter fraud work. The Chief Executive will be required to actively pursue the board's counter fraud policy and counter fraud work is required to be measured on a more routine basis and will form part of the Health Board's Annual Review.

Best Value, use of resources and performance

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

97. 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.

98. 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.

99. 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.

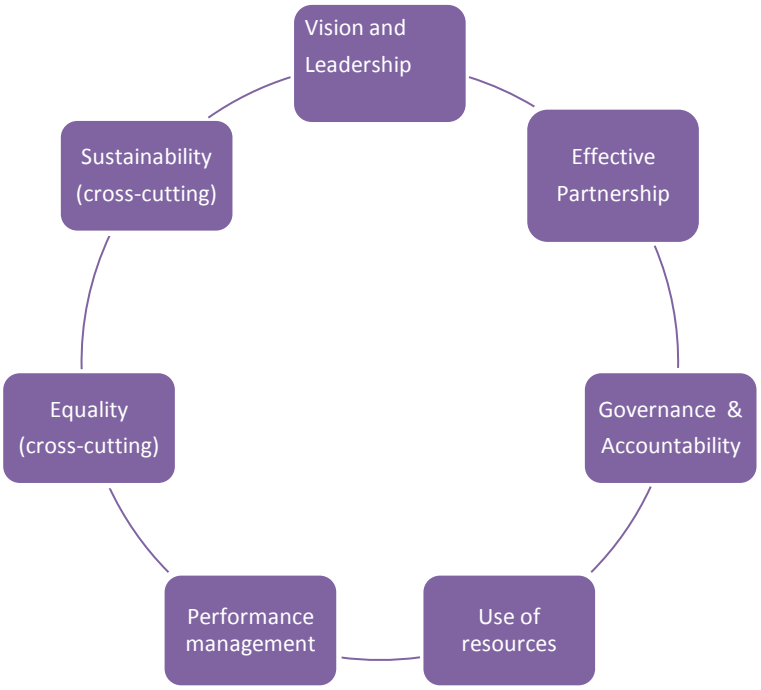
100. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

101. 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

102. Scottish Government guidance requires public bodies to take a systematic approach to self-evaluation and continuous improvement, covering seven themes, to demonstrate how it delivers Best Value. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:



103. Ayrshire and Arran Health Board are committed to the principles of Best Value and continuous improvement and produce an annual Best Value assurance statement. The board's Demand, Capacity, Activity and Queue (DCAQ) methodology is used to identify better use of existing resources and promotes higher efficiency. DCAQ analysis has already been undertaken in a number of specialities including neurology, dermatology, gynaecology and urology.

104. The three year 'Sustainable Futures Portfolio' programme developed by the board to make continuous improvements in the context of a decreasing income allocation has come to a conclusion. The board has established two key areas of development as top organisational priorities to improve quality and efficiency. The Transforming Outpatient Services project aims to deliver excellence in Outpatient Services while the Unscheduled Care project is focused on how best to manage the flow of patients in this area. The Chief Executive has also introduced a performance management culture where operational services are held to account for best value.

105. In our 2011/12 annual report we reported that the range of corporate, clinical and service specific strategies and plans at the board appeared fragmented in the absence of a clearly defined overarching corporate strategy. In May 2013 the board approved three integrated organisational statements which together help to define the organisation, provide clarity of purpose and goals and outline the key principles of how it will operate. Work remains ongoing however to ensure that business, workforce and financial plans are properly aligned.

Risk Area 6

Sustainability - Service Redesign

106. The board is committed to a number of significant capital projects which are key to the redesign and improvement of service delivery in Ayrshire and Arran Health Board. These projects are underpinned by the board's three clinical strategies:

- Mind your Health - Mental Health Services
- Your Health We're in it Together - Setting the Standards for Accessing Primary Care in Ayrshire & Arran
- Building for Better Care - Acute: Planned and unplanned Care.

107. These key projects, which include the North Ayrshire Community Hospital (NACH), Ayr Community Health/ Out Patient and Building for Better Care (BfBC), have funding allocated in the board's capital plan.

108. The NACH project incorporates the reprovision of Acute Mental Health Services and the Community Hospital Services for North Ayrshire. The expected cost of the project is around £65 million and this will principally be funded through the Non Profit Distribution (NPD) route with a small element from the capital programme. The outline business case for the NACH received Scottish Government's Health and Social Care Directorate approval in May 2012. In the spring of 2013 the board advertised for private business consortia to submit 'expressions of interest' in becoming the hospital's NPD partner. The board anticipate being in a position to appoint the preferred bidder early in 2014.

109. The board plans to invest £5.6 million to relocate a range of Ayr and Prestwick outpatient and community services to better premises. A number of business cases have been developed which detail the proposed relocation of the community and outpatient services. The majority of the expenditure was included in the approved capital budget for 2012/13 however this has been subject to delay due to redesign to incorporate a renal component.

110. The Building for Better Care (BfBC) project includes the Redesign of Front Door Services and Expansion of Critical Care Services at Ayr and Crosshouse University Hospitals. The initial Outline Business Cases (one for Ayr, one for Crosshouse) approved by the board in December 2010 envisaged £35.0 million investment. In 2012 the SGHSCD indicated to the board that the central contribution towards the BfBC project would be reduced to £15.5 million. Together with the board contribution of £5.5 million and inflation funding of £1.0 million, there is a total allocation of £22.0 million for this project. A revised OBC was considered by the board in December 2012. Following approval of the Phase 1 proposals in February 2013, the Scottish Government has requested that proposals for the second phase of the programme be brought forward for formal consideration by the Capital Investment Group.

Use of Resources - Asset Management

111. As part of our 2012/13 audit, we reviewed the board's asset management. We used a Best Value audit toolkit which covered four main areas:

- strategies, policies and plans – How well does the board plan economic, efficient and effective use of its assets?
- structures, roles and responsibilities – How well does the structure of the board support effective asset management?
- stakeholder involvement (internal/external) – How well does the board work with stakeholders, both internal and external, in managing its assets?

- performance management – How well does the board manage the performance of its assets?

112. Overall, we assessed that the board's asset management arrangements fall within the 'better practices' category. As a result, Ayrshire and Arran Health Board is able to demonstrate its commitment to the efficient use of its assets. The review identified two areas for improvement:
    - in the absence of a clearly defined overarching corporate clinical strategy, the focus of the board's Property Asset Management Strategy is on the current estate rather than considering what future clinical service provision needs will be and the demands this will place on the estate
    - although the department have built up a knowledgeable staff base in terms of numbers and skills, a formal succession plan should be in place to take advantage of the intellectual capital that is presently in post.

113. Findings from the review were considered by the Audit Committee in June 2013 which noted that the board has accepted the areas for improvement and is taking steps to ensure that the right processes are put in place to address them.

Use of Resources - People Management

114. In 2012/13 the board established a Workforce Planning Programme Board to replace and build on the work of previous workforce planning groups and to ensure a more integrated and cohesive approach to workforce planning. A workforce plan and projections for 2012/13 were developed with directorates, which anticipated the workforce changes that would result as a consequence of service redesign and known growth. The plan projected a reduction in the workforce of approximately 73.2 WTE by the end of March 2013, with the majority of anticipated reductions falling within Administration Services (51.2 WTE).

115. The board acknowledge however that the 2012/13 plans do not fully comply with the requirements of SGHSCD CEL32 (2011) - Revised workforce planning guidance and intend to address this in their 2013/14 plan.

116. As with other health boards in Scotland, Ayrshire and Arran Health Board faces a major challenge in achieving the national sickness absence target of 4%. The current sickness absence rate is 5.7% which is higher than last year's rate of 5.3%. A project plan has been established between the promoting attendance lead and partnership representative to address this issue.

Risk Area 7

Scotland's Public Finances – Addressing the challenges

117. In August 2011 Audit Scotland published the results of an audit on Scotland's public finances: addressing the challenges. Follow-up audits are being carried out in 2012/13 in all health boards and across the public sector in Scotland.

118. As part of the follow-up audit, auditors considered two key questions:

- Does the health board have sustainable financial plans which reflect a strategic approach to cost reduction?
- Do senior officials and non-executives demonstrate ownership of financial plans and are they subject to scrutiny before approval?

119. The field work for this exercise has been completed and a draft report is being prepared and will be reported to the next meeting of the Audit Committee. The key messages emerging from the follow-up audit, and which supplement the financial position section of this report, include the following:

- the board has a 5-year financial plan that sets out clearly the key planning assumptions including pay and price movements over the period
- the board has taken some steps to develop and secure savings for future years however there remains a significant level of unidentified efficiency savings
- expert groups are utilised to identify unavoidable cost pressures and advise the budget allocation process
- further work is required to ensure that workforce plans reflect the impact of service developments related to the board's three clinical strategies. Currently, the financial effects are not reflected in the board's financial plans
- the financial plan is subject to detailed review by the Corporate Management Team, Performance Governance Committee and board
- the Corporate risk register reflects financial risk areas and is considered regularly by the Audit Committee.

120. The findings reflect the fact that there are a number of challenges for the board in managing its finances, not least the increasing demand for services from a growing population, reduced funding, investment in new technology, NRAC, the cost of achieving access targets and recurring savings.

Performance management

121. The board produces a Local Delivery Plan (LDP) annually which provides a performance contract between the Scottish Government and the board, based on identified targets and forms the basis for performance monitoring.

122. The board's performance management system monitors progress against HEAT targets using a traffic light system. A number of national and local standards are also monitored by the board. 'At a glance' scorecards have been developed which are considered regularly by the Performance Governance Committee (previously the Health and Performance Governance Committee).

123. The Corporate Management Team also consider a set of indicators which are reported quarterly and include an agreed suite of pan-organisational indicators. The Chief Executive challenges directors on their area's performance against these key indicators and an agreed set of remedial actions to improve performance that will be followed up at the next meeting.

124. The Chief Executive has also introduced annual Performance Reviews with directorates. Whilst these meetings focus on the 'How the Directorate performed?' and what the challenges for people/ finance were, directorates also benchmark 'efficiency' key performance indicators against the Scottish Health Cost Return data to identify variations in average costs at specialty level.

125. Waiting Times targets are separately monitored by both the Corporate Management Team, Internal Waiting Times Group and the board on a regular basis. As outlined at paragraphs 132-133 below the recent review of waiting times by internal audit identified areas for potential improvement in the content and detail of waiting times data.

Overview of performance targets in 2012/13

126. In addition to nineteen HEAT targets the board monitors a further eleven National and nine Local standards. Within the set of HEAT targets there were eleven indicators with a status of Green, one indicator with a status of Amber and four indicators with a status of Red (and three indicators did not apply, either because no data has yet been published or targets are still in developmental stages). Of the eleven National standards seven had a status of Green, and four had Red. Of the nine Local standards all but one had a status of Red, with the exception being one standard where a target level had not been identified.

127. Specifically good performance was reported in relation to drug and alcohol referral to treatment, stroke patients admitted to a specialist unit and patients discharged from hospital to more appropriate care settings. Areas where targets were not fully achieved include fluoride varnish applications, reduction in the rates of attendance at Accident and Emergency, and reduction in emergency bed days for patients aged over 75. Maintaining and sustaining access targets is resource intensive and costly. This increases the pressure on the board at a time when it is required to achieve significant savings on a recurrent basis.

128. The Patients Rights (Scotland) Act 2012 introduced a statutory 12 week treatment time guarantee for eligible patients. This became effective from 1 October 2012. The board report that in 2013 there were 57 patients who were not treated within the required timescale. These were predominately Orthopaedic patients and to address capacity issues in this area the board has identified £1.8 million of recurring funding. As with performance generally, there remains the challenge to balance achievement of performance targets (particularly access targets) against reducing funding levels and other competing service priorities.

National performance audit reports

129. 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.

130. 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 discussed at Audit Committee and

where improvements are identified, actions are agreed locally and progress monitored. Reports in the last year that are of relevance to the board include:

Table 2: A selection of National performance reports 2012/13

- Management of patients on NHS waiting lists (February 2013)
- Prescribing in general practice in Scotland (January 2013)
- Health inequalities in Scotland (December 2012)
- NHS Financial Performance 2011/12 (October 2012)

www.audit-scotland.gov.uk

Management of patients on NHS waiting lists

131. Audit Scotland carried out a review of waiting times across the health service in Scotland following NHS Lothian's reported misuse of patient unavailability codes. The review recognised the need for independent assurance on the management of waiting times to restore public confidence in the system. The report on the Management of patients on NHS waiting lists was published in February 2013. It reported a number of key findings:

- the systems used to manage waiting lists have inadequate controls and audit trails, and the information recorded in patient records is limited
- most patients' records that were examined did not include enough information to verify that unavailability codes had been applied properly
- Audit Scotland identified a small number of instances in which unavailability codes were used inappropriately. The limitations of waiting list management systems and the lack of evidence in patient records mean that it is not possible to determine whether these instances were due to human error, inconsistent interpretation of the guidance, or deliberate manipulation of waiting lists
- there was not enough scrutiny of the increasing number of patients recorded as unavailable.

132. Whilst this review was ongoing, NHS boards' internal auditors were requested by the SGHSCD to carry out a review of waiting times as part of their 2012/13 internal audit plans and to report their findings by 17 December 2012. The board's internal auditors reported their findings to a specially convened Audit Committee held on 29 November 2012. Internal audit concluded that:

- the waiting times processes and procedures within Ayrshire and Arran Health Board could be further improved to enhance overall governance and reporting arrangements
- similar to all territorial NHS Boards in Scotland, the waiting times supporting systems within Ayrshire and Arran Health Board have been designed to manage the system rather than to provide a clear and evidenced audit trail across all aspects of the patient journey
- the majority of transactions appeared to be reasonable within the context of patient circumstances and explanations provided by staff.

133. Internal audit did identify some areas for improvement which the board has put in place an action plan to address. These include:

- the role, remit and attendance at the Waiting Times Group, who manage waiting lists on an operational basis, should be reviewed, with attendance considered to be mandatory. Agreed actions should be tracked and followed up
- review of assurance, reporting and escalation arrangements to the board in providing a more robust and comprehensive 'picture' of the waiting times position, and enhance members' ability to make informed decisions regarding the appropriateness of action taken by management
- the local access policy is vague and lacks detail in key areas such as the definition of a 'reasonable' offer. In addition, the policy refers to operational procedures, which are not being used and are outdated, dating back to 2006/07.

Prescribing in general practice in Scotland

134. The national report highlighted that the NHS in Scotland spends almost £1.4 billion per year on drugs, of which almost £1 billion (70 per cent) is spent in general practice.

135. The report noted that NHS Scotland has improved its management of GP prescribing and family doctors are getting more support and guidance on their prescribing. The report, however, indicated that there was further scope for improvements and the potential to save up to £26 million per annum without affecting patient care. The savings could mostly be achieved through reducing waste and cutting the use of less suitable medicines.

136. The board has completed the self assessment checklist included in the report, reflecting their current situation and drawn up an action plan to take forward relevant issues. This was reported to the Audit Committee in May 2013 and will be progressed by the Medicines Utilisation Unit.

Health inequalities in Scotland

137. The Scottish Government's spending review reiterated its commitment to addressing health inequalities, and allocated around £170 million to NHS boards to directly address health-related issues associated with inequalities.

138. The national report assessed how well public sector bodies are working together to target resources at health inequalities. The report indicated that it was unclear how much money NHS Boards and Councils spend in this area or what it is spent on. The report highlighted that the Scottish Government takes account of deprivation and other local needs in allocating funding to NHS Boards and Councils. However, it is not clear how these bodies target their resources at local areas with the greatest need. Within Ayrshire and Arran Health Board Community Health Partnership localities, funding allocated for health inequality is weighted above the Scottish average for rurality and deprivation.

139. The report stressed the importance of joint working between local authorities and Health Boards and the ability to record where money was spent and the outcomes achieved. A

board workshop on population health was held to address the issue of how the board contributes to community planning and how it can work with its partners to target and tackle inequalities.

NHS Financial Performance 2011/12

140. The report provides an overview of the financial performance of the NHS in Scotland during financial year 2011/12. It also highlights the financial sustainability, challenges and cost pressures facing the NHS. In this context it reinforces the need for sound financial management and clear financial reporting, underpinned by good information and strong governance and accountability.

141. The report noted that whilst the NHS in Scotland continued to manage its finances within total budget, this does not reflect the pressures faced by boards and a number of them had to rely on non-recurring savings to achieve balance.

Outlook

Performance

142. Over recent years the board has invested substantial resources, particularly in relation to access to services, to achieve challenging performance targets set by the Scottish Government. The significant financial challenges that will be faced in 2013/14 and beyond make maintaining or improving performance even more challenging.

143. The Auditor General has been asked by the Public Audit Committee of the Scottish Parliament to provide an update on Audit Scotland's Management of patients on NHS waiting lists report later this year. The audit work will focus on progress made by the NHS in establishing clear information audit trails and on the management and monitoring of waiting lists. The fieldwork for the report will be carried out at NHS boards in September and October of 2013 with a report to the Public Audit Committee by the end of December 2013.

Appendix A: audit reports

External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit Committee
Internal Audit Reliance Letter	17 December 2012	16 January 2013
Annual Audit Plan	7 January 2013	16 January 2013
Internal Controls Management Letter	25 April 2013	6 May 2013
Best Value use of Resources - Asset Management	16 May 2013	12 June 2013
ICT Application Review of ePayroll	19 June 2013	11 September 2013
ICT Application Review of NSI	19 June 2013	11 September 2013
Report to Audit Committee in terms of ISA 260	4 June 2013	12 June 2013
Independent auditor's report on the financial statements	4 June 2013	12 June 2013
Annual Report on the 2012/13 Audit	July 2013	11 September 2013

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	21	**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*.	Equal Pay Claims are identified in the accounts as an unquantified contingent liability, but are limited to a 6 month period prior to implementation of Agenda for Change (from 1 April 2004 to 30 September 2004). Central Legal Office continues to monitor NHS cases decided at tribunals within the UK and management will follow Scottish Government advice.	Director of Finance	March 2014
2	36	**Capital Slippage** There has been some slippage in capital projects which are essential to the modernisation of the board's healthcare services. *There is a risk that capital slippage could delay the board achieving the requirements of its clinical strategies.*	The Financial Management Report to the Board identify on a quarterly basis capital spend against plan.	Director of Finance	December 2013
3	37	**Future Asset Sales** The board's future capital programme is dependent upon an anticipated level of asset sales in future	Review of planned receipts in 2013/14 confirms reasonable, however 2014/15 capital receipts reduced from £5 million to £2 million	Director of Clinical Support Services	August 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		years. *There is a risk in the current economic climate that the income expected from asset sales may not be realised.*	following review in July 2013.		
4	42	**2013/14 Savings Target** The delivery of the cost savings plan for 2013/14 is challenging. *There is a risk that the board may not be able to achieve its savings targets in future years.*	Progress against the efficiency savings targets will be reported monthly at a Directorate and Board level as well as in monthly financial monitoring reports to Scottish Government.	Director of Finance	December 2013
5	52	**Non-Executive Member committee attendance** There have been instances of committee meetings not being quorate, due to absence of non-executive members. *There is a risk of a lack of external challenge, governance issues may not be effectively and timeously scrutinised and management not held accountable for decisions.*	Issue discussed at Integrate Governance meeting in June 2013 and mainly relates to Audit Committee. Currently recruiting two replacement Non-Executive Members.	Chairman	December 2013
6	105	**Planning and Policy Framework** The development of the board's revised Planning and Policy Framework is ongoing. *Until this is completed there remains a risk that*	The Board has developed a coherent framework involving: • three integrated organisational statements • an overall strategic	Director of Policy, Planning and Performance	December 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		service, workforce and financial plans are not properly aligned.	framework • a completed local service and services strategies stocktake • a draft strategic matrix which identifies key leads for overall delivery and leadership which flow from the strategic matrix. The strategic matrix will be finalised for implementation in 2013/14.		
7	116	**Sickness absence** The board has a project plan to improve its sickness absence rate of 5.7%. *There is a risk that this plan will not be successful in reducing sickness absence. This may impact on the board's ability to deliver services and achieve its objectives.*	As with other Health Boards in Scotland, Ayrshire and Arran Health Board faces a major challenge in achieving the national sickness absence target of 4%. The current sickness absence rate is 5.7% which is higher than last year's rate of 5.3%. A 31 point project plan has been established between the promoting attendance lead and partnership representative to address this issue. Additionally, an internal audit review has been completed, the findings from which will serve to inform any necessary additions or amendments to the project plan.	Director of O&HRD	March 2014