



## **NHS Ayrshire and Arran**

### Annual report on the 2013/14 audit

Prepared for the Board of NHS Ayrshire and  
Arran and the Auditor General for Scotland  
July 2014



## Contents

Key messages.....	3
Introduction.....	6
Financial statements.....	8
Financial position.....	11
Governance and accountability.....	15
Best value, use of resources and performance.....	20
Appendix I – Summary of Audit Scotland reports 2013/14.....	26
Appendix II – Significant audit risks.....	27
Appendix III – Action plan.....	30

## Key contacts

Fiona Mitchell-Knight, Assistant Director

[fmitchell-knight@audit-scotland.gov.uk](mailto:fmitchell-knight@audit-scotland.gov.uk)

David Jamieson, Senior Audit Manager

[djamieson@audit-scotland.gov.uk](mailto:djamieson@audit-scotland.gov.uk)

Mark Laird, Senior Auditor

[mlaird@audit-scotland.gov.uk](mailto:mlaird@audit-scotland.gov.uk)

Audit Scotland  
4th floor (South Suite)  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

Telephone: 0845 146 1010

Website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

# Key messages

---

## Financial statements

- Unqualified auditor's report on the 2013/14 financial statements.
- Audited financial statements submitted to Scottish Government by 30 June 2014.

## Financial position

- All financial targets in 2013/14 met:
- Surplus against total RRL of £2.051 million.
- Achievement of recurrent savings target of £12.138million.
- Financial management remains strong with a robust budget setting process.

## Governance & accountability

- The Board had sound governance arrangements in place.
- The Board has an effective internal audit function and sound anti-fraud arrangements.

## Best Value, use of resources & performance

- The Board has a well developed framework in place for monitoring and reporting performance.
- In 2013/14 the Board met 11 of its 20 HEAT targets; 4 targets were not met and 1 was slightly behind target. The 4 remaining targets were under development.

## Outlook

- A £1 million carry forward is forecast in 2014/15 with a breakeven position for each of the four subsequent financial years. This will be dependent on the Board achieving significant recurrent savings to bridge the funding gap. This is against the background of major challenges such as health and social care integration and pension reform.

## Financial Statements

We have given an unqualified audit opinion on the financial statements of NHS Ayrshire and Arran for 2013/14.

The Board achieved all of its financial targets in 2013/14 and reported a cumulative surplus of £2.051 million against its total Revenue Resource Limit, after taking account of the £3.422 million surplus brought forward from the previous financial year. In addition, it achieved recurrent savings of £12.138 million against a planned savings target of £12.138 million. The carry forward of £2.051 million into 2014/15 is fully earmarked for specific purposes.

Financial management remains strong with a robust budget setting process and challenge evident in agreeing and monitoring the financial position of the Board.

## Financial position

The Board is forecasting a £1 million carry forward in 2014/15, after taking account of the £2m brought forward from this year. However, this is dependent on the delivery of efficiency savings of £18.567 million of which £10.212 million is to be delivered on a recurrent basis from cash releasing efficiency savings, with the balance of £8.355 million to be generated from non-recurrent productivity related savings.

## Governance and accountability

During 2013/14, the Board had sound governance arrangements 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.

An update of the Board's ICT infrastructure arrangements reported to the Information Governance Committee on 24 February 2014 provided assurance to members that the Board has or is addressing the recommendations of the national report commissioned by the Cabinet Secretary for Health following a major ICT incident at NHS Greater Glasgow and Clyde.

NHS Ayrshire and Arran has sound arrangements in place for considering the implications and learning the lessons from national reports such as those from the Francis Enquiry, Keogh and Audit Scotland national audit reports.

## Best Value, use of resources and performance

The Board has a well developed framework in place for monitoring and reporting performance to the Performance Governance Committee. Performance monitoring reports have identified that HEAT targets were not achieved in some important areas, including waiting times, accident & emergency attendance and delayed discharges.

Substantial funding has been invested in reducing waiting times in a number of areas over the last two years. Audit work on Equalities indicated that the arrangements for progressing equality within the Board fall within the 'better practices' category. The Board is in a good position going forward and can demonstrate its commitment to continuous improvement.

## Outlook

The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. Achieving sustainability in the medium term will require innovation and vision to design and deliver the services needed to serve the future needs of citizens.

In support of the transformational change required to deliver the national 2020 Vision, the Board has linked local programmes of work and their performance to the priority areas set out in the 2020 Route Map.

The financial plan assumes efficiency savings of £12.435 million in 2015/16, and £12.500 million each year thereafter.

The Board recognises the difficult operating environment beyond 2014/15 and the challenges it faces including a 1.8% annual funding uplift, pension and national insurance changes and the normal pressures of pay, prices and prescribing.

Also, the Scottish independence referendum in September, regardless of the outcome, is likely to change the political and fiscal environment within which NHS Ayrshire and Arran operates and adds a further layer of uncertainty to the organisation's financial plans.

Additionally, there are the challenges of increasing service pressures to be met in achieving and sustaining HEAT targets, technology advances, demographic impact and a major organisational change with the implementation of Health and Social

Care Integration from April 2015.

The Board and North, South and East Ayrshire Councils have agreed to proceed with health and social care integration on a '*Body Corporate*' model. From April 2015 the three Integration Joint Boards will be responsible for health and social care services throughout Ayrshire and Arran. In preparation for this handover, Shadow Integration Boards (SIBs) will oversee these services from 1 April 2014. Further work is also ongoing to establish the budgets for all services within scope and to establish frameworks for financial monitoring and control.

# Introduction

---

This report is a summary of our findings arising from the 2013/14 audit of NHS Ayrshire and Arran (NHSAA). The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.

Our responsibility, as the external auditor of NHS Ayrshire and Arran, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The management of NHS Ayrshire and Arran is responsible for:

- preparing financial statements which give a true and fair view
- implementing appropriate internal control systems
- putting in place proper arrangements for the conduct of its affairs
- ensuring that the financial position is soundly based.

This report is addressed to the Board and the Auditor General for Scotland and should form the basis of discussions with the Audit Committee soon after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential

element of accountability and the process of public reporting.

This report will be published on our website after it has been considered by the Board. The information in this report may be used for the Auditor General's annual overview of NHS financial performance. The overview report will be published and presented to the Public Audit Committee of the Scottish Parliament later this year.

A number of **local and national reports** have been issued during the course of the year. These reports (**appendix I**) include recommendations for improvements. 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 NHS Ayrshire and Arran.

The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix II** sets out the **key audit risks** identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

**Appendix III** is an **action plan** setting out the issues, risks and recommendations arising from the audit. Officers have considered the issues and agreed to take the specific steps in the column

headed "Management action/response".

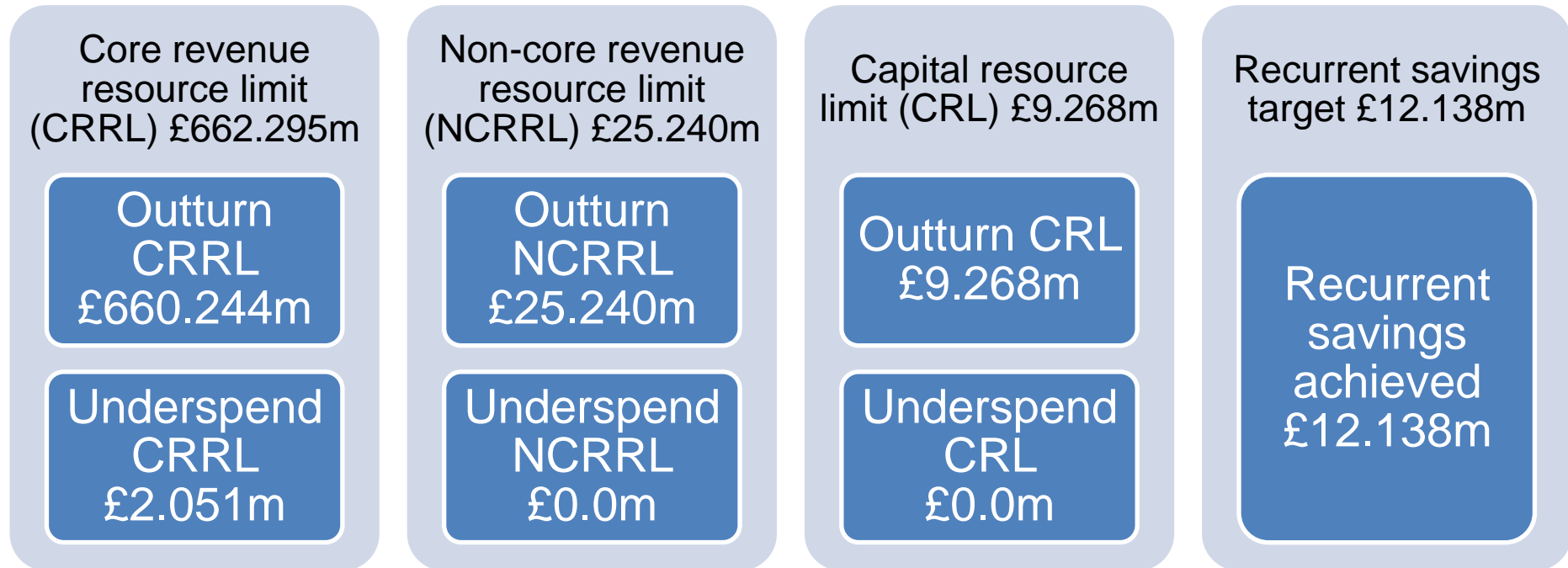
We recognise that not all risks can be eliminated or even minimised. What is important is that NHS Ayrshire and Arran understands its risks and has arrangements in place to manage these risks. The Board and Accountable Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Financial statements

---



## Audit opinion

We have given an unqualified opinion that the financial statements of NHS Ayrshire and Arran for 2013/14 give a true and fair view of the state of its affairs and of its net operating cost for the year.

## Other information published with the financial statements

Auditors review and report on other information published with the

financial statements, including the Directors' Report, Governance Statement and the Remuneration Report. We have nothing to report in respect of these statements.

## Regularity

The Public Finance and Accountability (Scotland) Act 2000 requires auditors to certify that, in all material respects, the expenditure and income shown in the accounts was incurred or applied in



accordance with relevant legislation and guidance issued by Scottish Ministers. We addressed the requirements of the Act through a range of procedures, including obtaining written assurances from the Accountable Officer. We have given an unqualified opinion on regularity in our 2013/14 auditor's report.

## Accounting issues arising

A number of disclosure and presentational issues were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the unaudited financial statements to correct them all. The effect of these adjustments was a reduction in expenditure and an increase to the saving against the core Revenue Resource Limit of £15,000. Net assets as recorded in the Balance Sheet were unchanged.

## Report to those charged with governance

We presented to the Audit Committee, on 11 June 2014, our report to those charged with governance (ISA 260). The primary purpose of this report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points are set out in the following paragraphs.

## North Ayrshire Community Hospital land sale

The accounts presented for audit contained an accrual of income of £0.150m relating to the sale of a piece of land at North Ayrshire Central Hospital. The land is for a third party GP surgery being built as part of the wider North Ayrshire Community Hospital development (NACH). Missives relating to the sale were in the

opinion of the Board and CLO concluded in December 2013, suspensive on the purchaser obtaining planning permission. This planning permission has not yet been obtained.

The NHS Capital Accounting Manual requires that the sale of an asset should be recognised when contracts are exchanged or completion takes place; where uncertainty exists the recognition of sale should be deferred until completion. Following discussion with officers and consideration of accounting guidance in this area, it was agreed that recognition of the proposed sale would be deferred until 2014/15.

NHS Ayrshire and Arran is required to remit property sale proceeds to Scottish Government. This delay in accounting for the sale required a late change to the Capital Resource Limit against which the £0.150m receipt had been offset.

## Equal pay

The National Health Service in Scotland had received 5,905 claims for equal pay as at 31 March 2014 of which 1,196 related to NHSAA. Such claims are referred to the NHS NSS Central Legal Office (CLO) to deal with.

In common with other NHS Boards, NHSAA has not been able to quantify the extent of its liability for equal pay claims and has disclosed a non quantifiable contingent liability. There is a risk that as these claims progress they could have an impact on the Board's financial position (**Action plan no 1**).

## Endowment Funds

The 2013/14 accounts manual, requires host Boards, to consolidate endowment funds established by the National Health Service (Scotland) Act 1978 into their financial statements for the first time.

The Ayrshire and Arran Health Board Endowment Funds have been consolidated into NHS Ayrshire and Arran's financial statements for 2013/14. The consolidation has required the restatement of prior year comparatives and the inclusion of a consolidated opening balance sheet at 1 April 2012.

## Outlook

The financial statements of the Board are prepared in accordance with the Government financial reporting manual (the FReM). The main new standards adopted in 2014/15 are:

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosures of interests in other entities.

Compliance with FReM is mandatory; however, the impact of the adoption of the new standards is unlikely to be significant to the financial statements of NHSAA.

# Financial position

---

NHS Ayrshire and Arran is required to work within the resource limits and cash requirement set by the SGHSCD. Final RRL and CRL were agreed with SGHSCD on 4 June 2014. The Board achieved all of its financial targets in 2013/14.

The Board has achieved a cumulative surplus of £2.051 million. The Board had budgeted for a planned carry forward of £2.000 million against its Revenue Resource Limit in 2013/14. The planned carry-forward level for 2014/15 is £1.000 million with no carry forward envisaged for 2015/16 or subsequent years.

The 2013/14 Board outturn showed two areas of significant overspend. Acute services reported an overspend of £5.333 million at month 12 with the most significant factors influencing this being nurse staffing, nursing supplies costs and medical staffing. This is mainly due to agency staff and locums covering sickness absence and vacancies, as well as a number of nursing staff in post exceeding available funding. Also, there were overspends relating to increased levels of activity in theatres which have not been fully funded, and in taxis for renal patients, audiology and orthopaedic prosthetics.

Additionally, the Medical Directorate (including GP prescribing) showed overspends of £1.005 million. This was mainly due to a higher price on a small range of drugs as a result of short supply and manufacturing issues.

There were also several other areas reporting an underspend including Partnership, Mental Health Services, and Clinical and Non-Clinical Support Services. These all contributed to the achievement of the budgeted £2.000 million underspend.

## Capital expenditure

The Board spent a total of £9.268 million on capital projects during 2013/14. This amount matched its total Capital Resource Limit (CRL) of £9.268 million. Main spend areas during 2013/14 included Ayr community and outpatient services (£3.236 million, Building for Better Care projects at University Hospitals Ayr and Crosshouse (£1.311 million) and electro medical equipment (£1.857 million). Actual spend throughout the year was in line with budget projections.

## Financial sustainability

The Board's Local Delivery Plan (LDP) for 2014/15 aligns strategic priorities with financial plans, workforce plans and asset plans. The Board's financial planning arrangements include regular monitoring, reporting and updating of financial information and the corporate risk register to ensure that focus to be maintained on financial performance and that action is taken on any emerging issues. A Financial Management Report is produced by the Assistant Director of Finance on a monthly basis and is presented to both the Performance Governance Committee and the Board. This report provides a summary of the financial position at the end of each month together with a commentary, which highlights the projected

areas of underspend and overspend month by month. It also identifies the current position against the efficiency savings target.

Historically, Boards have relied upon a measure of non-recurring funding to achieve financial targets. However, due to the one-off nature of this type of funding, the tighter financial settlement compared to the past and reduced flexibility within expenditure budgets, there is less scope for reliance on non-recurring income to achieve financial balance.

The Board's five year financial plan for the period 2014/15 to 2018/19 indicates a break-even position in each of the five years with the exception of 2014/15 where a £1m saving is forecast from the £2.0m carried forward. The plan includes projected savings for 2014/15 of £18.567 million. Of these, £17.733 million of savings have been identified. This leaves £0.834 million of savings to find. Whilst the Board is confident that it will be able to identify these further savings during 2014/15, there remains the risk that the required efficiency savings are not achieved. The Board should ensure that formal plans are produced covering all the required savings for 2014/15 (**Action plan no 2**).

The plan assumes efficiency savings of £12.435 million in 2015/16, and £12.500 million each year thereafter. It also assumes anticipated future funding uplifts in the range of 2.57% for the period 2014/15 and 2.17% for 2015/16. Uplifts are anticipated to be 1.75% thereafter.

In support of the transformational change required to deliver the 2020 Vision, the Board has linked local programmes of work and

their performance to the priority areas set out in the 2020 Route Map. The Board has also undertaken a local services and strategies stocktake comprising 70 plans which have been aligned to the national 2020 vision.

The updated National Resource Allocation position was published earlier this year. This has resulted in a change in NHS Ayrshire and Arran's population share from 7.36% to 7.50% (after taking account of additional needs) and has seen the Board move from an overfunded position to one of slightly below 'parity'. As a minimum, the Board will get a 'basic' uplift in 2015/16.

The board's capital programme is reliant on the proceeds from its asset disposal programme. For 2014/15, capital receipts of £3.610 million are forecast. The board is also anticipating significant capital receipts in future years associated with the Ayrshire Central Hospital 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 (**Action plan no 3**).

## Workforce planning

The 2013/14 financial statements include £0.068 million of costs relating to 2 individual exit packages (32 in 2012/13). The Board is currently considering its process for progressing exit packages reflecting recent guidance from the Scottish Government.

The staff turnover rate for NHS Ayrshire & Arran has consistently been lower than the Scottish average for the past six years. In addition the organisation has also had the lowest turnover rate when compared to all territorial mainland NHS Boards. The low staff turnover rate presents a particular challenge to the Board and could have an impact on the organisation's ability to realise savings especially as costs are predominantly workforce based. Audit Scotland's "Scotland's Public Sector Workforce" report highlighted that public sector finances will be under pressure for the foreseeable future and, given the challenges ahead, public bodies will need to make further workforce changes. A number of integrated programmes of work are ongoing within NHS Ayrshire and Arran in relation to workforce planning to deliver the savings required.

As with other health boards, Ayrshire and Arran faces a major challenge in achieving the national sickness absence target of 4%. The 2013/14 average sickness absence rate is 5.35% which is an improvement from last year's rate of 5.75%. The Board plans to further improve in this area through the continued focus on its Staff Health, Safety and Wellbeing Strategy (**Action plan no 4**).

During 2013/14 the Board incurred significant costs in relation to agency staff. Costs increased from £4.288 million in 2012/13 to £6.234 million, an increase of some 45%. Agency staff are required for a variety of reasons including cover for senior vacant posts. In addition, in relation to nursing, high sickness levels, increased winter pressure costs and individual packages of care for complex patients impact significantly. Waiting time guarantee

targets also continue to cause pressure on these budgets. There is an ongoing review to reduce these levels and an initial investment in core nursing support is planned for 2014-2015 with the aim of reducing the need for agency staff. It is recognised that continued reliance on agency workers will have a significant impact on the Board's plans to achieve the savings required for longer term sustainability (**Action plan no 5**).

### Cost of pension provision

Following the advice of the Scottish Government, Note 24 in the financial statements for 2013/14 "Pension Costs" reflects a liability of £29.1 billion for the NHS Superannuation Scheme as at 31 March 2013. This figure is based on the last quinquennial actuarial valuation on the NHS Superannuation Scheme which was for the year ended 31 March 2004 and has been rolled forward to provide the liability at 31 March 2013. While there was a more recent actuarial valuation carried out at 31 March 2008, the publication of this valuation was postponed by HM Treasury pending the outcome of public sector pension reforms. An updated valuation has now been carried out and the results are expected to be published soon. Future potential increases to contribution rates will need to be managed as part of the cost base.

Changes in pension legislation came into force in 2012 requiring that all eligible employees must be automatically enrolled into a workplace pension scheme. Also employer's pension contributions will increase from April 2015. The Board's five year financial plan allows for an increase of 2% in 2015/16 but there is a risk that

increase could be as high as 4%.

### **PFI/ PPP costs**

NHS Ayrshire and Arran has two PFI/PPP schemes, East Ayrshire Community Hospital and the Ayrshire Maternity Unit which are disclosed in Note 23b of the financial statements. These two contracts are included on the balance sheet and have capital costs of £26 million. In 2013/14, the Board paid a unitary charge of £5.128 million for the two hospitals.

In March 2014, the Board agreed that in view of the significant annual spend on PFI contracts and further £46.6 million planned capital spend on North Ayrshire Community Hospital under the Non Profit Distributing model, a monitoring officer would be appointed.

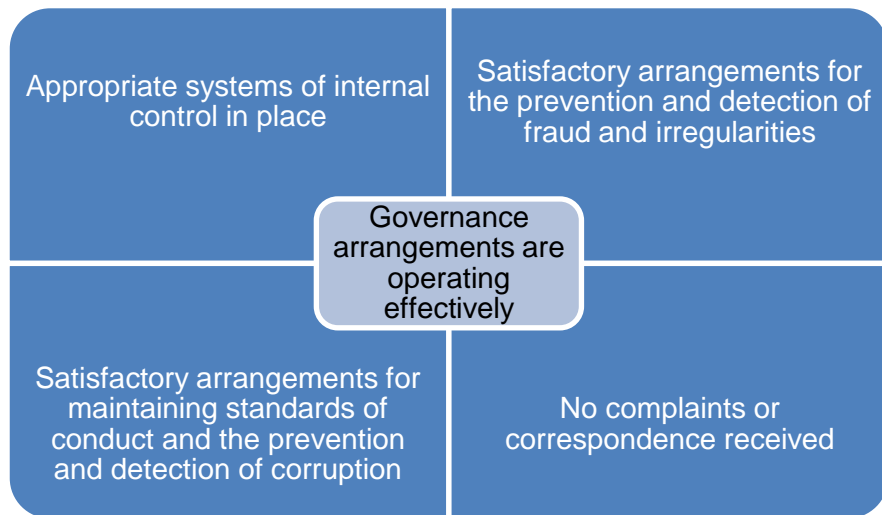
### **Outlook**

The Board is forecasting a £1 million saving in 2014/15 from the £2m carried forward, with a breakeven position for each of the four subsequent financial years. However, this is dependent on the delivery of efficiency savings each year to compensate for the gap between available funding from current sources and the cost of services. The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less and where the ability to deliver further cost savings is more difficult.

Also, the Scottish independence referendum in September, regardless of the outcome, is likely to change the political and fiscal

environment within which NHS Ayrshire and Arran operates and adds a further layer of uncertainty to the organisation's financial plans.

# Governance and accountability



The Board and accountable officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHS Ayrshire and Arran and for monitoring the adequacy and effectiveness of these arrangements.

## Corporate governance

The corporate governance framework within NHS Ayrshire and Arran is centred on the Board which is supported by a number of

standing committees. Based on our observations and audit work our overall conclusion is that the governance arrangements within NHS Ayrshire and Arran are operating effectively.



The Chief Executive, as accountable officer, obtains written assurance from each of his Directors that appropriate control mechanisms and systematic governance and management arrangements were in place throughout the year for their areas of responsibility. This is consistent with the guidance issued by the SGHSCD.

In reviewing the Governance Statement, the Audit Committee receives:

- Annual reports from all governance committees confirming that they have fulfilled their remit.
- Assurance from executive directors in the form of a letter to the Chief Executive that adequate internal controls have been in place in their areas.

- Annual assurance statement from internal audit.
- Letter of assurance from the Chief Executive.

This is also consistent with guidance issued by SGHSCD.

## Internal control

As part of our audit we reviewed the high level controls in a number of NHS Ayrshire and Arran's systems that impact on the financial statements. This audit work focused on trade payables and payroll. We also relied on previous years' audit work in relation to cash and bank, general ledger, capital accounting and family health services where we carried out a high level review of key controls to confirm they were still operating effectively. Additionally, we formally relied on internal audit's work on the trade receivables system. Our overall conclusion was that the key controls within the Board's main financial systems were operating satisfactorily during 2013/14, although we did identify two areas within the payroll system where improvements in controls are required.

## Internal audit

Internal audit provides the Board and accountable officer with independent assurance on the overall risk management, internal control and corporate governance processes. In addition, in an effort to avoid duplication, we place reliance on internal audit work where appropriate. We are required by international auditing

standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work.

The review of internal audit was carried out in December 2013 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.

Scottish Government guidance covering the Governance Statement requires the Chief Internal Auditor (or equivalent) to provide an opinion on whether there are adequate and effective internal controls in place throughout the year. The annual assurance statement provided by internal audit for 2013/14 did not explicitly address this requirement. In future years, we expect the audit opinion to reflect the guidance in full. Public Sector Internal Audit Standards should also be reviewed regarding the format of the assurance provided by internal audit.

## National ICT / BCP Resilience Review

Following a major ICT incident at NHS Greater Glasgow and Clyde, the Cabinet Secretary for Health required all NHS Boards to carry out a review of their ICT resilience and business continuity planning arrangements to provide assurance of their effectiveness. A national report was subsequently issued containing 21 recommendations for health boards to consider.

An update on the national report was provided to the Information Governance Committee on 24 February 2014 by the Assistant Director of eHealth & Infrastructure Services. This highlighted the



current status of the Board in all the areas reviewed and indicated where assurance of the adequacy of processes was established. Within the Board, the report had been very positive with no major issues identified. It also highlighted that Ayrshire and Arran were only one of two Boards who had taken out premium support with Microsoft which was one of the recommendations in the national report.

### **Arrangements for the prevention and detection of fraud**

The Board's Code of Corporate Governance contains a section on how staff must deal with suspected fraud and the Board's intended response to a reported suspicion of fraud. In addition, each Audit Committee meeting receives an update on Counter Fraud Services (CFS) work. Overall, we concluded that the Board's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

The Board's financial statements disclose in the Governance Statement and at SFR 18.1(b), a loss of theatre equipment with a value of £592,748. A CFS investigation is currently underway in relation to this loss.

NHS Ayrshire and Arran participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that

the Board has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

### **Arrangements for maintaining standards of conduct and the prevention and detection of corruption**

The arrangements for the prevention and detection of corruption in NHS Ayrshire and Arran are satisfactory and we are not aware of any specific issues that we need to record in this report.

### **Correspondence referred to the auditor by Audit Scotland**

No complaints or correspondence was received which required audit consideration.

### **Integration of adult health and social care**

The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland and is the Scottish Government's ambitious programme of reform to improve services for people who use health and social care services. The integration will be complex and challenging and the Board will need to engage at the highest level with the relevant councils in its area to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for

purpose. This will require:

- the establishment of a local integrated partnership and related governance arrangements
- integrated budgets for health and social care
- joint responsibility for strategic and locality planning in the area served.

In June 2013, the Board and North, South and East Ayrshire Councils agreed to proceed with integration on a 'Body Corporate' model. Under these new proposed arrangements, these bodies will delegate accountability for the delivery of agreed health and social care services to three new Health and Social Care Partnerships (HSCP) between each council and NHS Ayrshire and Arran. Each partnership will have one integrated budget for delivering services that improve outcomes, and will be led by a joint post - Director of Health and Social Care - reporting jointly to the Chief Executives of NHS Ayrshire & Arran and the Council. Directors have been appointed to all three Ayrshire Health and Social Care Partnerships.

From April 2015 the three Integration Joint Boards will be responsible for health and social care services throughout Ayrshire and Arran. In preparation for this handover, Shadow Integration Boards (SIBs) will oversee these services from 1 April 2014. SIBs are made up of non-executive and clinical director members of the Board and local councilors. Initially, they will also include clinicians, service users, carers, representatives from the third sector and two

employee representatives (one from NHSAA and one from the council). With the creation of the three SIBs, there is a risk that these additional commitments could place strain on the board's non-executive members. This may result in a lack of external challenge (**Action plan no 6**).

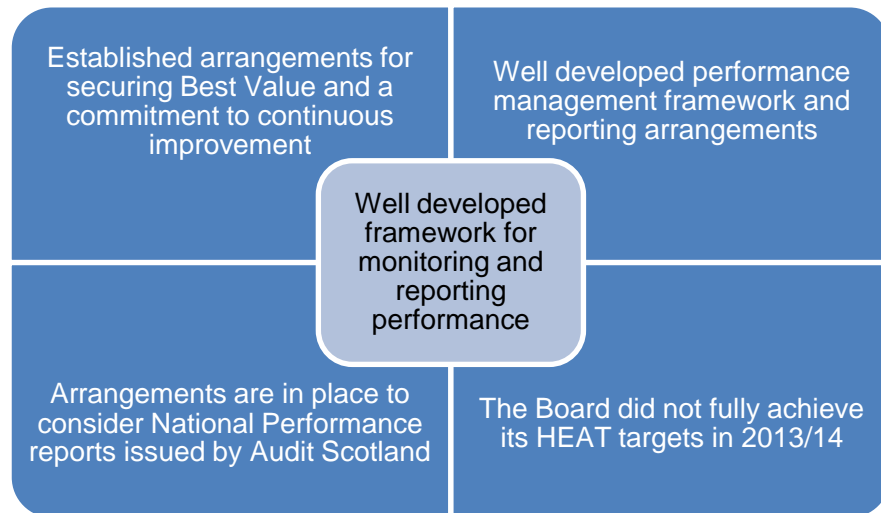
The Directors of Health and Social Care will agree and finalise their management structures during the Shadow Integration period. All three Councils have approved the inclusion of all Social Work services in the relevant Health and Social Care Partnership. In addition, proposals for lead partnership arrangements for those NHS services which cannot be split across the three partnerships have been agreed by the chief executives of the three Councils and the Board. Further work is also ongoing to establish the budgets for all services within scope and to establish frameworks for financial monitoring and control. Strategic Plans for each partnership are to be developed in autumn 2014 (**Action plan no 7**).

## Outlook

Integration of health and social care is a complex and challenging process. The Scottish Government has commenced work on the Regulations relating to the Act and the underpinning statutory guidance although this work will not be completed until late 2014. When a final set of regulations is produced, the Scottish Government will consult with partnerships before they are introduced to parliament.

The lead-in time for integration is gradually reducing thereby adding further pressure on the health board and its local authority partners to deliver. Health and social care integration will be implemented from 1 April 2015 while full integration arrangements must be in place by 1 April 2016. There is a lot of work to do in the interim period and the Board and its partners are currently in a good position having undertaken early work in preparation for full integration.

# Best Value, use of resources and performance



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

## Arrangements for securing Best Value

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 promote higher efficiency. DCAQ

analysis has already been undertaken in a number of specialities including CAMHS and psychological therapies.

## Use of resources: equalities

As part of our 2013/14 audit, we undertook a review of the Board's progress on equalities. We used a Best Value audit toolkit which covered four main areas:

- How well does NHSAA know the profile and needs of its diverse communities?
- Do NHSAA and its partners lead improvements in equality effectively?
- Does NHSAA provide equality of opportunity with a diverse workforce?
- Does NHSAA deliver positive outcomes for its diverse communities?

The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Board developed its Equality Outcomes in April 2013. The report provides details of work being done with employees to embed equality and diversity and person centred care in service delivery. In addition the Board's Equality and Diversity Mainstreaming Report 2013 provides more detailed information on how the organisation is mainstreaming the equality duty. It also provides information on the ongoing assessment and review of policies and practices.

The Board's *Equality Outcomes 2013 to 2017* sets out the key priorities for embedding equality and diversity in every day work. It also includes a SMART (Specific, Measurable, Action oriented, Realistic and with Timescales) action plan for taking forward the equalities agenda.

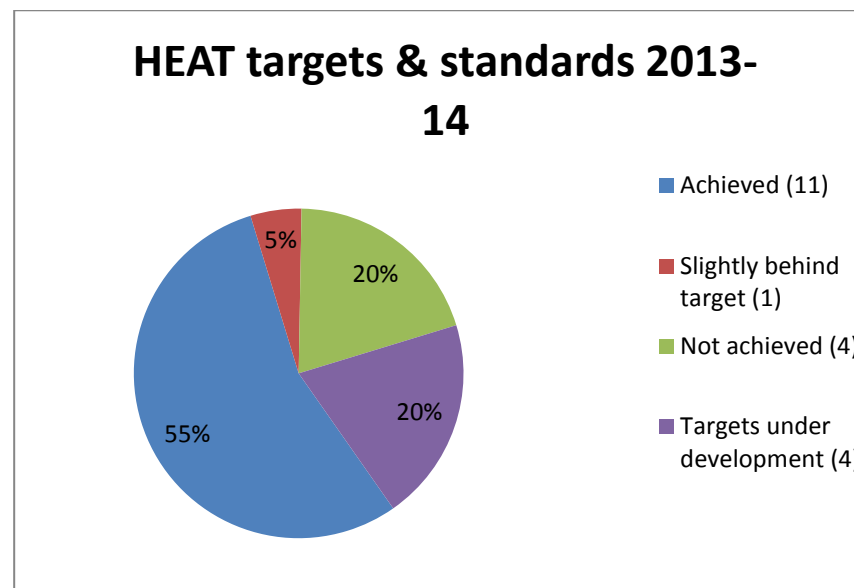
The Equality and Human Rights Commission in their report 'Measuring Up? 3' (November 2013) cited NHS Ayrshire and Arran's equality outcomes as an example of good practice. The Commission reported that 'the health board produced very clear outcomes, referencing a strong evidence base'. It also reported actions with measures and timescales, with a named responsible action officer in charge of the process. Each equality outcome is linked to a broader intermediate outcome.

Overall we assessed that NHS Ayrshire and Arran's arrangements for progressing equality within the Board fall within the 'better practices' category notably engagement with staff and local communities. We have concluded that the Board is committed to implementing the requirements of Equality Act 2010. Management recognise that there are areas with scope for improvement primarily in relation to the collection of staff disability and equality and diversity information. The Board is in a good position going forward and can demonstrate its commitment to continuous improvement.

## Performance management

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

The Board's performance management system monitors progress against HEAT targets using a traffic light system. The Board's performance against its HEAT targets and standards is summarised in the diagram below.



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.

The Corporate Management Team also considers 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.

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.

The Board receives regular performance reports on key aspects of performance including progress towards achieving the key Healthcare Acquired Infection performance targets set by the Scottish Government.

## Waiting times

Waiting Times targets are monitored by both the Corporate Management Team and the Board on a regular basis.

The Waiting Times Report submitted to the Board in May 2014 highlighted progress towards achieving waiting time and other access targets set by the Scottish Government, as well as progress on local targets set by the Board, including:

- 18 week Referral to Treatment (RTT) performance exceeded target for the 17<sup>th</sup> successive month with a performance level of 90.4% in February 2014 against the national target of 90%.
- the Board currently achieves the target that no one will wait more than 28 days to be discharged from hospital into a more appropriate care setting. This will reduce to 14 days from April 2015.
- 807 outpatients' waits exceeded the 12 week RTT at the end of February 2014, an increase of 109 patients from the previous month.
- NHS Boards are expected to ensure no patient, who has been added to the day case/inpatient waiting list, exceeds a 12 week wait for treatment. In March 2014, there were 3 breaches of the statutory guarantee.

Substantial recurrent funding was approved in 2012/13 and 2013/14 which was invested in reducing waiting times in a number of areas where waiting times are high. Achieving and sustaining access targets is resource intensive and costly. This increases the pressure on the Board at a time when it requires to achieve significant recurrent savings (**Action plan no 8**).

## National performance audit reports

The Board has arrangements in place to consider national performance reports issued by Audit Scotland. The Director of Finance prepares a covering paper for each national performance report summarising key findings and highlighting any local issues where action is required. These papers are presented to the Audit Committee although responsibility for monitoring progress in implementing any improvement actions would lie with the relevant governance committee. Senior management ensure that there are plans to further strengthen these arrangements by inviting relevant managers to attend Audit Committee to explain the local position and answer any questions that members may wish to ask.

A summary of national performance audit reports for 2013/14 is included in Appendix I. Two of the national reports (Management of Patients on NHS Waiting Lists and Accident & Emergency Performance Update) are discussed in more detail below. We are satisfied that appropriate arrangements for considering national performance reports issued by Audit Scotland were in place within NHS Ayrshire and Arran for 2013/14.

## Management of patients on NHS waiting lists

Audit Scotland carried out a review of waiting times across the health service in Scotland following reported misuse of patient unavailability codes at NHS Lothian. The review recognised the need for independent assurance on the management of waiting times to restore public confidence in the system.

A follow up review across the health service in Scotland was published in December 2013. The main recommendations arising from the review are noted below. The review found that the trend of reducing use of unavailability codes noted in the original report continued during 2012 and 2013. The review also noted that Boards were improving controls and audit trails in the systems used to manage waiting lists.

The follow-up work at NHS Ayrshire and Arran was carried out by internal audit in November 2013 and reviewed the Board's activity against the recommendations contained in the original Audit Scotland review. The results of the follow-up review were reported to the January 2014 Audit Committee meeting and concluded that NHS Ayrshire and Arran had implemented all recommendations and that they were satisfied with the progress made by the Board. The Audit Committee approved a letter to the Scottish Government for signature by the Chief Executive confirming that all recommendations had been completed in NHS Ayrshire and Arran.

### Management of patients on NHS waiting lists- audit update, December 2013

Boards should:

- ensure their management of waiting lists includes scrutinising how they use all waiting list codes, not just unavailability codes
- implement the national controls framework to assess whether they have all the necessary controls in place to manage waiting lists, and address the gaps they need to fill
- implement our previous recommendation about making sure they identify patients with additional support needs and provide the required support
- ensure letters to patients about the treatment time guarantee provide clear and detailed information
- use the new codes to monitor unavailability due to patient choice reasons as part of their overall capacity planning
- use the tool being developed by ISD Scotland to monitor indicators for the management of waiting lists and benchmark their performance against other boards.

### Accident & Emergency Performance Update

Audit Scotland published an Accident and Emergency performance update in May 2014. The report provides an update on how the NHS in Scotland has performed against the 4-hour A&E waiting time target since last reviewed by Audit Scotland in 2010.

The report notes that, overall, the number of patients waiting more than four hours is still higher than when the last review was carried out in 2010, and performance varies considerably between A&E departments. The report also recognises that improving and sustaining performance is a challenge for A&E departments across Scotland.

In relation to NHS Ayrshire and Arran, the report notes that the Board was one of six to have an average bed occupancy rate of over 85% (2012/13 data). Research indicates that NHS boards with lower average bed occupancy rates are more likely to perform better against the four-hour standard. The report also notes that NHS Ayrshire and Arran has the highest admissions rates of all NHS Boards to hospital from A&E whilst research indicates that performance against the waiting time standard tends to be better in A&E departments that have lower admissions from A&E to hospital.

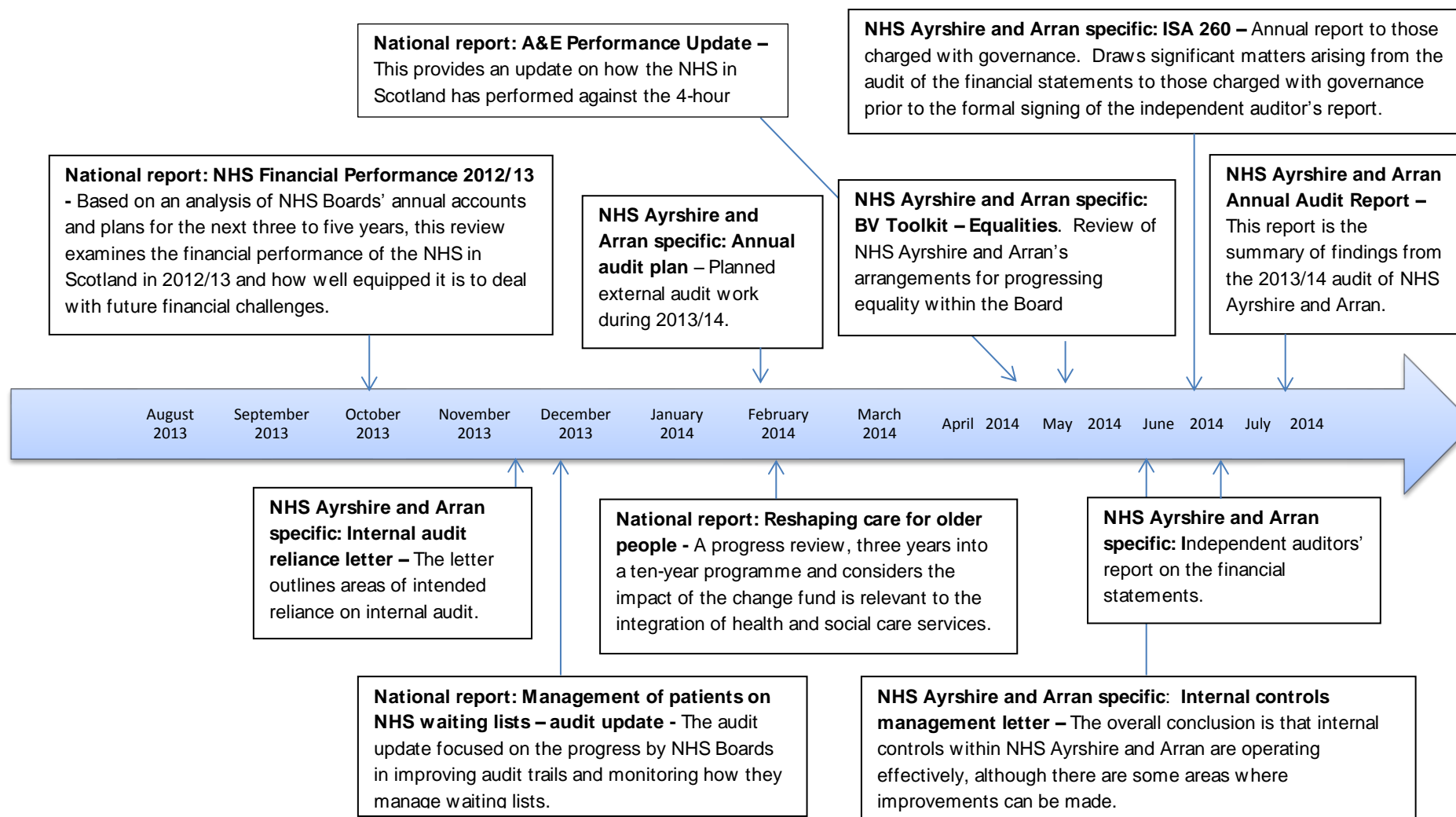
As with other aspects of performance, specifically access targets, it will be challenging for the Board to achieve the 4 hour target and then maintain and sustain performance.



## Outlook

In common with other NHS Boards, NHS Ayrshire and Arran faces unprecedented demand for increased and improved services arising from changing demographics, lifestyles, health inequalities, increasing public expectations, the availability of new drugs, treatments and technologies and the impact health service specific inflation. As demand, and the consequent cost of healthcare, continues to grow, the Board will find it a challenge to deliver at current funding levels. The scope of what can be done to respond to tough financial pressures is limited: services will need to be transformed to improve quality, while also making them more efficient and sustainable.

## Appendix I – Summary of Audit Scotland reports 2013/14



## Appendix II - Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
<p><b>Endowments.</b> The Board is required to consolidate the NHS Endowment Funds with its financial statements. There is a risk that a financial misstatement will occur in the consolidation process.</p>	<p>We reviewed the consolidation process as part of our planning work and met with the external auditor of the endowment fund to agree a timetable.</p>
	<p>We concluded from our year end testing that both prior and current year consolidated figures are reflected accurately in the financial statements.</p>
	<p>The external auditors of Ayrshire and Arran Health Board Endowment Funds issued a clear audit opinion which was reported to the Endowment Committee on 12 June 2014. The Endowment Funds Accounts were subsequently approved by the Trustees on the 24 June 2014.</p>
<p><b>Financial Targets.</b> NHS Ayrshire and Arran faces challenges in dealing with a range of actual and anticipated funding and cost pressures. There is a risk that the Board fails to achieve its financial targets at 31 March 2014.</p>	<p>The funding allocation to NHS Ayrshire and Arran was confirmed to the Scottish Government notification dated 29 April 2014.</p>
	<p>We concluded from the performance of our year end procedures that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and that expenditure was valid and correctly classified between revenue and capital.</p>

Audit Risk	Assurance procedure
<p><b>Equal pay.</b> NHS Ayrshire and Arran along with other NHS boards has not been able to quantify the extent of its liability for Equal Pay claims. Whilst the risk is diminishing over time, there remains a risk that these liabilities will have a significant impact on the Board's financial position.</p>	<p>The number of Equal Pay Claims has reduced from 1,592 in 2012/13 to 1,196 in 2013/14. While the risk is reducing over time the NHS Central Legal Office (CLO) continue to advise that it is not possible to provide any quantification of Equal Pay Claims.</p> <p>The Board has included an unquantified contingent liability in its accounts in line with advice from the CLO.</p> <p>The Board continues to maintain links with the SGHSCD and CLO to keep up to date with progress being made in settling Equal Pay Claims.</p>
<p><b>Provisions.</b> The Board has disclosed significant provisions in its financial statements. Due to their subjective nature, there is a risk that provisions could be incomplete, not valid or incorrectly valued.</p>	<p>The accuracy, validity and completeness of provisions were reviewed as part of our year end substantive procedures. The position reflected in the 2013/14 financial statements was found to be satisfactory.</p> <p>Supporting documentation from the CLO and SPPA was made available and was reviewed for clinical and medical negligence claims which make up the majority of provisions in the 2013/14 financial statements.</p>
<p><b>Fraud.</b> Income from external sources can present a risk of fraud. Particular areas for concern include accounts receivable.</p> <p>There is also a risk of material misstatement due to the potential for fraudulent claims from practitioners and false exemption claims.</p>	<p>Substantive testing was carried out on external income received by the Board as part of our year end procedures. Income was found to be recorded accurately and the outcome of this testing was satisfactory.</p> <p>Frauds and false exemptions reported to the Audit Committee were monitored throughout the year.</p> <p>The NHS National Services Scotland service auditor report covering practitioner services was reviewed as part of our year end procedures.</p>

Audit Risk	Assurance procedure
<p><b>Prior Year Issues.</b> There were several issues identified during the 2012/13 financial statements audit which were carried forward to 2013/14. There is a risk the Board fails to satisfactorily address these issues resulting in misstatement of the 2013/14 accounts.</p>	<p>Our year end testing was focused in particular areas where issues had arisen in prior years. No recurring issues were noted.</p>
	<p>The issues noted in 2012/13 around stock certificate quality were not recurring as evidenced by our 2013/14 substantive testing.</p>

## Appendix III – Action plan

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/9	<p><b>Equal pay</b></p> <p>NHS Ayrshire and Arran, in common with other NHS bodies, has not been able to quantify the extent of its liability for compensation in respect of equal pay claims.</p> <p><b>Risk</b></p> <p>Settlement of equal pay claims could have a significant impact on the Board's future financial position.</p> <p><b>Recommendation</b></p> <p>The Board continues to work with CLO to establish its potential exposure to successful claims for compensation payments.</p>	<p>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.</p>	Director of Finance	March 2014

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
2/12	<p><b>Savings Target</b></p> <p>The delivery of the cost savings plan for 2014/15 and subsequent years will continue to remain challenging. £0.834 million of the 2014/15 savings target has not yet been identified.</p> <p><b>Risk</b></p> <p>Whilst the Board is confident that it will be able to identify these further savings during 2014/15, there remains the risk that the required efficiency savings will not be achieved.</p> <p><b>Recommendation</b></p> <p>The Board should ensure that formal plans are produced covering all the required savings for 2014/15.</p>	<p>A review by National Procurement in April and May 2014 was targeted to deliver £0.5 million of recurring procurement savings in 2014/15. These savings remain to be reflected through budgets, however all other 2014/15 savings are reflected in budgets.</p>	Director of Finance	September 2014

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
3/12	<p><b>Future Asset Sales</b></p> <p>The board's future capital programme is dependent upon an anticipated level of asset sales in future years.</p> <p><b>Risk</b></p> <p>There is a risk in the current economic climate that the income expected from asset sales may not be realised.</p> <p><b>Recommendation</b></p> <p>The Board continues to review planned capital receipts.</p>	<p>The capital receipts in the Board's Capital Investment Plan (CIP) are being subject to regular monitoring and review by the Estates &amp; Accommodation Management Group (EAMG) and the Capital Programme Management Group (CPMG).</p> <p>A full review of the planned receipts was carried out in 2013/14 to ensure values reflected current market conditions.</p> <p>All significant disposals are individually reviewed, assessed, and approved in accordance with the Board's governance arrangements and capital operating and accounting procedures.</p> <p>The planned disposals for 14/15 are being proactively marketed and the proceeds further reviewed. Outcome is due to be considered at the CPMG meeting on 13 August 2014. Result will be applied in the Half Year Review of the CIP.</p>	Director for Corporate Support Services	30 September 2014



Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
4/13	<p><b>Sickness Absence</b></p> <p>The Board may not achieve the sickness absence target of 4%.</p> <p><b>Risk</b></p> <p>There is a risk that this may impact on the Board's ability to achieve its financial and non-financial performance targets and adversely impact on safe and efficient service delivery.</p> <p><b>Recommendation</b></p> <p>The sickness absence figures continue to be closely monitored on a monthly basis and the Board assesses the effectiveness of the measures introduced to reduce absence levels.</p>	<p>The Board agreed local improvement trajectories as steps towards achieving the national standard of 4% - 4.9% by end March 2014, 4.5% by end March 2015 and 4% by end March 2016.</p> <p>The new Board Promoting Attendance and Wellbeing Policy which was introduced in March 2013 and has a more robust approach for short term absence and a more rehabilitative approach for longer term absence focussed on supporting staff to be able to return to work as early as possible. This will continue to be a key part of the Staff Health, Safety and Wellbeing Strategy and performance levels will continue to be monitored at Staff Health, Safety and Wellbeing Committee, Area Partnership Forum and Staff Governance Committee</p>	Human Resources Director	March 2015

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
5/13	<p><b>Agency workers</b></p> <p>The spending on agency staff increased significantly (45%) in 2013/14. Whilst the use of such staff provides flexibility to the care system and provides temporary cover for vacancies and staff absence, it is important that controls are in place and those trends and patterns are managed and monitored closely.</p> <p><b>Risk</b></p> <p>Continued reliance on agency workers to this extent could have a significant impact on the Board's plans to achieve the savings required for longer term sustainability.</p> <p><b>Recommendation</b></p> <p>The Board monitors the cost of agency staff with a view to reducing their cost.</p>	<p>Tighter controls on agency nurse spend have been implemented requiring approval at director level.</p> <p>Medical Director Chairs the Medical Workforce group which will review system and approval process for medical locums.</p>	<p>Nurse Director</p> <p>Medical Director</p>	<p>May 2014</p> <p>December 2014</p>

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
6/18	<p><b>Non-executive member workload</b></p> <p>With the creation of the three Shadow Integration Boards, there is a risk that the additional commitments could place strain on the board's non-executive members.</p> <p><b>Risk</b></p> <p>There is a risk of a lack of external challenge</p> <p><b>Recommendation</b></p> <p>The Board monitors closely the additional commitments placed on the board's non-executive members.</p>	<p>A full analysis has been carried out of the Non-Executive Directors' workload against their time commitment. The Board Chair will discuss these results with individual Non-Executive Directors and time commitments will be proactively managed throughout 2014/15.</p>	Chairman	March 2015

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
7/18	<p><b>Health and social care integration</b></p> <p>The integration of health and social care services in Scotland requires to be implemented from 1 April 2015.</p> <p><b>Risk</b></p> <p>There is the risk that the Board and its local authority partners will not be fully prepared for the integration of health and social care from 1 April 2015. This could adversely impact on the effectiveness of service delivery.</p> <p><b>Recommendation</b></p> <p>The Board continues to work closely with its partners to prepare for this significant reform of health and social care services.</p>	<p>The Board and its partners have set up a comprehensive programme of work to fully prepare for integration including delivery of the key outputs required by 31 March 2015 (Integration Schemes and Strategic Plans). Shadow Integration Boards have been set up to oversee this programme of work. In addition at a pan-Ayrshire level, the Strategic Alliance which comprises senior officers of the Board and the three Councils supports the detailed workstreams and reports into the Chief Executives of the Health Board and the three Councils.</p> <p>Through the Shadow Integration Boards, the Health Board will closely monitor progress through 2014-15.</p>	Chief Executive	31 March 2015

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
8/22	<p><b>Performance against HEAT targets and standards</b></p> <p>The Board did not achieve all its performance targets in 2013/14. Achieving and sustaining performance targets is resource intensive and costly, particularly those relating to access. This increases the pressure on the Board at a time when it requires to achieve significant recurrent savings.</p> <p><b>Risk</b></p> <p>The delivery of quality and affordable services is not sustainable.</p> <p><b>Recommendation</b></p> <p>Monitor investment in new initiatives aimed at improving access targets and determine whether specific areas / specialties require more detailed scrutiny or additional actions to be taken.</p>	<p>Weekly access monitoring meeting in place on both sites, chaired by Assistant Directors of Acute Services.</p> <p>Monthly access monitoring meeting in place, chaired by Director of Acute Services.</p> <p>Detailed paper presented to each NHS Board Meeting, providing information on detail of all waiting list pressures and actions.</p> <p>Present a paper on need for non-recurring access funding in 2014/15 to Corporate Management Team.</p>	<p>Assistant Directors of Acute Services</p> <p>Director of Acute Services</p> <p>Director of Acute Services</p> <p>Director of Acute Services</p>	<p>In place</p> <p>In place</p> <p>In place</p> <p>August 2014</p>