



# Ayrshire & Arran Health Board

Annual audit report for the  
Board of NHS Ayrshire  
and Arran and the Auditor  
General for Scotland  
2014/15

June 2015

The Auditor General for Scotland appoints external auditors to NHS bodies in Scotland.  
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The Auditor General has appointed Fiona Mitchell-Knight as the external auditor of NHS Ayrshire and Arran for the period 2011/12 to 2015/16.

This report has been prepared for the use of NHS Ayrshire and Arran and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the health board. The information in this report may be used for Audit Scotland's annual overview report on the NHS in Scotland published on its website and presented to the Public Audit Committee of the Scottish Parliament.

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# Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none"><li>• Unqualified independent auditor's report on the 2014/15 financial statements.</li></ul>
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none"><li>• All financial targets in 2014/15 were met</li><li>• A surplus of £0.346 million was achieved against total Revenue Resource Limit (RRL)</li><li>• Total savings of £18.567 million achieved but a high proportion (47%) of these were non recurring. Identification of recurring savings is a challenge</li><li>• The board has satisfactory financial management arrangements that support the review, and facilitate scrutiny, of financial performance.</li></ul>
 <p>Governance and transparency</p>	<ul style="list-style-type: none"><li>• The board has sound and well-established governance arrangements in place</li><li>• Systems of internal control operated effectively during 2014/15</li><li>• The board has an effective internal audit function and robust anti-fraud arrangements</li><li>• The board actively participates in the NFI exercise</li><li>• Integration Schemes were approved for the three Ayrshire health and social care partnerships and the Integration Joint Boards are now responsible for services across Ayrshire</li></ul>

 <p>Best Value</p>	<ul style="list-style-type: none"><li>• The board has a well developed performance management framework in place.</li><li>• The Performance Governance Committee receives regular updates on all aspects of performance and the actions being taken to improve performance</li><li>• The board did not fully achieve all of its reported HEAT targets in 2014/15 – 9 were achieved, 7 were not achieved and one is under development</li><li>• The board reported 433 breaches of the Treatment Time Guarantee in 2014/15.</li></ul>
 <p>Outlook</p>	<ul style="list-style-type: none"><li>• NHS Ayrshire and Arran will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. At the same time it has to make major changes to service delivery such as the Scottish Government's 2020 Vision and health and social care integration. Achieving sustainability in the medium term will require innovation to design and deliver the services needed by patients.</li></ul>

# Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of NHS Ayrshire and Arran. The report is divided into sections which reflect our public sector audit model.
2. 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.
3. Our responsibility, as the external auditor of NHS Ayrshire and Arran, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of 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 should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. 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.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Audit of the 2014/15 financial statements

<p><b>Audit opinion</b></p>	<ul style="list-style-type: none"> <li>We have completed our audit and issued an unqualified opinion that the financial statements of NHS Ayrshire and Arran for 2014/15 give a true and fair view of the state of its affairs and of its net operating cost for the year.</li> </ul>
<p><b>Regularity of income and expenditure</b></p>	<ul style="list-style-type: none"> <li>In our opinion, in all material respects the expenditure and income in the financial statements was incurred or applied in accordance with relevant legislation and guidance.</li> </ul>
<p><b>Other information</b></p>	<ul style="list-style-type: none"> <li>We review and report on other information published with the financial statements, including the Management Commentary, Governance Statement and Remuneration Report. We have nothing to report in respect of these statements.</li> </ul>
<p><b>Consolidation template</b></p>	<ul style="list-style-type: none"> <li>The board's consolidation template has been audited to confirm that the figures are consistent with the audited financial statements. The template and accompanying assurance statement will be submitted to the Scottish Government by 30 June 2015. These templates are used to compile the national NHS financial position.</li> </ul>

## Submission of financial statements for audit

9. We received the unaudited financial statements on 4 May 2015, in accordance with the agreed timetable. The working papers were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit to deadline.
10. Finance staff have made a number of improvements to the accounts notably the exclusion of Scottish Financial Returns (SFRs) and the removal of superfluous information (e.g. large numbers of rows containing zeros). This is consistent with the good practice note issued by Audit Scotland in its publication 'Improving the Quality of NHS Annual Report and Accounts' (December 2014).

## Overview of the scope of the audit of the financial statements

11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 4 February 2015.
12. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

13. The concept of audit risk is of central importance to our audit approach. 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 audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Governance Statement

15. The Governance Statement in the annual accounts sets out the financial assurance process for health and social care integration. A report from Internal Audit regarding due diligence on these arrangements, was presented to the Audit Committee on 29 April 2015 and concluded that the board has complied with the relevant matters as set out in the Public Bodies (Joint Working) (Scotland) Act 2014, and subsequent Scottish Government published guidance.

## Materiality

16. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still



not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (e.g. an item contrary to law).

17. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
18. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of NHS Ayrshire and Arran, we set our planning materiality for 2014/15 at £7.833 million (1% of gross expenditure). Performance materiality was calculated at £4.700 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
19. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

## Evaluation of misstatements

20. Whilst not considered material to the figures, for your information we would have reported any misstatements greater than £80,000 identified during the audit, but none were identified of this value.

21. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements.

## Significant findings from the audit

22. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
  - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
  - Significant difficulties encountered during the audit.
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
  - Written representations requested by the auditor.
  - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
23. During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you.

## Significant findings from the audit

Issue	Resolution
<p><b>Equal Pay:</b> In previous years, we commented that the board, on advice from the Central Legal Office, was not able to provide any financial quantification of equal pay claims. Consequently, equal pay claims were disclosed as an unquantified contingent liability in the accounts. There have been significant developments in 2014/15, not least the offer for settlement in relation to certain claims. Based on this new information and advice received from the CLO, the Director of Finance for the health service has advised that equal pay claims should now be included as a provision in the accounts of NHS boards. NHS Ayrshire and Arran has been advised of the estimated value of the provision which is to be covered by AME (Annually Managed Expenditure) funding. Negotiations are still underway in relation to equal pay and because of the sensitivities surrounding this issue the estimated value of the liability will not be disclosed until the accounts are laid before parliament.</p>	<p>The provisions note in the board’s accounts includes wording agreed with Audit Scotland, namely “other provisions include an amount of £107,000 in respect of the board’s estimated liability arising from equal pay claims”.</p>
<p><b>CNORIS provision:</b> Following an Audit Scotland review of consolidated accounting for CNORIS at Scottish Government (SG) level, guidance was issued to NHS boards by the SG confirming a change in the accounting treatment of CNORIS. The main change was that each board was required to create an additional provision in 2014/15 representing their share of the total liability of NHS Scotland in respect of CNORIS. Also, to ensure consistency of accounting treatment, NHS boards were asked to make equivalent adjustments to prior year figures in the accounts in order to comply with <i>IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors</i>.</p>	<p>A CNORIS provision of £22.266 million is included in the 2014/15 accounts representing the board’s share of the total liability of NHSScotland as at 31 March 2015. The board has also correctly processed opening balance and retrospective adjustments in line with International Accounting Standard 8 and as advised by the Scottish Government. The board has received AME funding to cover the accounting changes so that there is no impact on the board’s outturn position.</p>

## Future accounting and auditing developments

### Revisions to the financial reporting manual

24. The financial statements of the board are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:
- The adoption of IFRS 13 Fair value measurement.
  - Restructuring the annual audit report.
25. **(IFRS) 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. However, the 2015/16 FReM requires surplus assets to be measured at fair value in accordance with IFRS 13. The board will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.
26. **Restructuring of the annual audit report:** the 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:
- a performance report which will give a fair, balanced and understandable analysis of the board's performance and

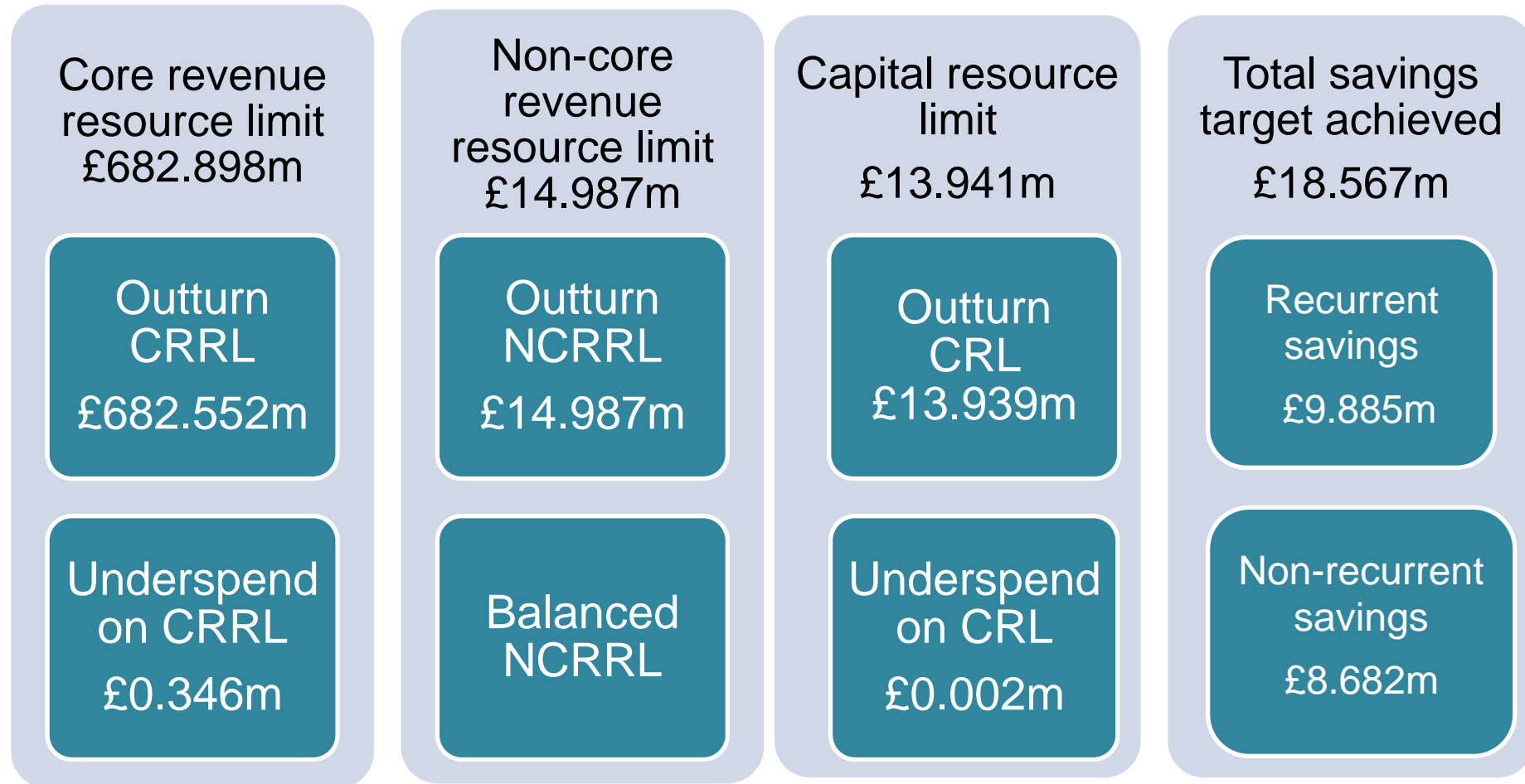
will include an overview section and a performance analysis section.

- An accountability report incorporating the following three main sections:
  - corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
  - remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
  - parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.

### Health and Social Care Integration

27. The Ayrshire Integrated Joint Boards (IJBs) will be required to produce financial statements in compliance with the Code of Practice on Local Authority Accounting in the UK for the period ended 31 March 2016.

# Financial management and sustainability



## Financial management

28. In this section we comment on the NHS Ayrshire and Arran financial outcomes and assess the board's financial management arrangements.
29. Budget funding is agreed with the Scottish Government Health and Social Care Directorate (SGHSCD). It is a statutory requirement for the board to ensure expenditure is within the Revenue Resource Limit (RRL) and Capital Resource Limit (CRL) set by the SGHSCD. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

## Financial outcomes

30. Health boards are required to work within the resource limits and cash requirements set by the SGHSCD. The board's final RRL (£682.552m) and CRL (£13.939m) were agreed with the SGHSCD on 29 April 2015.
  31. The board achieved all of its financial targets in 2014/15 and delivered total efficiency savings of £18.567 million in line with planned efficiencies for 2014/15. A significant proportion of these savings (£8.682 million - approximately 47%) were achieved on a non-recurrent basis. Non-recurring savings put pressure on future years' budgets. It can be appropriate to have some non-recurring savings, but it is important that the majority of savings are recurring to ensure the sustainability of the board's financial position and to reduce the risk of not achieving savings targets in future years.
  32. The board should aim to identify and achieve the majority of savings on a recurrent basis.
- Recommendation 1**
33. The board has achieved a surplus against the Revenue Resource Limit of £0.346 million. Initially, a planned carry forward of £1.000 million against its RRL had been budgeted for in 2014/15. However, the Board were informed by the Director of Finance in August 2014 that the forecast year end position had been amended to breakeven, and that the SGHSCD had been advised accordingly.
  34. Within four months, at the end of December 2014, the position had deteriorated to an overspend of £2.6 million being forecast. This was due primarily to significant overspends in prescribing in primary care and on drugs for Hepatitis C treatment, contributing to an overall 10.4% increase on spend on drugs in 2014/15. These increased costs had not been fully anticipated in the budget for the year. By the end of the year, the total overspend in clinical services for 2014/15 was around £10 million. This was made up of five main areas:
    - Nursing (£1.7 million) – mainly due to use of bank / overtime / excess hours
    - Medical staffing (£2.17 million) – mainly due to spend on agency and locum doctors in accident and emergency, gastroenterology and geriatrics
    - Acute mental health staffing over establishment (£1.2 million) and spend on private sector low secure placements (£0.882 million)

- Hepatitis C drugs (£2.5 million), as mentioned above
  - Primary care prescribing (£2.2 million) due to short supply price issues
35. Despite the scale of the clinical services overspend, the board were able to recover the position and achieve a surplus of £0.346 million by several means, principally:
- Maximising underspends in support services to offset overspends in clinical services.
  - Restricting spending on other areas including backlog maintenance and access budgets.
  - The board also received an additional £2 million non-recurring funding from SGHSCD, not included in the original budget, aimed mainly at addressing increased healthcare costs on Arran and Cumbrae.
36. The Board were kept fully informed of the financial position with bi-monthly financial management reports presented by the Director of Finance.
37. The board received non-recurring brokerage funding of £0.378 million in 2014/15. The brokerage was secured to meet the demolition costs associated with the Heathfield Site. The board is expected to repay the £0.378 million in 2015/16 when the site is sold. This has been appropriately disclosed in the board's Strategic Report.
38. The planned outturn for 2015/16 is a breakeven position with no carry forward envisaged for this or subsequent years.

## Capital expenditure 2014/15

39. The board remained within its Capital Resource Limit (£13.941 million) with an underspend of £0.002 million against its capital allocation. This was mainly spent on the Building for Better Care programme, IT projects, electro medical equipment and car parking and path developments.
40. The board have a high level of backlog maintenance (£77.8 million), for which they have limited revenue budget available to remedy. There is currently £3.8 million of revenue budget available on a recurrent basis. However, during 2014/15 spending was restricted in this area in order for the board to achieve its financial targets. This will be further impacted by a recurring reduction in revenue backlog investment of £0.8m to £3.0m in 2015/16 and future years and may compromise the board's ability to continue to deliver services from premises in the future.

### Recommendation 2

## Financial management arrangements

41. As auditors, we need to consider whether health bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the Director of Finance has sufficient status to be able to deliver good financial management
  - standing financial instructions and standing orders are comprehensive, current and promoted within the board

- reports monitoring performance against budgets are accurate and provided regularly to budget holders
  - monitoring reports do not just contain financial data but are linked to information about performance
  - members provide a good level of challenge and question budget holders on significant variances.
42. We reviewed the board's standing financial instructions and standing orders, which are updated annually, and concluded that they are comprehensive and current. The board's standing financial instructions and standing orders are also available to all staff on NHS Ayrshire and Arran's intranet.
43. Finance monitoring reports (both revenue and capital) are submitted to all meetings of both the Board and the Performance Governance Committee. Reports are comprehensive and contain service performance information at board and directorate level. More detailed monthly financial monitoring reports are provided to budget holders.
44. As auditors we attend a number of committee and Board meetings each year. Based on our observations we note that members provide a good level of challenge on all aspects of performance including performance against budget.

## Conclusion on financial management

45. We have concluded that the board has satisfactory financial management arrangements that support the review and facilitate scrutiny of financial performance.

## Financial sustainability

46. Financial sustainability is concerned with whether the board has the capacity to meet the current and future healthcare needs of the communities it serves. In assessing financial sustainability we are concerned with the board's financial performance, financial planning, capital programmes and asset management and workforce management.

## Financial planning

47. The board is required to prepare a Local Delivery Plan (LDP) each year which aligns strategic priorities with financial plans, workforce plans and asset plans. The LDP recognises that the vast majority of resources are already committed on a recurring basis before the start of each year and there is limited flexibility available to the board.
48. The Board's five year plan for the period 2015/16 to 2019/20 is a key element of the LDP. The plan has been compiled to reflect a break-even position in each of the five years. The plan also recognises the significant cost pressures facing the board going forward notably staff pay costs, the growing costs of drugs and other new technologies and rising pension costs. Also, there is a rising



demand for services particularly among the elderly. All these pressures exacerbate a tightening financial position.

49. A particular pressure highlighted by the Board is changes to the Scottish Medicines Consortium criteria to increase access to expensive drugs for rare conditions and end of life care. This is likely to have a significant cost implication which could be £70 million nationally. This would be mitigated by the New Medicines Fund but could have significant cost implications for the Board.

### Recommendation 3

50. While facing significant cost pressures the Board will also have to deal with reduced funding, in real terms, over the period of the 5-year plan. The basic funding uplift for 2015/16 is 1.80% although an additional funding uplift of 1.25% has been made available. The majority of this additional funding is to cover the integration fund, new drugs and delayed discharges. In each subsequent year the funding uplift is assumed to be a flat rate of 1.8%.
51. Savings will therefore play a significant part in maintaining financial balance over the 5-year period. Total savings of £19.060 million are required in 2015/16, of which £13.360 million is planned on a recurrent basis. However, £5.700 million of non-recurring productivity savings are also planned as part of this. The position in 2015/16 is challenging but management are confident that the required savings will be achieved. This will be monitored by us as part of the 2015/16 audit.

52. The financial plan estimates that minimum efficiency savings of 3% will be required on a recurring basis in future years and this equates to approximately £19 million per annum. The majority of relatively easy savings have already been achieved and the realisation of further savings will become progressively more challenging year on year.
53. There are a number of initial plans for 2016/17 cash savings but these are at a very early stage in development and work will be ongoing through 2015/16 to refine them.

### Workforce Management

54. Workforce planning is integral to the board's strategic planning process. The availability of staff is an important factor in the Board's capacity to provide patient care. NHSAA has identified potential gaps in the future workforce using age demographic information. Older workforce profiles present challenges with regard to succession planning particularly for professional staff groups. Filling GP specialist training roles is also proving difficult and could impact on future GP recruitment.
55. The board is also faced with a number of other challenges which are summarised in the following paragraphs.
56. NHS Ayrshire and Arran has difficulties in filling medical vacancies in some specialities which has contributed to a medical agency and locum spend of around £5 million. The majority of this was spent on providing cover for consultants, speciality doctors and trainee doctors in the following areas:



- General medicine
  - Geriatrics
  - Radiology
  - Accident and emergency
  - Neurology.
57. The view of management is that specialty doctor posts continue to remain unattractive and difficult to fill. The challenge is the ability to meet the essential criteria of 4 years post graduate experience with 2 years in the relevant specialty. Overall, agency staff costs for 2014/15 were £5.889 million which is a reduction from £6.234 million spent in 2013/14.

#### Recommendation 4

58. 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.
59. There is an ongoing review to reduce these levels and a tighter approval process for agency nurses was introduced in 2014/15 with the aim of reducing the need for agency staff. There is also a large bank nurse pool which minimises the need to use agency nurses. The board acknowledges 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.

60. Internal audit reviewed medical workforce planning in 2014/15. They reported that in order to continue to maintain cost effective, safe and patient-centred care, it is important that NHS Ayrshire and Arran has oversight of its use of medical locums and has also considered alternative methods of service delivery to prevent a potential over-reliance on locums. We concur with this view and agree that longer term medical workforce planning should be considered.
61. The board continues to strive to reduce its agency/locum spend and is currently reviewing associated procedures. However, it is recognised that these costs are driven by the higher hourly rates which locums command in addition to agency on-costs.
62. Audit Scotland in its report *NHS in Scotland 2013/14 (October 2014)* noted that there was a correlation between vacancy rates and difficulty in achieving some performance targets.
63. The board is continuing to find it difficult to achieve the national performance standard of 4%. The sickness absence rate at 31 March was 5% which was slightly better than the 5.35% achieved last year and below the Scottish average of 5.14%. The Board plans to further improve in this area through the continued focus on its Staff Health, Safety and Wellbeing Strategy but still has some way to go in achieving the 4% target.

#### Recommendation 5

#### Cost of pension provision

64. The UK Government has been pursuing a programme of reform of public service pensions across the UK, including in Scotland. As a

result, new Career Average public service pension schemes are being created from 1 April 2015.

65. A revaluation of the pension scheme was carried out using pension scheme data as at 31 March 2012. This new valuation is being used to set a new employer contribution rate payable from 1 April 2015 to 31 March 2019. The new rate will be 14.9% of pensionable pay, compared to the rate of 13.5% which has been paid since 1 April 2009. The impact on employer's costs in 2015/16 has been quantified in NHS Ayrshire and Arran at approximately £3.500 million recurring and has been reflected in the board's 2015/16 financial plan.
66. The valuation also establishes a new employer cap that will apply from the next valuation, which will take place in 2017. This is required by the Public Service Pensions Act and is designed to enable future changes in cost above a certain threshold to be controlled by providing backstop protection for the taxpayer by ensuring that the risks associated with provision are shared with scheme members.

### **Public Finance Initiative (PFI) / Public Private Partnerships (PPP) / Non-Profit Distributing (NPD) costs**

67. NHS Ayrshire and Arran has two PFI/PPP schemes, East Ayrshire Community Hospital and the Ayrshire Maternity Unit which are disclosed in Note 23(b) of the financial statements. The capital costs of these projects are included in the balance sheet with a combined value of £32.777 million. The associated recurrent cost of these

schemes is £5.274 million with a total future commitment recorded in the balance sheet of £57.467 million.

68. Financial close was achieved in June 2014 on North Ayrshire Community Hospital under the Non Profit Distributing model, and building of the new facility commenced in July 2014. Completion is expected in March 2016 with a capital value of £47 million.

## **Conclusion on financial sustainability**

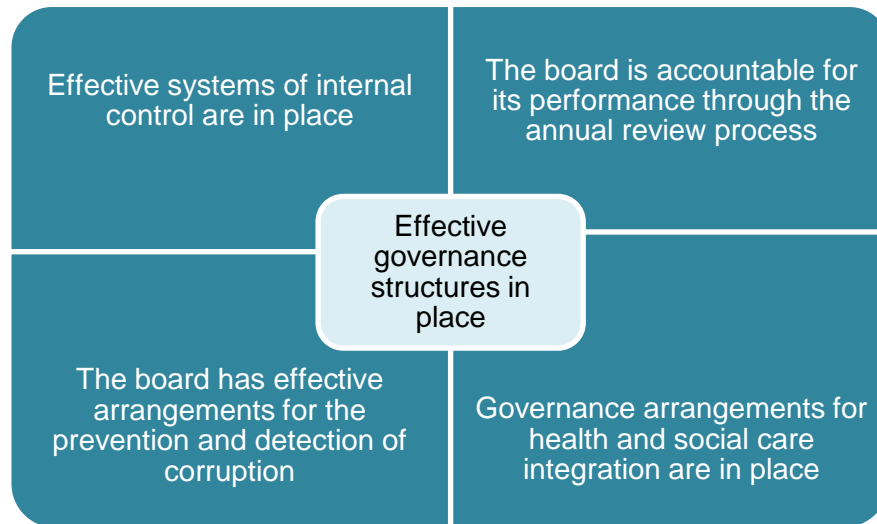
69. Overall, we concluded that the board's financial position is sustainable currently and in the foreseeable future although significant challenges lie ahead.

## **Outlook**

70. The board is predicting a balanced budget in each of the five years from 2015/16 to 2019/20. This is dependent on significant efficiency savings each year. These savings are becoming more challenging to deliver year on year alongside pressures to deliver more with less.
71. The board is also faced with significant challenges arising from increases to its cost base. The impact of pension reform will increase employer contribution rates from 2015/16 by £3.500 million. While from 2016/17 changes in national insurance could result in a further increase in the cost base estimated at £5 million per annum. In effect, the board could have to meet this recurrent expenditure of £8.500 million without any additional funding from the Scottish Government.

72. At the same time there will be increasing cost pressures from the introduction of new drugs and technologies, a rising wage bill, the cost of maintaining access targets and an increase in demand for services from an ageing population. Furthermore, healthcare inflation in the UK is higher than general inflation. Over the last 20 years, general inflation in the UK averages just 2% a year while health service costs rose by 3.6% a year.

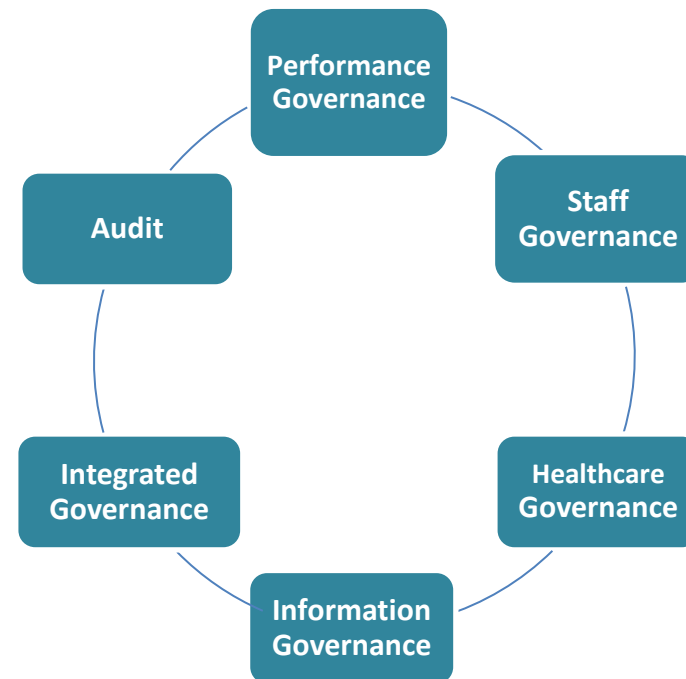
# Governance and transparency



- 73. 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 of these arrangements.
- 74. NHS Ayrshire and Arran is managed by a board of Executive and Non-Executive Directors and is accountable to the Scottish Government through the Cabinet Secretary for Health, Wellbeing and Sport. The Board's Chair and Non-Executives are appointed by the Cabinet Secretary based on their skills and expertise and ability

to contribute effectively to local strategic decision making processes.

- 75. The board is responsible for the strategic leadership and governance for the NHS system across Ayrshire and Arran. It is supported in this role by a number of standing committees as illustrated below:



- 76. The standing committees meet on a regular basis throughout the year to consider relevant matters.

77. 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.
78. The revised Code of Corporate Governance was approved by the Board on 30 March 2015. The document was reviewed to meet the requirements of good governance and to ensure it remains relevant and current. It is set out within the Code that this will be reviewed on an annual basis.
79. Among other revisions, the Code now includes details on the new Integrated Governance Committee which was approved by the Board on 25 August 2014. It is composed of the Chairs of the five other standing Board Governance Committees and the Chief Executive and chaired by the Chairman of the NHS Board. It is also attended by the Lead Director for each of the five other standing Board Governance Committees.
80. The committee was established to meet and discuss recurring issues and themes that are raised at Governance Committees to ensure a joined up approach to corporate governance arrangements within the Board.
81. We concluded that the board has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

## Transparency

82. Local residents should be able to hold the board to account for the services it provides. Transparency means that residents have access to understandable, relevant and timely information about how the board is taking decisions and how it is using its resources.
83. The performance of all NHS Boards is subject to an annual review process. The annual review aims to encourage dialogue and accountability between local communities and their Health Boards. The annual review for NHS Ayrshire and Arran was conducted by the Cabinet Secretary on 8 December 2014 and was attended by the Chief Executive and a board team led by the Chair. There was also an open session where members of the public could attend to ask questions of the Chief Executive and the Board.
84. Furthermore, as part of the annual review process the Board meets with the local Area Partnership Forum, Area Clinical Forum and with patient representatives. The Cabinet Secretary has acknowledged that these arrangements continue to work well in NHS Ayrshire and Arran.
85. Members of the public can also attend meetings of the Board and have ready access to Board papers on the internet. The Board papers provide comprehensive information on all aspects of performance including waiting times and access targets and measures being taken to address them. Additionally, the audited financial statements are readily accessible on the Board's website. In compliance with Scottish Government requirements, the board is also planning to publish an annual report.

86. Overall, we concluded that the board is open and transparent in the way it conducts its business, with members of the public able to attend Board meetings and the Annual Review of the Board's performance.

## Internal control

87. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain sufficient audit evidence to support our opinion on the Board's financial statements.

88. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the board's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

89. We reported our findings to the Director of Finance on 20 April 2015 and the Audit Committee on 29 April 2015.

## Internal audit

90. Internal audit provides the board and Accountable Officer with independent assurance on the board's overall risk management, internal control and corporate governance processes. 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. To avoid duplication, we place reliance on internal audit work where possible.

91. Our review of internal audit concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

92. We were able to place formal reliance on the work of internal audit in relation to aspects of trade payables, payroll, general ledger and trade receivables (prior year).

## Risk management

93. The revised Risk Management Strategy was presented to the Audit Committee on 10 November 2014. This was updated to reflect changes in the Board's integrated approach to the management of risk. The Board believe that integrated risk management provides a greater likelihood of achieving strategic objectives and delivering services efficiently and effectively.

94. The strategy identifies five key objectives which will form an improvement work plan over the next three years.

95. The new arrangements determine that the Audit Committee will receive a copy of the full Corporate Risk Register twice a year to gain its approval for presentation to the Board. Within this, each risk is aligned to a corporate objective. The Governance Committees will receive their specific risks quarterly.

96. The NHS Ayrshire and Arran Board has overall responsibility for NHS Ayrshire and Arran's Risk Management Strategy and for ensuring that significant risks are identified and controlled. This is

achieved through compliance with NHS Ayrshire and Arran's Code of Corporate Governance.

- 97. Internal audit also reported to the Audit Committee in February 2015 on the Board's risk management arrangements. The report identified two medium level risks and noted that work was ongoing in this area. Management had responded to the recommendations with planned actions to be completed by the end of March 2015.
- 98. Overall, we are satisfied with the revised risk management strategy, although we will monitor progress as the new arrangements bed-in.

## ICT audit

- 99. ICT is a key area of control because it underpins all systems used by the board. As part of our planning process we carried a high level review of ICT covering a number of areas. This included investment in ICT infrastructure and systems, management's response to the national ICT resilience review and management's strategies and plans for the implementation of digital services.
- 100. Overall, we concluded that the Board's ICT arrangements are satisfactory and we are not aware of any specific issues that require to be brought to the attention of members.

## e-Health

- 101. The e-Health Strategy 2011-2017 provides NHS Boards with the opportunity to drive e-Health enabled improvements closer to the

front line of service delivery and to align e-Health more closely with the NHSScotland Quality Strategy.

- 102. The board's local e-Health and Information Services Strategy is in line with this and has already begun delivering initiatives such as a new Patient Management System (PMS), TrakCare, as well as work towards the Electronic Patient Record (EPR) and the AyrShare system for data sharing, which is being developed further to facilitate health and social care integration across Ayrshire and Arran.
- 103. The board has a programme in place outlining the investment to be made in ICT infrastructure and systems over the period 14/15 - 16/17, in line with the e-Health Strategy. However, in 2014/15, the 3 year e-Health and Information Services Development Plan was reviewed in order to assess how the Plan could be phased over a 4-5 year period, thus reducing in-year costs and phasing these over the 4-5 year period from 2014/15.
- 104. The review prioritised a number of projects and deliverables which were already underway or were committed to delivery in 2014/15. In addition, the review assessed which project implementations could be delayed or reduced. This provided a more realistic plan in achieving the board's overall e-Health and Information Services Strategy.



## Arrangements for the prevention and detection of fraud

105. We assessed the Board's arrangements for the prevention and detection of fraud during the planning phase of our audit. This involved reviewing policies and procedures in a number of areas including whistleblowing. The board has a Fraud Liaison Officer who also works closely in partnership with Counter Fraud Services (CFS) to promote anti-fraud activity and to advise members of current investigations within the board and wider investigations of interest within NHS in Scotland.
106. In our 2013/14 Annual Audit Report, we reported that a CFS investigation was underway in relation to a loss of theatre equipment with a value of £592,748. The investigation established that a number of endoscopes and cystoscopes were missing from University Hospitals Crosshouse and Ayr theatres. The total value of losses increased to £1.3 million and approval was received from Scottish Government to write this amount off (£592,748 in the 2013/14 accounts and £725,471 in the 2014/15 accounts).
107. In July 2014, a member of staff in the central decontamination unit was arrested and subsequently charged with theft. The board has now extended the electronic tracking system used in the central decontamination unit to track scopes in theatres also. This was disclosed in the Annual Governance Statement and properly accounted for in the financial statements.

108. We concluded that the board has put in place effective arrangements for the prevention and detection of fraud.

## National Fraud Initiative in Scotland

109. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland. It uses computerized 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
110. Auditors are required to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
111. The National Fraud Initiative has a high profile within the Board with data matches actively investigated and findings regularly reported to the Audit Committee. There are no issues of concern that we require to include in this report.

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

112. The board has in place a range of activities designed to maintain standards of conduct including Codes of Conduct for officers and members. Also, there are established procedures for preventing and detecting corruption including annual reviews of Standing Financial Instructions and Standing Orders.



113. Based on our review of the evidence we concluded that the Board has appropriate arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

## Freedom of Information requests

114. The Board processed 89% of FOI requests within the statutory timescales. There has been an increase in requests received by the board over 2014/15. The volume of requests has put more strain on managing the timeframes around requests and allowing enough time to ensure the information being released is robust which has led to an increase in the number of requests not being delivered within statutory timescales.
115. The board have employed a Communication Administrative Assistant to assist the FOI Officer and they expect that compliance targets should improve as a result. In March 2015, the Information Governance Committee also agreed that a self-evaluation toolkit developed by the Office of the Scottish Information Commissioner (OSIC) would be carried out. This will address compliance rates and locating and retrieving information which the board believe will improve performance.
116. Overall, we have no significant concerns relating to FOI compliance and will monitor the progress in 2015/16 in addressing the challenge of increasing requests.

## Vale of Leven Inquiry

117. The Vale of Leven Hospital Inquiry Report into the circumstances contributing to the high occurrence of C.difficile at the Vale of Leven Hospital was published in November 2014. Following publication of the report health boards were required to carry out a self-assessment of progress against the 65 recommendations directed at health boards.
118. In Ayrshire and Arran, 64 of the recommendations have been fully or mostly implemented with one only partially implemented. This was reported to the Board on 2 February 2015 along with the actions being taken to fully address the Inquiry's recommendations. The overall action plan for the Vale of Leven recommendations is monitored through the Healthcare Governance Committee.
119. The Healthcare Environment Inspection (HEI) process also provides assurance to the Board on the effectiveness of infection control. The HEI carried out unannounced inspection visits to the University Hospital Ayr in April and August 2014. The first inspection resulted in six requirements and one recommendation. The second follow-up inspection found that improvement had been made in these areas but the frequency of environmental cleaning in the intensive care unit needs to be reviewed, and patients need to be fully informed about infection prevention and control.
120. The HEI also carried out unannounced inspections at University Hospital Crosshouse in October and November 2014. Although the HEI had concerns about the standard of cleanliness of patient

equipment in the accident and emergency department on their first visit, the second concluded that there was evidence that NHS Ayrshire and Arran is working towards complying with the majority of NHS QIS HAI standards to protect patients, staff and visitors from the risk of acquiring an infection.

121. Overall, the Board have sound governance arrangements in place for monitoring and responding to the findings and lessons emerging from high profile events such as Vale of Leven Inquiry Report.

## Health and Social Care Integration

122. The integration of health and social care through the Public Bodies (Joint Working) (Scotland) Act is one of the most significant public sector reforms of recent years.
123. In March 2015, the three Integration Schemes from Ayrshire were submitted to the Scottish Government and the Parliamentary Order which enables the establishment of the new Health and Social Care Partnerships was signed. East, North and South Ayrshire Councils, with NHS Ayrshire and Arran, were then the first in Scotland to set up their Integration Joint Boards.
124. Under these new arrangements, delegated accountability for the delivery of agreed health and social care services was passed to three new Health and Social Care Partnerships (HSCP) between each council and NHS Ayrshire and Arran from 2 April 2015. Each partnership has one integrated budget for delivering services that improve outcomes, and are led by a joint post - Director of Health

and Social Care - reporting jointly to the Chief Executives of NHS Ayrshire and Arran and the Council.

125. The three Integration Joint Boards (IJBs) have been responsible for health and social care services throughout Ayrshire and Arran. The IJBs comprises eight voting members appointed in equal numbers by the Health Board and the Local Authority. A number of representative members also serve on it, drawn from patients/service users, carers, staff, the Third Sector and the Independent Sector. It is advised by a number of professionals including the Chief Officer, Associate Medical Director, Associate Nurse Director and the Chief Social Work Officer.
126. During 2014/15, Internal Audit carried out a review of health and social care arrangements at NHS Ayrshire and Arran covering the Integration Schemes, Strategic Plans, work streams and financial readiness of the Board. Their review concluded that NHS AA has complied with the requirements of Public Bodies Joint Working (Scotland) Act and Scottish Government guidance over the integration process. The review established that the Board are in a good position regarding health and social care integration.
127. The board have worked effectively with their local authority partners to date and we will monitor progress with the Integrated Joint Boards now that they are established.

## 2020 Vision

128. The Scottish Government's 2020 Vision for health and social care is that by 2020 everyone is able to live longer healthier lives at home,

or in a homely setting. The Board endorsed Our Health 2020: A health and wellbeing framework for Ayrshire and Arran at its meeting on 3 February 2014. This provides a locally relevant strategic overview for Ayrshire and Arran.

- 129.** The Board's overarching strategic framework builds on the strategic direction outlined in Our Health 2020 and shows the relationship between national priorities for the 2020 Vision, key Strategic Direction Statements derived from Our Health 2020, and the Board's corporate objectives. The national strategies therefore cascade through the organisation.
- 130.** The Board's Local Delivery Plan (LDP) for 2015/16 also links local programmes of work and their performance to the priority areas set out in the 2020 Route Map and Vision. The LDP focuses on NHS Scotland's Six Strategic Improvement Priorities which are:
- Health Inequalities and Prevention
  - Antenatal and Early Years
  - Person-Centred Care
  - Safe Care
  - Primary Care
  - Integration
- 131.** To provide assurance that NHS Ayrshire and Arran is delivering against the national priorities set out in the 2020 Vision, the Corporate Strategy defines key programmes of work, strategies and plans with their associated measures of performance that NHS

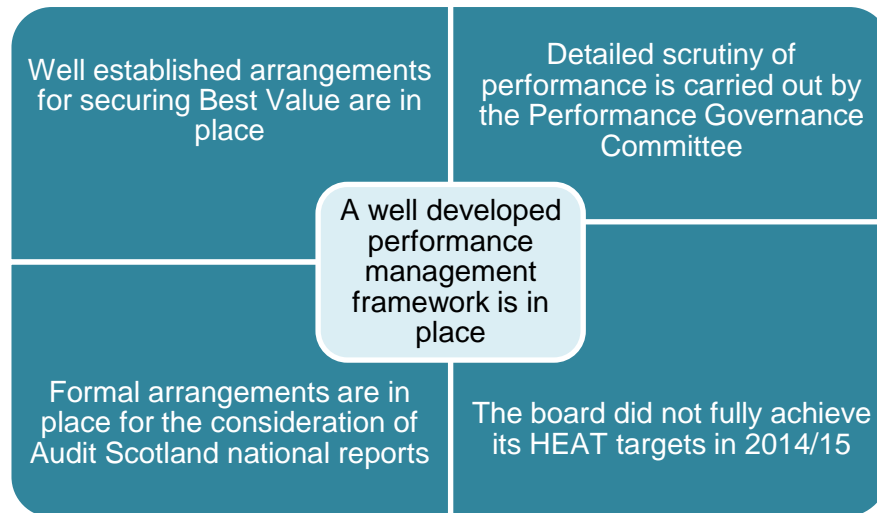
Ayrshire and Arran will achieve each year as they work towards 2020 and the delivery of the 2020 Vision.

- 132.** Locally, services are committing spend towards achieving the Board's long term strategy and objectives, such as facilities for the Building for Better Care initiative. This includes capital expenditure on a combined assessment unit (CAU) at Crosshouse hospital which is designed to make sure patients are only admitted to hospital if this is required. A CAU is also planned for Ayr hospital. This initiative contributes towards shifting the balance of care as part of the 2020 Vision.
- 133.** We have concluded that the board is proactive in planning to ensure that the population across Ayrshire and Arran are able to live longer healthier lives at home as evidenced by Our Health 2020.

## Outlook

- 134.** NHS Ayrshire and Arran has recognised the importance of redesigning the way that care is provided for patients, particularly in the context of changing demography and increasing demand, where they have been at the forefront of implementing health and social care integration through the Integrated Joint Boards.

# Best Value



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

## Arrangements for securing Best Value

136. Best Value arrangements are part of business as usual within the Board. They are embedded in its planning processes, governance arrangements and its performance management and quality improvement frameworks.

137. The Audit Committee also receives an annual assurance report from the Performance Governance Committee detailing the evidence demonstrating the Board’s commitment to Best Value.

138. We have reviewed much of the evidence underpinning the Board’s BV arrangements including the Local Delivery Plan, performance management and reporting, committee papers, and new developments such as the integration of health and social care. We also attended the annual review of the board’s performance.

139. Overall, we concluded that the board has well-developed arrangements for securing Best Value and continuous improvement.

## Performance management

140. The performance of NHS Ayrshire and Arran is monitored by the Scottish Government against a number of HEAT targets and standards which support the delivery of the Scottish Government’s national performance framework. These targets and their trajectories are set out in the board’s 2014/15 Local Delivery Plan (LDP).

141. Performance against the national waiting times and other access targets, Healthcare Associated Infections and Financial Management is reported to each meeting of the Board. Furthermore, performance is discussed at the Annual Review meeting held between the Scottish Government and the board.

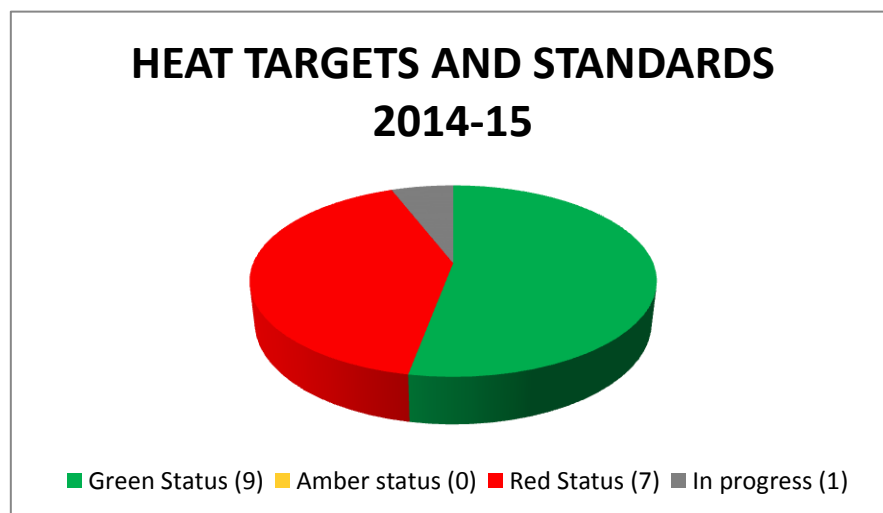
142. More detailed scrutiny of performance takes place at the Performance Governance Committee where progress against targets is reviewed and discussed. The performance reports are accompanied by a narrative setting out actions being taken to support the achievement and sustainability of the HEAT targets and standards. In addition, separate reports on waiting times and

financial performance are also submitted to the committee for review and scrutiny.

143. We concluded that the board had a well established performance management framework in place during 2014/15. This was supported by good performance monitoring.

## Overview of performance targets in 2014/15

144. The board's performance against its 17 HEAT targets as reported in the 2014/15 annual accounts, and based on the most up to date data available regarding the position at the end of March 2015, is summarised in the diagram below.



145. Of 17 HEAT targets, nine were categorised as green, none amber, seven red and one in progress, where:

- Green means meeting or better than trajectory (plan)

- Amber means within 5% of trajectory (plan)
- Red means outwith 5% of meeting trajectory (plan)
- In progress i.e. data source and quality is still being verified.

146. Those HEAT targets currently being met (green status) by the board include the 26 week referral to treatment for child and adolescent mental health services, IVF treatment within 12 months, access to antenatal care and detecting cancer early. The board also fully met all of its financial targets, as detailed earlier in this report.

147. Seven targets were not achieved (red status), including accident and emergency (A&E) 4 hour waits, MRSA/MSSA reduction, Clostridium Difficile reduction and delayed discharges. We reported in our 2013/14 annual report 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. The further increase in demand for A&E services in Ayrshire and Arran has placed further strain on these services and the board have invested £2.15 million in additional unscheduled care capacity on a recurrent basis.

148. Staffing pressures, as detailed earlier in this report, have a direct impact on performance against these targets. This has had a particular impact on Accident and Emergency waiting times. A number of patients have been delayed waiting for beds in downstream wards and waiting for home care, impacting on beds available for new patients. Acute staff are working closely with Health and Social Care Partnership colleagues to reduce these

delays and new measures have been put in place including weekend working in the emergency department by home care staff and additional beds in Cumbrae Lodge Care Home, Ayrshire Central Hospital, to increase capacity.

149. University Hospital Crosshouse has also increased bed capacity, increased weekend medical staff cover, expanded acute receiving capacity over 24 hours and obtained short term assistance from experienced nursing staff to support effective discharge of patients. Although the Board consistently met the national 4 week target for delayed discharges in 2014-15 it did not achieve the planned progress towards the new 2 week target. This is to be achieved by April 2015 and the Board recorded 9 people delayed in March 2015 against a plan of one delay. It was, however, an improvement over the April 2014 position when twenty seven people were delayed over 2 weeks.
150. The A&E pressure also has a direct impact on Treatment Time Guarantees (TTG) which only met the 100% target in one month of 2014/15. There were a total of 433 breaches of the TTG in 2014/15 which is a significant increase on the 62 breaches recorded in 2013/14. The majority of these (388 or 90%) were in the final quarter of 2014/15 and were a direct result of the cancellation of elective activity to deal with the increased demand from emergency patients.

#### **Recommendation 6**

151. Gaps in medical cover have had a direct impact on 18 weeks referral to treatment which was also below target. An additional £2.3

million has been allocated in 2015/16 to tackle delayed discharge and the Board hope this can go some way towards easing the pressure. However, whilst recovery plans are in place, no money has been set aside locally to fund waiting list initiatives to achieve Treatment Time Guarantees. Achievement of these targets will therefore rely on significant additional funding from Scottish Government which is currently not reflected in the financial plan.

152. In terms of MRSA/MSSA, the board has shifted from having the lowest rate amongst mainland territorial boards to being above the Scottish mean during the year. For Clostridium Difficile, the board recorded a 22% reduction on cases in hospitals. However, this was partly offset by a rise of 13% of cases identified in primary care which impacted on the ability to meet the HEAT target. The board is taking measures to address these and the Healthcare Governance Committee will monitor progress.

### **National performance audit reports**

153. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the Board. These are outlined in appendix III.
154. As reported in previous years, NHS Ayrshire and Arran has processes in place to ensure that all national performance reports and their impact on the Board are considered by the Audit Committee and other governance committees, as appropriate.

155. From our attendance at Audit Committees we have concluded that the arrangements for considering national performance audit reports are consistent with good practice.

## Equalities

156. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
157. At its meeting on 30 March 2015, the board approved the *NHS Ayrshire and Arran Mainstreaming Report 2013-2015* as an account of the work NHS Ayrshire and Arran has undertaken in the last two years to progress and embed the equalities agenda and meet the requirements of the Equalities legislation. The report outlined the steady progress being made in achieving the required outcomes.

## Outlook

158. Audit Scotland, in its annual overview of the NHS in Scotland, highlighted that there are increasing signs of pressure on NHS boards' ability to meet demanding performance targets. The strong focus, particularly in relation waiting times targets, may not be sustainable when combined with the additional pressures of increasing demand related to demographic changes and the overall NHS budget starting to decrease in real terms.
159. The effort that NHS boards are putting in to meeting challenging financial and performance targets each year makes it more difficult for them to focus on long-term planning required to achieve the 2020 Vision.



## Appendix I – Significant audit risks

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

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Equal Pay</b></p> <p>NHS Ayrshire and Arran along with other NHS boards continues to be unable to quantify the extent of its liability for Equal Pay claims. Whilst this risk is reducing over time, there remains a risk that these liabilities will have a significant impact of the board's financial position.</p>	<ul style="list-style-type: none"> <li>• Monitored progress in settling claims during the year and consider status at the year end.</li> <li>• Consulted with our technical support staff on advice provided by the Central Legal Office.</li> </ul>	<ul style="list-style-type: none"> <li>• An offer of settlement has been made although negotiations are still underway.</li> <li>• Equal pay liability now accounted for as provision in the 2014/15 annual accounts. No impact on the board's ability to achieve its financial targets.</li> </ul>

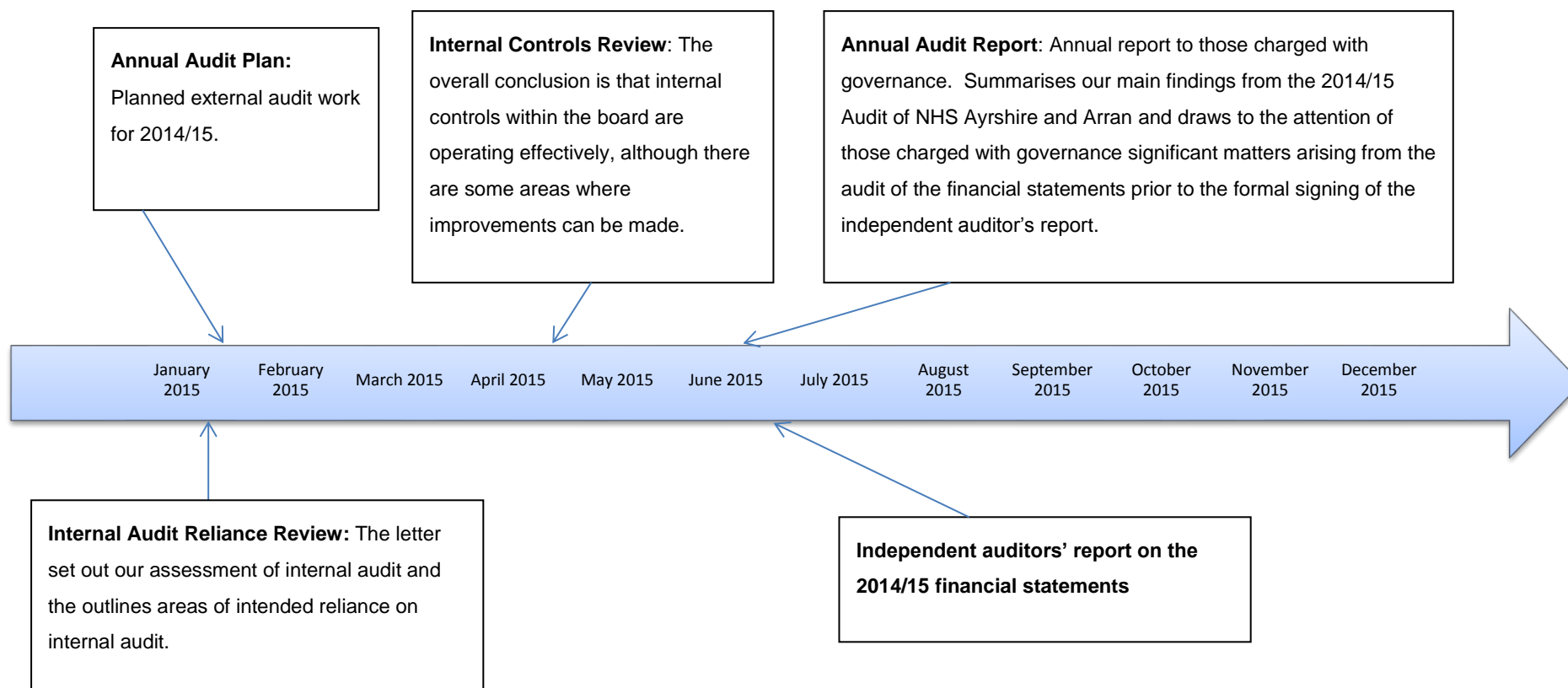


Audit Risk	Assurance procedure	Results and conclusions
<p><b>Risk of management override of control</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries and regularity, as well as cut-off testing of transactions for any instances of fraud.</li> <li>• Detailed review of accounting estimates was carried out to ensure they were soundly based.</li> <li>• An evaluation of significant transactions that were outside the normal course of business was carried out to ensure they could be backed up with relevant evidence.</li> </ul>	<ul style="list-style-type: none"> <li>• Testing did not highlight any instances of potential fraud.</li> <li>• Testing confirmed that accounting estimates were soundly based</li> <li>• Testing did not identify any transactions that were outside the normal course of business</li> </ul>
<p><b>Asset Sales</b></p> <p>The Board's capital programme is dependant upon an anticipated level of asset sales. Our substantive testing during 2013/14 identified incorrect recognition of an asset sale which had to be reversed, impacting on the board's CRL. There is a risk that similar errors could be found during the current year's audit.</p>	<ul style="list-style-type: none"> <li>• Accounting treatment of asset sales along with any accrued debtor balances were tested as part of our financial statements audit.</li> </ul>	<ul style="list-style-type: none"> <li>• Testing of the accounting treatment of assets proved satisfactory</li> <li>• All recognised sales were final.</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Medical Equipment</b></p> <p>The medical equipment missing from hospitals in 2013/14 had not been recognised as capital in nature. The board have confirmed that this has been addressed. However, there remains a risk that assets of a similar nature may not be accounted for correctly.</p>	<ul style="list-style-type: none"> <li>Detailed testing of assets purchased from revenue was carried out to identify any instances where assets should have been treated as capital.</li> </ul>	<ul style="list-style-type: none"> <li>Testing did not highlight any instances where assets should have been treated as capital.</li> </ul>

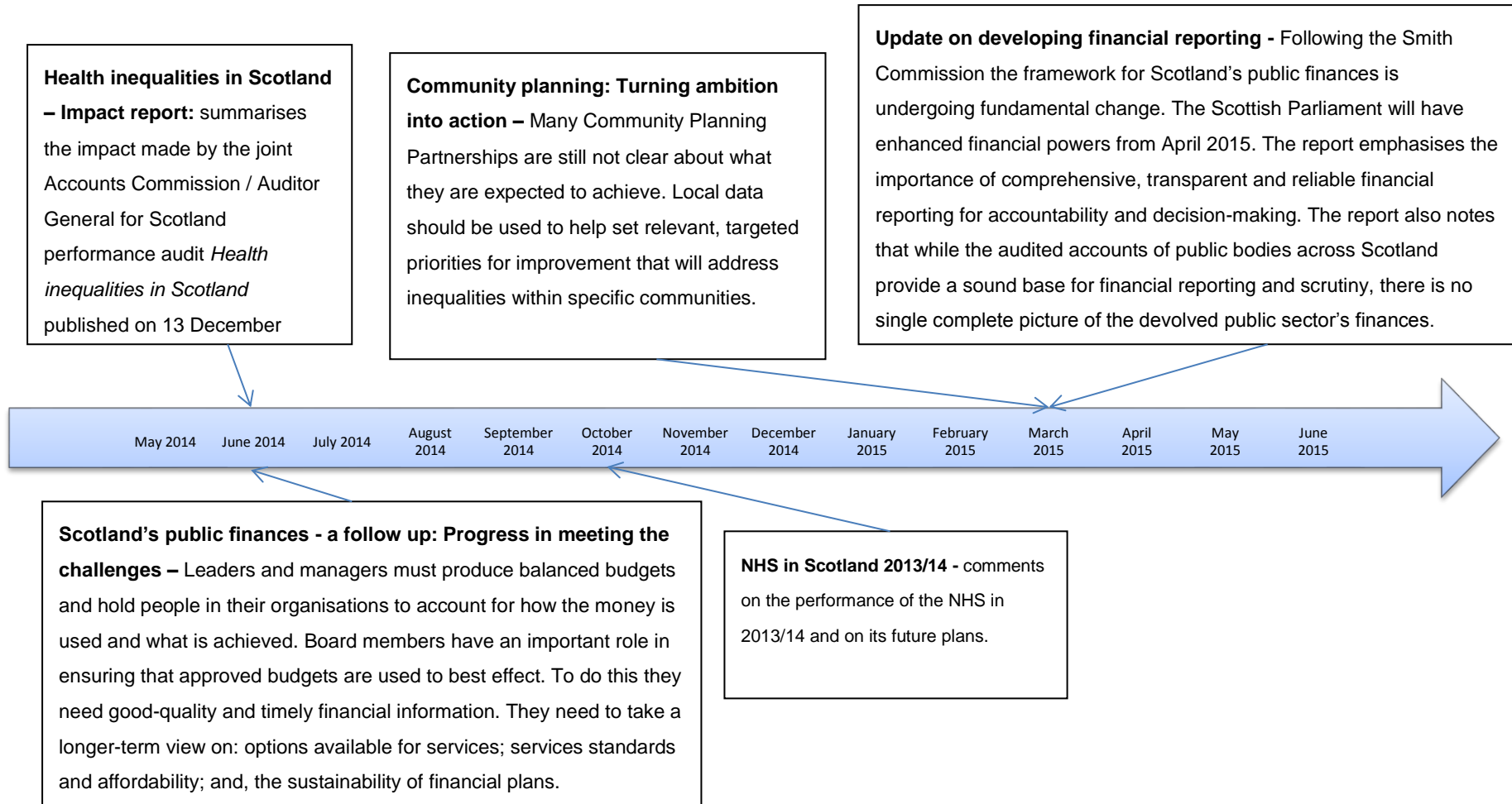
# Appendix II

## Summary of NHS Ayrshire and Arran local audit reports 2014/15



# Appendix III

## Summary of Audit Scotland national reports 2013/14



# Appendix IV

## Action plan

No. Page/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
<p><b>1</b> <b>13/32</b></p>	<p><b>Issue</b> £8.682 million (47%) of the savings achieved in 2014/15 were on a non-recurrent basis. £5.7 million (30%) of planned savings for 2015/16 are also on a non-recurrent basis, per the Local Delivery Plan.</p> <p><b>Risk</b> There is a risk that non-recurring savings will put pressure on future years' budgets and that the board may fail to meet its financial targets in future.</p> <p><b>Recommendation</b> The board should identify recurring savings as far as possible in order to relieve pressure on future years' budgets.</p>	<p>An increasing proportion of efficiency savings were recurring in 2015/16 compared to 2014/15 and the financial plan indicates the need for this trend to continue in 2016/17 when the financial situation will be even more challenging.</p>	<p>Derek Lindsay, Director of Finance</p>	<p>March 2016</p>

No. Page/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
2 14/40	<p><b>Issue</b></p> <p>The backlog maintenance has increased by £4.0m to £77.8m. The Board has reduced the investment in backlog maintenance in 2014/15 by £0.6m. There is a planned reduction in the estates formula revenue budget of £0.8m to £3.0m in 2015/16 and in future years.</p> <p><b>Risk</b></p> <p>There is a risk that funding may be reduced to an extent that no improvement to the estate is made.</p> <p><b>Recommendation</b></p> <p>The board should ensure that sufficient funding is available to allow assets to continue to operate at an acceptable standard.</p>	<p>Decisions on investment in staff for patient safety, drugs in line with government policy, capacity to achieve access targets and health and safety and estates issues are considered in the annual budget setting process by Corporate Management Team, Performance Governance Committee and the Board.</p>	<p>Derek Lindsay, Director of Finance</p>	<p>March 2016</p>

No. Page/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
3 16/49	<p><b>Issue</b></p> <p>The increased spend on drugs by NHS Ayrshire and Arran in 2014/15 (compared to 2013/14) is 10.4%. A particular cost pressure highlighted by the board is changes to the Scottish Medicines Consortium criteria to increase access to expensive drugs for rare conditions and end of life care. This places further financial pressure on the board.</p> <p><b>Risk</b></p> <p>There is a risk that the board will fail to meet financial targets in the future due to increased pressure on prescribing expenditure.</p> <p><b>Recommendation</b></p> <p>The board should ensure that funding for prescribing pressures is in place in order to achieve statutory targets.</p>	<p>Given a general allocation funding uplift of 1.8% in 2015/16, it is difficult for the Board to manage a 10% increase on the £100 million plus drugs budget. The Scottish Government is however making available a New Medicines Fund to cover orphan drugs, ultra orphan drugs and end of life drugs approved by the Scottish Medicines Consortium. We will monitor in-year spend to identify if the £9.5 million additional funding prioritised for drugs from our general allocation uplift and the expected £5-6 million from the New Medicines Fund will be sufficient in 2015/16.</p>	<p>Derek Lindsay, Director of Finance</p>	<p>March 2016</p>

No. Page/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
4 17/57	<p><b>Issue</b></p> <p>Agency staff costs for 2014/15 were £5.889 million, compared to £6.234 million in 2013/14. The use of bank, agency and locum staff such provides flexibility to cover for vacancies and staff absence but needs to be managed and monitored closely.</p> <p><b>Risk</b></p> <p>Continued reliance on non-core staff could have a significant impact on the board's plans to achieve the savings required for longer term financial sustainability.</p> <p><b>Recommendation</b></p> <p>The board should reduce reliance on non-core staff to provide services.</p>	<p>Medical gaps continue to challenge service provision. Management are seeking to balance safety and continuation of service with financial risk. Every effort will continue to be made to recruit into medical gaps.</p> <p>Nursing supplementary staff continue to be scrutinised to minimise cost.</p> <ol style="list-style-type: none"> <li>1) Review sickness absence in line with Board policy</li> <li>2) Rostering to ensure use of 22% is effective.</li> <li>3) Review of 1 to 1 observations</li> </ol>	<ol style="list-style-type: none"> <li>1) Director of Acute Services</li> <li>2) Director of Nursing (professional)</li> <li>3) Director North H&amp;SCP and mental health.</li> </ol>	<p>This is a continuous issue and not possible to give a target date.</p>



No. Page/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
5 17/63	<p><b>Issue</b></p> <p>The board has seen improvements in its sickness absence rate in recent months; however at 31 March 2015 the rate was 5%. This is above the 4% standard specified by the Scottish Government.</p> <p><b>Risk</b></p> <p>A high sickness absence level will impact on the board's ability to achieve its financial and non-financial targets and could adversely impact on safe and efficient service delivery.</p> <p><b>Recommendation</b></p> <p>The effectiveness of measures implemented to reduce absence levels should be assessed to ensure they are appropriate and can deliver improved attendance at work.</p>	<p>Progress in this area is noted in that the Board is now below the Scottish average. Continuation of a dedicated post to focus on this issue will continue in 2015/16.</p>	<p>Liz Bacon, Promoting Attendance Manager</p>	<p>March 2016</p>

No. Page/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
<p><b>6</b> <b>30/150</b></p>	<p><b>Issue</b></p> <p>Breaches of the Treatment Time Guarantee reached 433 for 2014/15, with 388 arising in the final quarter of the year. The increase was largely due to the cancellation of elective activity to deal with the increased demand from emergency patients. This places further financial pressure on the board.</p> <p><b>Risk</b></p> <p>There is a risk that the board will fail to meet financial targets in the future due to increased pressure on statutory waiting times targets.</p> <p><b>Recommendation</b></p> <p>The board should ensure that support for local recovery plans is in place to meet demand in order to achieve statutory targets.</p>	<p>Management have discussed TTG compliance with Scottish Government and secured an initial £600K to support a reduction in numbers waiting. Further discussions will take place in June 2015. NHS A&amp;A has not been able to allocate funding due to other financial pressures.</p>	<p>Director for Acute Services</p>	<p>December 2015 subject to financial support</p>