AUDIT SCOTLAND

NHS Ayrshire and Arran

2015/16 Annual Audit Report for the Board of NHS Ayrshire and Arran and the Auditor General for Scotland

June 2016

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively (www.audit-scotland.gov.uk/about/).

Fiona Mitchell-Knight, Assistant Director, Audit Scotland is the appointed 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.

Contents

Key messages

Audit of financial statements

- We have issued an unqualified independent auditor's report on the 2015/16 financial statements.
- A significant amendment of £1.06 million was required to the statements presented for audit to reflect the true 2015/16 service costs.

Financial management & sustainability

- The Board met all of its 2015/16 financial targets. In year overspends were significant but after initiation of a recovery plan and receipt of more than £2 million in late funding allocations this was achieved. This indicates the Board's cost base is not sustainable in the future.
- An underspend of £0.065 million was achieved against total Revenue Resource Limit (RRL).
- The Board achieved its overall savings target of £19.061 million (65% on a recurrent basis and 35% on a non-recurrent basis).
- Whilst the Board has strong financial monitoring arrangements, it should also ensure that finance reports sufficiently capture any risks around the achievement of financial targets.

Governance & transparency

- The Board has well-established and appropriate governance arrangements in place.
- Appropriate systems of internal control operated during 2015/16.
- The Board's internal audit service complies with Public Internal Audit Standards.
- Robust anti-fraud arrangements are in place.

Best Value

- The Board and the three Ayrshire Councils were the first in Scotland to activate Health and Social Care Partnership Integration Joint Boards. Accountability for services was transferred to the partnerships from 2 April 2015.
- The Board has a well developed performance management framework in place.
- The Performance Governance Committee receives regular updates on all aspects of performances and the actions being taken to improve performance.
- During the year the Board agreed to curtail spending on waiting times initiatives to focus on financial targets. This led to 1,980 breaches of the Treatment Time Guarantee alongside declining performance against other access targets.

Outlook

- NHS Ayrshire and Arran will continue to operate in a period of austerity with reduced funding in real terms, increasing cost pressures and a growing demand for services, especially from the elderly. The Board recognises the risk that 2016/17 savings targets may not be achieved. In this environment, the Board's reliance on late funding allocations to achieve financial targets is unlikely to be sustainable in the future.
- It is acknowledged that the current model of healthcare needs to change. The Scottish Government's 2020 vision and the implementation of health and social care integration are intended to provide services on a more sustainable footing by shifting the balance of care from hospitals to community settings. These changes may take several years to have a noticeable impact.

Introduction

1. This report is a summary of our findings arising from the 2015/16 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 appendix II and appendix 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 2015/16 financial statements

Audit opinion	• We have completed our audit and issued an unqualified opinion that the financial statements of NHS Ayrshire and Arran for 2015/16 give a true and fair view of the state of its affairs and of its net operating cost for the year. • This opinion was reached after a significant amendment of £1.06 million was made to the statements presented for audit to reflect the true 2015/16 service costs.
Regularity of income and expenditure	• 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.
Other information	• We review and report on other information published with the financial statements, notably the Performance Report and Annual Accountability Report which includes the Governance Statement and the Remuneration and Staff Report. We consider whether these reports have been properly prepared, comply with extant guidance and are consistent with the financial statements. • We report any material errors or omissions, any material inconsistencies with the financial statements or any otherwise misleading content. We have nothing to report in respect of the other information published as part of the annual report and accounts.
Consolidation template	• 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 2016. These templates are used to compile the national NHS financial position.

Submission of financial statements for audit

9. We received the unaudited financial statements for Ayrshire and Arran NHS Board on 4 May 2016, two days later than planned. The narrative sections of the financial statements were also received later than planned.

10. 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 by the deadline.

11. The financial statements of the Board are prepared in accordance with the Government Financial Reporting Manual (FReM). To reflect changes to the FReM significant restructuring of the annual report was done. This includes a performance report (which has replaced the management commentary) and accountability report which includes the governance statement and the renamed remuneration and staff report.

12. In 2015/16, for the first time, health boards' group accounts are required to include the financial results of the health and social care partnerships, Integration Joint Boards (IJBs). Within Ayrshire and Arran there are three IJBs – East Ayrshire, North Ayrshire and South Ayrshire – all of which were established and became operational on 2 April 2015.

13. The Board and IJBs have different reporting regimes. NHS Ayrshire and Arran is required to submit its audited accounts by 30 June each year whereas the IJBs do not have to submit their audited accounts until 30 September each year. Compiling and obtaining figures for consolidation was therefore challenging. However, appropriate schedules were provided by IJB finance staff on 26 May 2016 for consolidation into the group accounts and for audit.

14. The accounts reflect good practice as set out in the Audit Scotland publication 'Improving the Quality of NHS Annual Report and Accounts' (December 2014).

Overview of the scope of the audit of the financial statements

15. 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 10 February 2016.

16. 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 2015/16 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, at £227,540.

17. The concept of audit risk is central to our audit approach. We focus on those areas that are most at risk of causing material misstatement in the financial statements. In addition, we consider what risks are present in respect of our wider responsibility, as public sector auditors, under Audit Scotland's Code of Audit Practice.

18. During the planning phase of our audit we identified a number of risks and reported these to you in our Annual Audit Plan along with the work we proposed doing in order to obtain appropriate levels of assurance. Appendix I sets out the significant audit risks identified and how we addressed each risk.

19. 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.

Materiality

20. 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 (for example, an item contrary to law).

21. 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.

22. 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 2015/16 at £8.126 million (or 1% of gross expenditure). Performance materiality was calculated at £4.875 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level. Additionally, we set a misstatement threshold of £80,000 (approximately 1% of planning materiality). Amounts below this value are considered trivial and not reported.

23. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculations remained appropriate.

Evaluation of misstatements

24. The audit identified some presentational and monetary adjustments which were discussed and agreed with management. The adjustments, taken individually and aggregated did not have any effect on the health board's reported financial outturn for the year. The adjustments primarily related to:

- Revisions to the Performance Report and Governance Statement to include some additional contextual information.
- Correction to the Remuneration Report and Note 6 relating to compensation for loss of office of an Executive Director.
- Amendments to note 29 which covers related party transactions.
- Correction to Note 19 to remove unquantified contingent liability relating to Ayrshire Medical Support.

Significant findings from the audit

25. 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.

26. During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you.

27. Table 1 below details those issues or other audit judgements that, in our view require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA260
Public holidays prepayment Board employees have an entitlement to eight Public Holidays per year, four of which fall on dates that are agree nationally and four of which are agreed locally. CEL 31 (2011) recognises that as Easter can fall in March or April, there may be circumstances where public holiday entitlement for one leave year may actually fall and require to be taken in another leave year. In the accounts submitted for audit, the board recognised a prepayment of £1.064 million in the Balance Sheet, representing the costs of two March 2016 public holidays. The justification for this was that employees taking 10 days public holiday leave in 2015/16 require to use 2 days of their 2016/17 entitlement, which does not become an entitlement until 1 April 2016. The Director of Finance first discussed this issue with us in December 2015. At this time we said that a leave prepayment is appropriate only if staff are in a leave deficit position at the year end. It has now been confirmed by the Board's HR Director that as from 1 April these staff are not in leave deficit. As a result, our view is that the inclusion of the prepayment represents non compliance with accounting regulations. It was not appropriate for the board to recognise this prepayment at 31 March, as there is no asset, or benefit due to the board after this date. The impact of this treatment was to move two days of staff costs from 2015/16 into 2016/17, to achieve RRL costs within target. After discussions with the Director of Finances, to avoid a modified audit opinion, the prepayment was removed from the accounts and service costs increased. The Director of Finance discussed this matter with the Scottish Government and obtained an additional allocation of £1.064 million to impair the prepayment (cancel it out) to remain within financial balance at the year end. In his Financial Management Report for the period to 31 January 2016, the Director of Finance reported that in order to achieve financial balance, "… the only possible solution was to adopt a number of potential accounting entries which would be accepted as legitimate. However, this would have some direct consequences on the 2016/17 financial position." No detailed information on these potential entries was included in Board papers; however they did include mention of the public holiday prepayment of £1.064 million. An assessment of the accounting basis for this proposal however was not reported to the Board at that time. We have concluded that, in our opinion, the prepayment represented a deliberate movement of costs between years in order to achieve financial balance, contrary to proper accounting practice. This is not an acceptable approach to achieving the Board's financial targets. ***Appendix IV – Action Plan no. 1***

Significant findings from the audit in accordance with ISA260

Additional support from Scottish Government

In November 2015, the Scottish Government offered £1 million non-recurring funding towards junior doctor locum costs if the board managed to get to within £1 million of financial balance at the year end. The additional allocation was received in March 2016, however the board achieved the target of within £1 million of financial balance only by recognising the (incorrect) prepayment of £1.064 million referred to above (and the subsequent additional allocation to replace it of 6 June 2016). Indeed, it is our view that the November 2015 offer of allocation may have contributed towards deliberate movement of costs between years in order to achieve financial balance. The board needs to discuss the timing of project specific allocations further with the Scottish Government to enable better financial planning thereby minimising financial risk to the board.

Appendix IV – Action Plan no. 2

Equal Pay

In previous years, equal pay has featured as a recurring issue and we commented that the board, on advice from the Central Legal Office, was not able to provide any financial quantification of equal pay claims. In 2014/15 the Director of Finance for the health service advised that equal pay claims were to be included as a provision in the accounts of NHS boards because of an offer of settlement in relation to certain claims. There have been significant developments in 2015/16 whereby these claims are due to be settled. Scottish Government has provided funding to cover the costs of equal pay which are included in the accounts. We can confirm that the board has properly accounted for equal pay in accordance with Scottish Government guidance.

This matter is now closed.

Integration Joint Boards

The inclusion of the integrated joint boards for the first time in the group accounts had an impact of £407.043 million gross expenditure, as well as recognition of a £0.144 million investment in East Ayrshire IJB as the NHS Ayrshire and Arran's share of the IJB's underspend. The IJB figures used in the consolidation process were based on the unaudited accounts for each IJB. We do not anticipate any material changes to the draft figures used in consolidation.

For information only.

Future accounting and auditing developments

Audit appointment from 2016/17

28. The Auditor General for Scotland is responsible for the appointment of external auditors to Scottish health bodies. External auditors are appointed for a five year term either from Audit Scotland's Audit Services Group or private firms of accountants. The financial year 2015/16 is the last year of the current audit appointment round.

29. The procurement process for the new round of audit appointments was completed in March 2016. From next year (2016/17) Deloitte LLP will be the appointed auditor for NHS Ayrshire and Arran.

30. We would like to thank board members, audit committee members, executive directors and other staff, particularly those in finance, for their co-operation and assistance over the last five years.

Code of Audit Practice

31. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011.

32. The Code outlines the objectives and principles to be followed by all auditors. The audit of financial statement's is covered by auditing standards, so the Code focuses more on the wider code objectives and responsibilities of public sector auditors. It is a condition of their appointment by the Auditor General or the Accounts Commission that they follow it.

33. The new Code increases the transparency of the work of auditors by making more audit outputs available on Audit Scotland's website. In addition to publishing all Annual Audit Reports and Annual Audit Plans, other significant audit outputs will be put on the Audit Scotland website for all audited bodies. This is irrespective of whether the body meets in public or makes documents such as audit committee papers routinely available on its own website.

Financial management and sustainability

Core revenue resource limit £703.686m	Non-core revenue resource limit £22.076m	Capital resource limit £18.258m	Total savings target £19.061m
Outturn CRRL £703.621m	Outturn NCRRL £22.076m	Outturn CRL £18.257m	Recurrent savings £12.482m
Underspend on CRRL £0.065m	Balanced NCRRL position	Balanced CRL position	Non-recurrent savings £6.579m

Financial management

34. In this section we comment on the NHS Ayrshire and Arran financial performance and assess the Board's financial management arrangements.

35. The Board, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorate (SGHSCD). The budget for revenue expenditure is termed the Revenue Resource Limit (RRL) and consists of core and non-core elements. The budget for capital expenditure is termed Capital Resource Limit (CRL). Both funding streams are agreed annually with the SGHSCD.

36. The Board must ensure that expenditure is held within the resource limits set by the SGHSCD. Regular monitoring of expenditure and income against these budget limits is central to effective financial management and keeping expenditure within agreed limits

Financial performance 2015/16

37. The Board's final RRL (£703.686 million) and CRL (£18.258 million) were agreed with the SGHSCD on 6 June 2016.

38. The Board achieved its RRL financial target for 2015/16 as illustrated in a paper to the 30 March 2015 Board meeting which set out the plan to achieve a balanced recurring budget for 2015/16. This was based on £28 million of cost pressures requiring the Board to deliver £13.3 million of cash releasing efficiency savings.

Table 2: Summary of financial performance

Performance against budget limits	Target (£m)	Actual (£m)	Saving (£m)
Core revenue resource limit	703.686	703.621	0.065
Non-core revenue resource limit	22.076	22.076	0
Core capital resource limit	18.258	18.257	0.001
Non-core capital resource limit	25.151	25.151	0
Cash requirement	772.345	772.340	0.005

Source: include source for figures here

39. The actual out-turn position for the year is an underspend of £0.065 million. Table 3 illustrates however that the in-year position was significantly outwith target between September 2015 and February 2016.

40. At the end of September 2015, the Board's financial position had deteriorated to an overspend of £3.168 million against budgeted expenditure. This was due primarily to significant overspends in clinical costs (encompassing FHS and HCH expenditure) of £4.745 million. In October 2015, following discussions between the Board's Chief Executive and the Scottish Government, it was agreed that a recovery plan was required to ensure that the Board achieved a break-even position by the year end. The options agreed included restricting access spend, non-recurring funding for doctors in training and holding vacancies.

41. By the end of the year, the total overspend in clinical costs had risen to £8.2 million. This comprised an overspend of £8.5 million in acute services offset by an underspend of £0.3 million in other clinical services and HSCP's. The overspend in acute services was made up of five main areas:

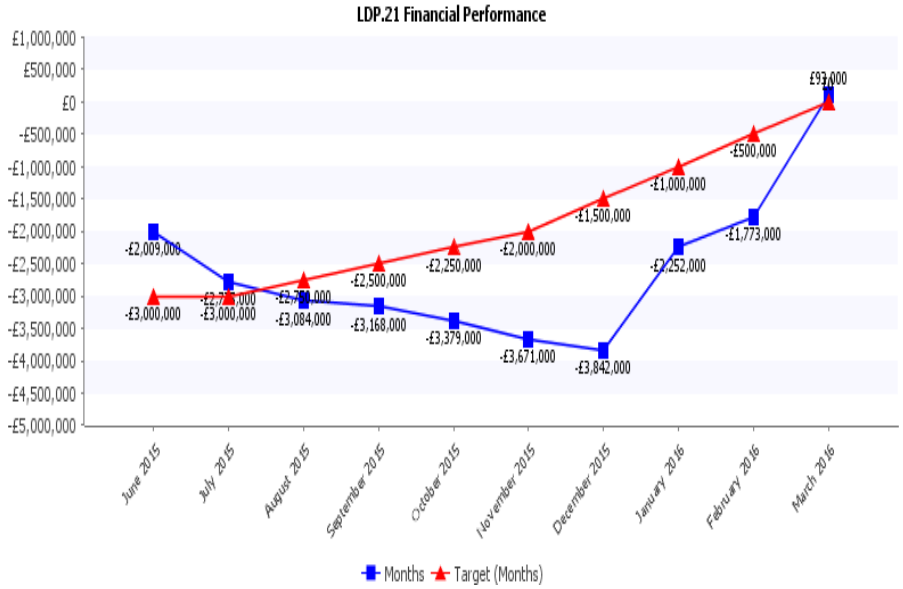
- Medical staffing (£3.4 million) – mainly due to spend on agency locum doctors, a requirement to increase the number of junior doctors on the medical rota and middle grade vacancies in Accident and Emergency.
- Nursing (£2.7 million) – mainly due to use of bank / overtime / excess hours.
- Access costs (£1.5 million) including use of locums for a capacity shortfall in Radiology.
- Other costs (£0.9 million) mainly for general ward supplies.

42. Despite the scale of the acute services overspend, the board were able to recover the position significantly and got to an underspend of £0.065 million by several means, principally:

- Maximising underspends in support services to offset overspends in acute services.
- Restricting spending on other areas including backlog maintenance and access budgets.
- Accounting for a public holidays prepayment of £1.064 million (see Table 1 above), which had to be impaired and was subsequently matched by an additional funding allocation from SGHSCD.
- The board received an additional £1 million non-recurring funding from SGHSCD, not included in the original budget, aimed mainly at addressing junior doctor locum costs but which was conditional upon the board getting to within £1 million of financial balance (see Table 1 above).

43. The Board were kept informed of the financial position with monthly financial management reports presented by the Director of Finance.

Table 3: Forecast overspend v target



Source: NHS Ayrshire and Arran LDP Standards 2015/16 Year End Report

Efficiency savings

44. Ayrshire and Arran NHS Board, in common with other territorial health boards, were required to make efficiency savings totalling 3% of its baseline RRL in 2015/16. This equated to a savings target of £19.060 million. The Board's Local Delivery Plan (LDP) 2015/16 recorded this target as split 70%/30% recurring/non-recurring. The board actually made savings of £19.061 million of which £12.482 million (65%) were achieved on a recurrent basis and the balance of £6.579 million (35%) on a non-recurrent basis. A higher than expected level of savings was therefore non-recurring in nature.

45. 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. The board should aim to identify and achieve the majority of savings on a recurrent basis.

Recommendation 3

Capital resource limit 2015/16

46. The board remained within its Capital Resource Limit by matching its capital allocation for the year (£18.258 million). This was mainly spent on the Building for Better Care programme and electro-medical equipment.

Net assets

47. The balance sheet shows that the board has total assets of £436.512 million and liabilities £181.064 million i.e. net assets of £255.448 million.

48. Reflecting on the financial position of the board, despite significant financial challenges ahead, we concur with management's view that a going concern assumption is appropriate in preparing the financial statements.

Financial management arrangements

49. 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.

50. 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 readily available to all staff on NHS Ayrshire and Arran's intranet.

51. Financial monitoring reports (both revenue and capital) are submitted to all meetings of the Board and the Performance Governance Committee (PGC). The PGC has responsibility for carrying out detailed scrutiny of the Board's financial and operational performance and ensuring that prompt corrective actions are taken where appropriate.

52. The financial monitoring reports are comprehensive and contain detailed budget information for each directorate, cost pressures, progress against savings targets and actions being taken to mitigate risks. Additionally, detailed monthly financial monitoring reports are provided to budget holders.

53. As auditors we attend a number of Board and committee meetings each year. Board members question management on significant variances and service performance issues.

Conclusion on financial management

54. We have concluded that the Board has strong financial monitoring arrangements that support the review and scrutiny of financial performance and the achievement of financial targets. However, accounting practices should not be compromised to achieve financial targets. The Board should consider whether it could be more challenging on the financial information presented to it. The monthly finance reports to the Board should sufficiently capture any risks around solutions proposed to achieve financial targets.

Financial sustainability

55. 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 and its use of resources principally asset management and workforce management.

Financial planning

56. Preparation of the Board's draft budget for 2016/17 is later than in previous years and the Board has not yet finalised the overall budget position. This is as a result of the budget announcement by the Scottish Government not being made until mid-December 2015. The Board's draft Local Delivery Plan for 2016/17 to 2020/21 currently excludes the Board's Financial Plan for the period.

57. The Board's Revenue Plan for 2016/17 sets out that although the Board baseline allocation will increase by £33.6 million in 2016/17 to £669 million, £3.4 million of the uplift relates to existing funding streams. £10.9 million of the uplift is available to fund health cost pressures and £19.33 million of the uplift is earmarked by Scottish Government for social care.

58. The Plan also sets out that against the general allocation uplift of £10.9 million (less £1 million first charge to maintain current funding

for ADPs); the Board have identified £45 million of unavoidable cost pressures. This leaves a cash releasing efficiency savings requirement of over £35 million, which equates to over 5% of the total budget of £669 million.

59. Savings will therefore play a significant part in maintaining financial balance over the next year and the budget for 2016/17 will rely on a number of service redesign initiatives, including the opening of Woodland View, the new Accident and Emergency department at University Hospital Ayr and the new Combined Assessment Unit (CAU) at University Hospital Crosshouse, in order to provide more sustainable services going forward.

Asset management

60. Asset management is essential to ensure the board has the buildings and equipment needed to deliver services in the future. Since the publication of CEL 35 (2010) Health Boards are required to produce an annual Property and Asset Management Strategy (PAMS). The board has a PAMS which was updated in June 2015. The strategy includes an annual assessment of the current condition and performance of the estate that identifies physical condition, functional suitability, space utilisation and statutory standards.

61. The board have a high level of backlog maintenance (£74.9 million - a decrease of £2.9 million from last year), for which they have limited revenue budget available to remedy. There is currently £3.0 million of revenue budget available on a recurring basis. The Board's Capital Investment Plan includes a number of projects that will significantly improve the quality of the estate and other assets.

In line with the Board's strategic vision for service change and clinical service improvement, expenditure has been incurred on the new Woodland View Hospital at a cost of £47 million and the Building for Better Care projects at University Hospitals Ayr and Crosshouse, totalling some £41 million.

Recommendation 4

Workforce Management

62. Workforce planning is integral to the Board's strategic planning process and the availability of staff is an important factor in its capacity to provide patient care. The Board is faced with a number of challenges which are summarised in the following paragraphs.

63. 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 £7 million. The main issues were:

- Consultant vacancies of around 30 WTE. Some of the vacancies are long standing reflecting difficulties in recruitment.
- Requirement to increase the number of staff on the medical rota to provide safe services (non consultant grade staff).
- Increase in the number of vacancies in junior staff resulting in the use of locums, at a higher cost, to cover the rotas.
- Middle grade vacancies in A and E with a need to cover with Consultant resident on-call.

64. NHS Scotland Workforce Statistics record that NHS Ayrshire and Arran had a consultancy vacancy rate of 9.7% at 31 March 2015

which was amongst the highest of any territorial board. The position at 31 December 2015 had deteriorated to 11.0%.

65. As outlined at paragraph 41, the nursing overspend is £2.7 million for 2015/16. The main issues were:
    - Occupancy levels are higher than the 85% provided in establishments with additional staff required to provide safe levels of service.
    - There are routinely six patients who require one-to-one care on a daily basis; this level of staff support is not reflected in funded establishments.
    - Budgets are funded at slightly more than the pre-penultimate point in the pay scale; however staff in some wards are at higher points in the pay scale resulting in overspend.
    - Sickness absence is high in some wards.

66. NHS Ayrshire and Arran is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence. The Board is committed to managing sickness absence downwards through a range of measures including promoting attendance and wellbeing training. Some encouraging signs of improvement have been reported. For example, for seven consecutive months from March to September 2015 inclusive, the absence percentage remained below 5%. Whilst there was the usual seasonal increase commencing in October 2015, this has peaked at a significantly lower rate than previous years. Overall though the sickness absence rate at 31 March 2016 was 4.96% which does not meet the national standard.

Recommendation 5

67. Workforce risks, including demography and geographical factors, are detailed within the NHS Ayrshire and Arran Workforce Plan 2015/16, which will be updated during 2016/17. The Plan focuses upon the four largest clinical staff groups – Nursing and Midwifery, Medical, Allied Health Professions and Healthcare Science – and includes detail on specific current and future challenges each of these groups face with age and national supply factors being common to all.

68. The Plan also sets out actions that the Board is taking to overcome these factors, including plans to remodel the profile of their medical workforce in the Emergency Departments, to meet patient activity and volume of activity, and working with NES and Scottish Government to examine the pattern of trainee allocation to both the West of Scotland and Ayrshire and Arran. Work has also commenced to explore electronic rostering solutions to better assist the Senior Charge Nurses in ensuring safe nurse staffing against agreed rules.

Public Finance Initiative (PFI) / Public Private Partnerships (PPP) costs

69. NHS Ayrshire and Arran has two PFI/PPP schemes, East Ayrshire Community Hospital and the Ayrshire Maternity Unit which are disclosed in Note 23 of the financial statements. The capital costs of these projects are included in the balance sheet with a combined value of £34.376 million. The associated recurrent cost of these schemes is £5.398 million with a total future commitment recorded in the balance sheet of £54.052 million.

70. The new North Ayrshire Central Hospital – Woodland View was completed and handed over in April 2016, slightly later than planned (March 2016).

Conclusion on financial sustainability

71. In his Financial Management Report for the period to 31 March 2016, the Director of Finance records that; "There are recurring pressures being met with non-recurring solutions with an underlying recurring over-commitment."

72. Whilst the Board does have a good track record in achieving its efficiency savings targets, the position is extremely challenging for 2016/17 and a significant risk exists that the Board may not achieve its savings targets.

73. Given the Board's own assessment of the risks it faces in delivering the 2016/17 Revenue Plan, financial sustainability under the current funding model is more challenging than in previous years.

Outlook

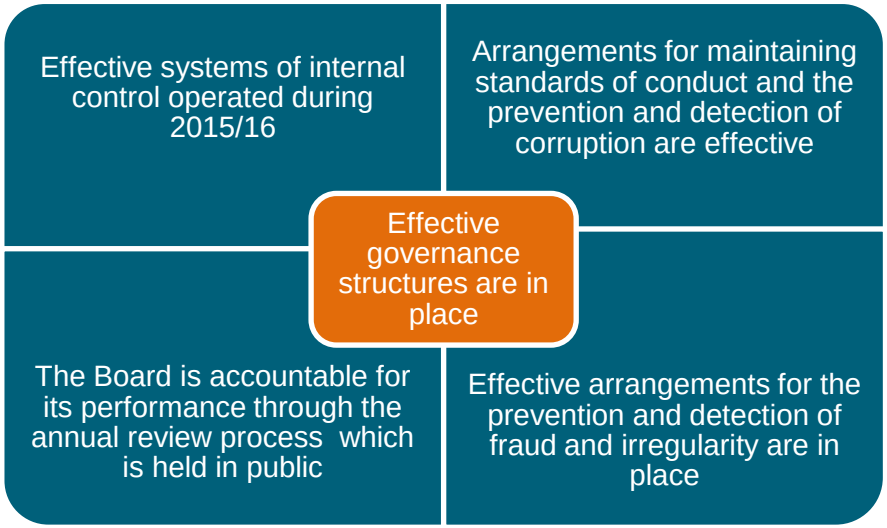
74. The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver more while facing increasing cost pressures and static or decreasing real terms funding.

75. In common with other NHS boards, NHS Ayrshire and Arran is finding it increasingly difficult to meet performance targets and standards while remaining within annual resource limits. Ongoing financial pressures, combined with greater activity and demand, makes achieving targets and standards more difficult.

76. At the same time, improvements in public health and medical treatments mean that people are living longer although not necessarily in good health. This has resulted in greater demand for health services thereby putting further pressure on finances.

77. There is an increasing risk that, unless fundamental changes are made to the way the board currently works and organises its services, the quality of patient care will deteriorate and fall short of meeting the needs and expectations of citizens.

Governance and transparency



78. 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.

79. There have been no changes to the Board's governance structure since last year, with the Board supported by a number of standing committees as illustrated opposite.

80. The standing committees meet on a regular basis throughout the year. As auditors, we review committee minutes to ensure that committees are fulfilling their responsibilities. We also attend each meeting of the Audit Committee.

81. The information presented by management is considered by members and the level of scrutiny is high. Members have a good understanding of the entity's responsibilities and the services provided, as well as the performance that is expected.

82. 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.

83. 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.

84. We concluded that the Board has appropriate governance arrangement in place and they provide a framework for effective organisational decision making.

Internal control

85. As part of our audit we review and test the Board's systems of internal control for the purposes of our audit of the financial statements. Our objective is to obtain sufficient audit evidence to support our opinion on the Board's financial statements.

86. 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. We consider the systems of internal control to be effective.

87. We reported our findings through our Review of Internal Controls management letter submitted to Audit Committee on 13 April 2016.

Internal audit

88. Internal audit provides the Board and Accountable Officer with independent assurance on the Board's overall risk management, internal control and corporate governance processes. The internal audit function is carried out by Price Waterhouse Coopers. Audit Scotland carried out a review of the adequacy of the internal audit function of PWC. Based on this review and our local knowledge of audit arrangements in Ayrshire and Arran we concluded that internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

89. To avoid duplication effort we place reliance on the work of internal audit wherever possible. In 2015/16 we placed formal reliance on internal audit's work on aspects of property, plant and equipment, banking, general ledger (prior year), trade receivables (prior year).

ICT audit

90. 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.

91. The board's local e-Health and Information Services Strategy is in line with the national e-Health Strategy 2011-2017 which 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.

92. Part of this has seen an increasing number of patients involved in Home Mobile Health Monitoring. This allows patients with some long term conditions to monitor and self-manage their condition at home, giving them more control and skills and reducing the need to be admitted into hospital.

93. The board are aware of the risk of cyber attacks and have mitigating controls in place to address this. Regular checks of suspicious internet traffic and incoming email logs are carried out by IT Security.

94. In terms of health and social care integration, the information sharing protocol is governed by the Ayrshire Data Sharing Partnership which represents NHS Ayrshire and Arran as well as the three councils. The protocol is based on Scottish Accord for the Sharing of Personal Information (SASPI) templates.

95. The Scottish Wide Area Network (SWAN) is a Scottish Government led programme in partnership with the wider public sector created as a response to the McClelland review of ICT infrastructure in the Scottish Public Sector. Bodies can opt in to the facility by entering into a partnership agreement. In 2015, a review was carried out by external consultants, Scott Moncrieff, at NHS National Services Scotland (NSS) where the programme is being led in partnership with the wider public sector. Due to the issues reported as a result of this review, NHS Ayrshire and Arran have not migrated their major sites to SWAN and will not do so until they are satisfied that the key actions from the review have been addressed.

96. Overall, we concluded that the Board's ICT arrangements are appropriate and we are not aware of any specific issues that require to be brought to the attention of members. In Appendix I, we have set out how we addressed the risk relating to implementation of the Electronic Employment Support System.

Arrangements for the prevention and detection of fraud and other irregularities

97. We assessed the Board's arrangements for the prevention and detection of fraud during the planning phase of our audit. Our review covered a number of areas such as whistleblowing. The Board also works closely with the CFS to raise awareness and provide training on fraud prevention and detection.

98. We concluded that the Board is proactive in promoting fraud awareness and had appropriate arrangements in place for fraud detection and prevention during 2015/16.

National Fraud Initiative in Scotland

99. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

100. The current NFI exercise identified a total of 7,821 matches of which 430 were recommended for investigation. The Board has investigated all recommended matches with no frauds being found. There was one error in relation to an incorrect National Insurance number which has since been corrected. The results of NFI activity are also reported to the Audit Committee each time an exercise is complete.

101. We concluded that the Board actively investigates NFI matches and that there are no issues of concern that we require to highlight in this report.

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

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

103. 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.

Transparency

104. Local residents have the opportunity to hold the Board to account through the annual review process. The annual review aims to encourage dialogue and accountability between local communities and their local health boards. The latest annual review was held in University Hospital Ayr on the 22 September 2015. This was attended by board members led by the chairman. There was an open session where the public had the opportunity to ask questions of board members on issues such as the provision health services in Ayrshire and Arran.

105. Meetings of the Board are open to the public while minutes and supporting papers are available on Ayrshire and Arran's website. This provides the public with ready access to information about how the Board takes decisions and how it is utilising its resources.to ask questions of the Chief Executive and the Board.

106. The Board's standing committees are not open to the public nor are their papers on NHS Ayrshire and Arran's website. However, standing committee minutes are included in the Board papers posted on the website. The Board should consider enhancing transparency by publishing papers submitted to standing committees. Where papers include confidential information these can be withdrawn or redacted as appropriate.

107. The Boards Register of Members' Interests and Gifts and Hospitality Register are also available on the website. Members and senior management are required to disclose related party interests and any

gifts or hospitality received in their positions in the interest of transparency.

108. In an effort to make information as accessible as possible a number of organisations broadcast Board meetings live on the web and / or make recordings of meetings available via their websites. As part of the commitment to openness and transparency the Board should consider whether this would be an option for the future.

109. We concluded that the Board is open and transparent although we believe that there are some areas where the Board could make improvements to the current arrangements.

Integration of health and social care

110. 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.

111. The integration of health and social care services straddles both the local government and health sectors but only covers some of their functions. This is a change to the delivery of health and social care of considerable scale and complexity.

112. Audit Scotland and the Accounts Commission published a report, "Health and Social Care Integration", (December 2015) reviewing progress by the new Health and Social Care Partnerships. The report identified a range of risks for partners, including difficulties in agreeing budgets, complex governance arrangements and workforce planning. The report's recommendations included the setting of clear targets and timescales to demonstrate how integrated services will deliver care differently, to better meet the needs of citizens.

113. Audit Scotland published the first of a series of reports on the integration agenda in December 2015. This report entitled Health and Social Care Integration also states that stakeholders have done well to get the systems in place for integration, but much work remains. The report outlines key issues that require to be addressed if the reforms are to be successful in improving outcomes for people. These are summarised in the extract below.

Partners need to set out clearly how governance arrangements will work in practice, particularly when disagreements arise. This is because there are potentially confusing lines of accountability and potential conflicts of interests for board members and staff. There is a risk that this could hamper the ability of an Integration Joint Board (IJB) to make decisions about the changes involved in redesigning services. People may also be unclear who is ultimately responsible for the quality of care. In addition, IJB members need training and development to help them fulfil their role.

IJBs must have strategic plans that do more than set out the local context for the reforms. To deliver care in different ways, that better meets people's needs and improves outcomes, IJBs need to set out clearly:

- the resources, such as funding and skills, that they need
- what success will look like
- how they will monitor and publicly report on the impact of their plans.

NHS boards and councils must work with IJBs to agree budgets for the new IJBs. This should cover both their first year and the next few years to give them the continuity and certainty they need to develop and implement strategic plans. IJBs should be clear about how they will use resources to integrate services and improve outcomes.

114. East, North and South Ayrshire Councils, with NHS Ayrshire and Arran, were the first in Scotland to set up their Integration Joint Boards. 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.

115. The three Integration Joint Boards (IJBs) are 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.

116. Each IJB approved standing orders, terms of reference, codes of conduct, strategic plans and financial regulations on 2 April 2015. They each receive quarterly budget reports to monitor financial position. Governance arrangements have been reviewed as part of each IJB's external audit and will be reported by Audit Scotland in each IJB's Annual Audit Report.

117. For the 2015/16 financial year, North and South Ayrshire IJBs have reported a breakeven position, whereas East Ayrshire IJB reported a £0.278 million surplus. NHS Ayrshire and Arran's share of this is

£0.144 million which has been recognised in the Board's group accounts.

118. The IJBs have a crucial role to play in delivering the Scottish Government's 2020 Vision. Audit Scotland, as part of its series of reports on HSCI, will be reporting on integration authorities' progress after their first year of being established nationally. A future report will also look at integration authorities' longer-term impact on shifting resources to preventative services and community-based care and improving outcomes for the people who use these services.

2020 Vision

119. The Scottish Government's vision is that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. Audit Scotland published its annual overview report, "NHS in Scotland 2015", in October 2015. It found that the pace of change needs to increase if the 2020 Vision is to be achieved. The report recognised the importance of the Scottish Government and NHS boards ensuring that changes are underpinned by good long-term financial and workforce planning. The report also recognised the need to consider the implications for performance targets and standards and the NHS estate, as well as ongoing initiatives and reform programmes. By doing so, the report concluded that, the Scottish Government and boards will gain a better understanding of the nature, scale and impact of changes required.

120. In August 2015 the Cabinet Secretary for Health, Wellbeing and Sport opened a national conversation on improving the health of the population and on the future of health and social care. It is envisaged that the national conversation will be used to influence a programme of work to drive greater progress towards the 2020 vision and any necessary changes over the next 10 to 15 years. This is a clear signal from the Scottish Government that it intends to promote faster progress through NHS boards.

121. Furthermore, the Scottish Government's National Clinical Strategy published in February 2016 emphasised the need to "design services based around supporting people, rather than single disease pathways, with a social foundation of integrated health and social services based on new modes of community-based provision". This strategy seeks to further develop the 2020 Vision but over a longer timeframe i.e. up to 2025-30.

Freedom of Information requests

122. The Board processed 90.2% of FOI requests within the statutory timescales. There would appear to be valid reasons why some FOI requests were not processed within these timescale, including the complexity of the request. However, we have no significant concerns about the procedures followed by the board in processing FOI requests.

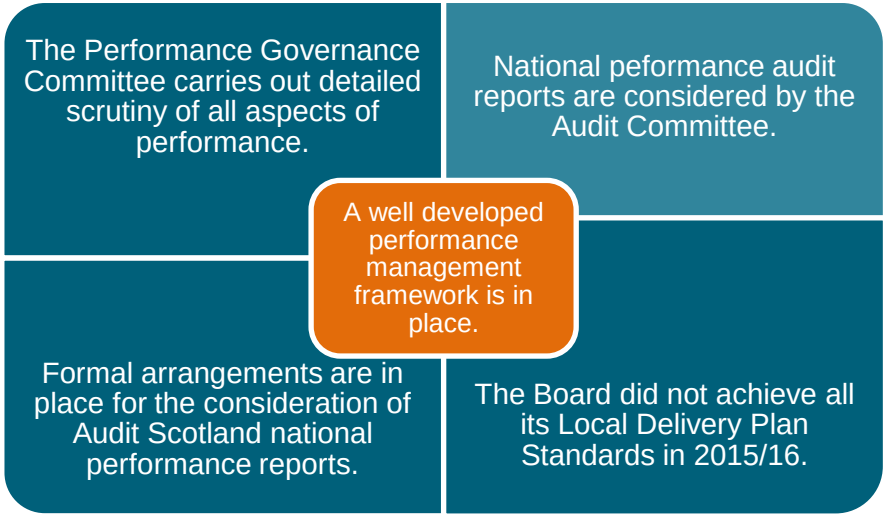
Outlook

123. NHS Ayrshire and Arran faces continuing challenges on a number of fronts including mounting financial challenges, exacting performance targets, health and social care integration and delivering the Scottish Government's aim of having people living longer and healthier lives at home or a homely setting (i.e. the 2020 Vision).

124. Embedding robust governance arrangements will be an essential element in meeting these challenges and maintaining accountability. All stakeholders including patients, clinicians, the public, staff, executive and non-executive directors and the Scottish Government, benefit from the assurance and confidence a good governance regime brings.

125. Good governance will be particularly important where Board resources and service delivery are devolved to third party organisations. It will be crucial that the board implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an ongoing focus on governance and assurance to ensure that the national and local priorities are being addressed.

Best Value



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

Arrangements for securing Best Value

127. The Head of Planning and Performance prepares an annual assurance report for the Audit Committee which provides a summary of the Performance Governance Committee, its remit, and its activity throughout the year. The current year's report was submitted to the Audit Committee on 13 June 2016 for consideration.

128. As well as routine reports in areas such as LDP standards and Finance, the Committee also scrutinised specific issues in more detail, asking for further information and assurance as is required as part of their remit.

129. As part of our routine audit work we regularly review the minutes and agenda papers of the Board, and selected standing committees, to gain an understanding of the range of activities carried out within Ayrshire and Arran. In this way we are able to verify the evidence quoted in the annual assurance report.

130. We concluded that the Board has well-developed arrangements in place for demonstrating the Board's commitment to best value and continuous improvement.

Performance management

131. The performance of NHS Ayrshire and Arran is monitored by the Scottish Government against a number of performance targets which support the delivery of the Scottish Government's national performance framework. These targets and their trajectories (plans) are set out in the Board's Local Delivery Plan (LDP).

132. The Board is kept well informed of performance across all areas of activity and receives regular updates of performance from the Chief Executive. However, responsibility for detailed review and scrutiny of performance lies with the Performance Governance Committee (PGC) which meets quarterly.

133. The PGC receives comprehensive performance reports prepared by the Head of Planning and Performance. These reports known as LDP Standards Reports cover a broad range of local and national performance standards. They contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance.

134. In addition, both the Board and PGC receive supplementary performance reports on specific aspects of performance namely waiting times and financial position. These enable members to focus on key risks relating to access and financial sustainability.

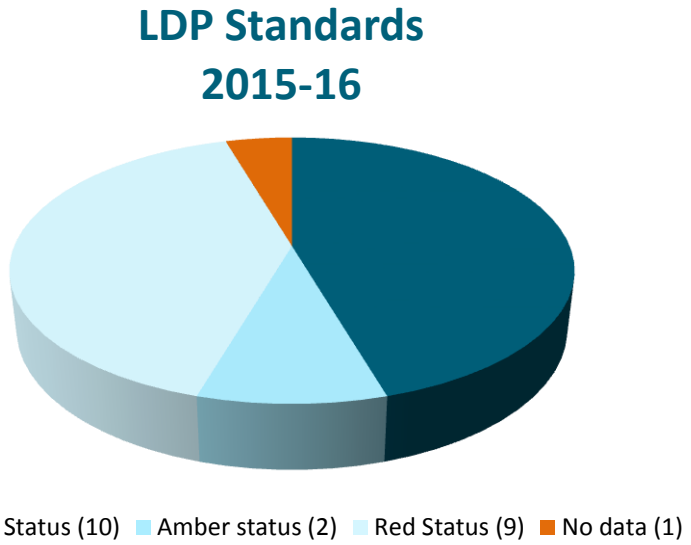
135. The waiting times report provides a commentary and analysis on a range of access targets established by the Scottish Government. The report also compares performance against NHS Scotland, highlights pressure points within the health system and actions being taken by directorates to reduce waiting times and improve access to services.

136. The financial performance report provides members with information on performance against budget analysed by directorates. The report also provides details of savings and whether these are on track for delivery. Additionally, it also highlights the main risks which could impact on the Board's ability to remain in financial balance as well as the actions being taken to manage and reduce spending.

137. We concluded that the Board had a well developed performance management framework in place during 2015/16 supported by good performance monitoring.

Overview of performance targets in 2015/16

138. The Board's performance against its 22 Local Delivery Plan Standards as reported in the 2015/16 annual accounts, and based most up to date data available regarding the position at the end of March 2016, is summarised in the following diagram.



139. Of 22 LDP Standards, ten were categorised as green, two amber, nine red and one where no data was available, where:

- Green means meeting or better than trajectory
- Amber means within 5% of trajectory
- Red means outwith 5% of meeting trajectory
- No data i.e. data source and quality is still being verified (i.e. dementia post diagnostic support).

140. Overall, NHS Ayrshire and Arran appears to perform well with 45% of targets categorised as green. However, there are nine measures that are off target by more than 5%:

- 18 weeks referral to treatment
- 12 week treatment time guarantee
- New outpatients: 12 weeks from referral
- Access to psychological therapies
- Clostridium difficile reduction rate
- Staphylococcus Aureus Bacteraemia (SAB)
- GP – advance booking
- Sickness absence
- Accident and emergency waits.

141. The National Standard for the 12 weeks Treatment Time Guarantee (TTG) is 100% of inpatient and daycase patients to be seen within this timescale. Revised trajectories were agreed with the Scottish Government for January, February and March 2016 (84.7%, 84.9% and 83.1% respectively). These remaining months are referred to as a 'target' rather than a 'standard' in the Board's financial statements and are categorised as green.

142. This is also the case for new outpatients: 12 weeks form referral, where the national standard is that zero outpatients will wait over the 12 week guarantee. However, the Board agreed a revised trajectory with Scottish Government for January to March 2016, tied in to additional Access funding being made available. The Scottish Government's approach to providing funding in line with month end trajectories for the number of patients waiting longer than target is being extended to the end of September 2016, and delivery trajectories are currently being developed by service management teams.

143. In 2015/16, there were 1,980 breaches of the TTG (433 in 2014/15), a rise of more than 450%. This was mainly due to a backlog in orthopaedic patients in the final quarter of 2014/15 which has not been resolved.

Recommendation 6

144. Current reporting arrangements are comprehensive in relation to the Treatment Time Guarantee and Local Delivery Plan Standards, a Planned Care paper, previously presented as the Waiting Times paper, is now presented to the NHS Board. The Board also now receive Unscheduled Care papers which provide more comprehensive data for some key unscheduled care indicators.

145. The red status for accident and emergency (A&E) 4 hour waits, 18 weeks referral to treatment, SAB and Clostridium Difficile reduction also show a continuation of the issues faced by the Board reported in 2014/15. Staffing pressures continue to impact on A&E waits but the position is improving overall. Management teams at both University Hospital (UH) Crosshouse and UH Ayr continue to seek sustained improvements. Winter plans are in place and further patient flow initiatives are being progressed, including the new A&E unit at Ayr which became operational in February 2016 and the Combined Assessment Unit at Crosshouse which opened to patients in May 2016.

146. In terms of Clostridium Difficile Infection (CDI) reduction, the Board continue to show a red position. Actions are being taken to address this and the Nurse Director convened a multi-disciplinary CDI Summit on 22 April 2016 to review the Board's CDI reduction strategy and identify further areas of intervention. The summit was supported by Health Protection Scotland. SAB reduction also continues to show a red position but the Board have shown improvement on 2014/15 with a 26% reduction overall. Further work is planned for 2016/17 to further reduce SABs related to blood culture contamination and peripheral vascular catheters.

National performance audit reports

147. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the Board. These are outlined in appendix III accompanying this report.

148. 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. Also, part of the Audit Committee's remit is to monitor management action taken in response to all audit recommendations including performance audit studies following consideration by the relevant committee.

149. In addition, the Director of Finance prepares a covering report for Audit Committee highlighting the key findings in Audit Scotland's performance reports and their relevance in the local context.

150. Staff from Audit Scotland who were directly involved in a performance study, are invited to attend Audit Committee to present their findings and respond to members questions. The most recent example of this was the Changing Models of Health and Social Care report (March 2016) which was discussed at the April meeting of the Audit Committee. This report generated considerable debate and questioning from members.

151. From our attendance at Audit Committees and evidence available to us, we conclude that the arrangements for considering national performance audit reports are consistent with good practice.

Outlook

152. Audit Scotland, in its annual overview of the NHS in Scotland (October 2015), highlighted that pressures on NHS boards have intensified over the past year as has the urgency for fundamental changes such as introducing new ways to deliver healthcare and developing a national approach to workforce planning.

153. The overview report also highlighted that the strong focus on performance targets may not be sustainable when combined with the additional pressures of increasing demand and the overall NHS budget static or decreasing in real terms. The effort that NHS boards are making to meet challenging financial and performance targets each year makes it more difficult for them to focus on the

long-term planning required to achieve the Scottish Government's 2020 Vision.

154. Additionally, Audit Scotland has been changing how it develops its programme of work shifting to a longer-term and strategic approach focusing on the key risks and opportunities facing Scotland's public sector. Within health, a number of studies are planned to address key areas of risk including the NHS workforce (2016/17), self-directed support (2016/17), children and adolescent mental health (2017/18) and digital in health. Full details of our future work programme can be found at www.audit.scotland.gov.uk.

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
Risk of material misstatement in the financial statements		
Consolidation of Integration Joint Boards There is a risk that the IJB figures required for the health group accounts are not made available to the board to fit in with their reporting timetable. Assurances on the use of these funds are also required from the IJB. This could result in material misstatement of the group accounts.	• Review of assurance processes put in place between the board and IJB. • Substantive testing of resources delegated to IJBs by the Board.	• Substantive testing was carried out on specific IJB income and expenditure with no exceptions noted. • Appropriate schedules were provided by IJB finance staff on 26 May 2016 for consolidation into the group accounts and for audit.

Audit Risk	Assurance procedure	Results and conclusions
Provisions The provisions balance in the financial statements of NHSAA includes valuations which rely on significant assumptions and estimates. The extent of subjectivity in the measurement and valuation of these balances represents a risk of material misstatement.	• Substantive testing of balances.	• We tested a sample of large value journals at the year end. • We examined management's accounting estimates for bias with focussed review and testing of accruals and provisions. • We looked for any significant transactions that were outside the normal course of business to ensure proper accounting treatment was applied. • We carried out detailed testing of cut-off procedures to ensure that transactions were accounted for in the correct financial year. Our work did not identify any issues to report to those charged with governance.

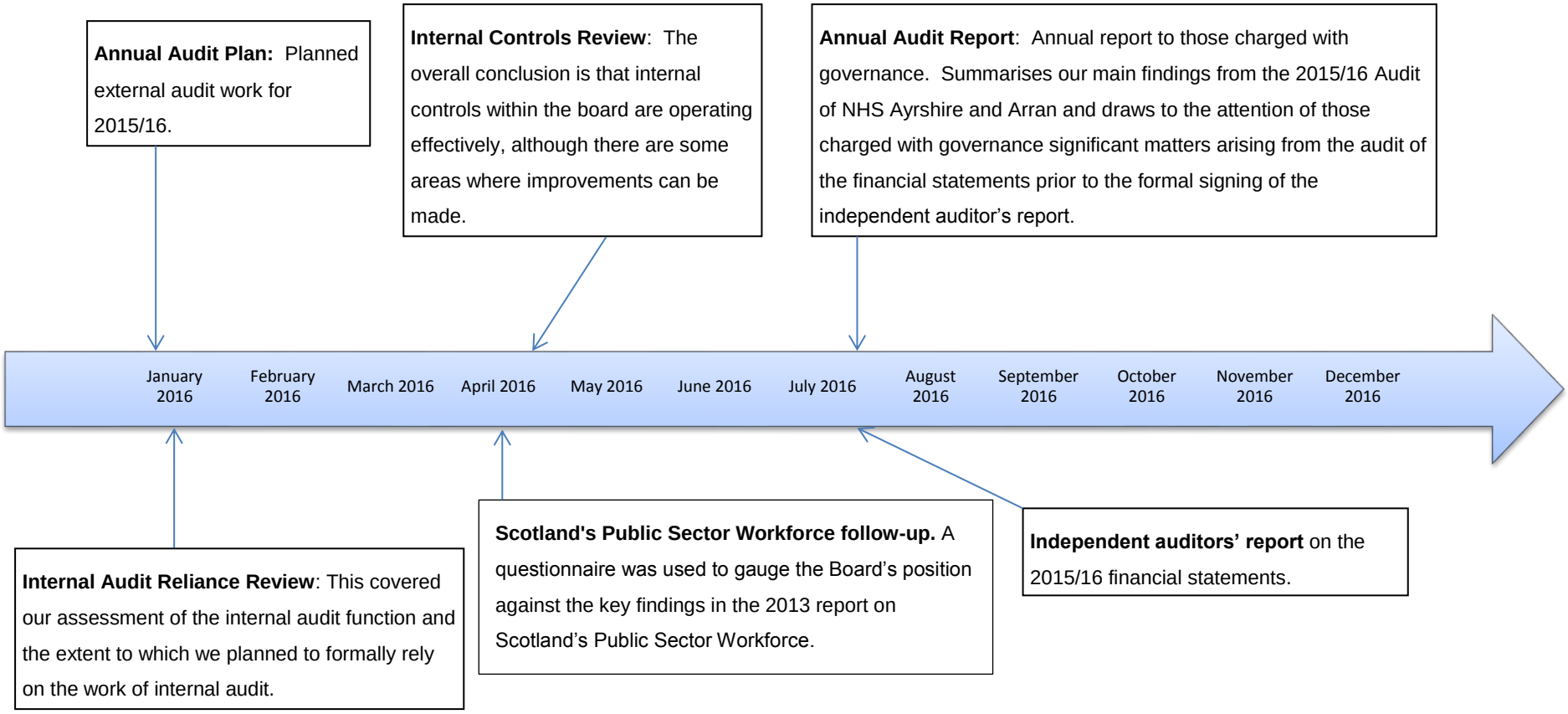
Audit Risk	Assurance procedure	Results and conclusions
Risk of management override of control ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of management override of controls in order to change the position disclosed in the financial statements.	• Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.	• We carried out detailed testing of trade payable and trade receivable transactions to ensure that they were posted to the correct financial year. • We performed substantive testing on a sample of transactions from each material category of income and expenditure with reference to supporting documentation to confirm that they were accounted for in the correct accounting period. Our testing identified the inappropriate accounting treatment of the holiday pay costs and prepayment reported at table 1 above.

Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
Financial targets The Board is significantly behind target to achieve the planned year end position of breakeven. There are significant pressures, particularly in staff costs which create a risk that this position will not be achieved.	• Attendance at committee meetings and review of papers to assess progress. • Monitor updates to the Financial Plan. • Review the financial monitoring reports submitted to the board. • Monitor outcomes of discussions with SGHSCD. • Review monthly monitoring returns submitted to SGHSCD.	• Reviewed financial monitoring reports submitted to the board throughout the year to assess performance against trajectory (plan). • Checked financial position against final allocations issued by the SGCHD. • Substantively tested a sample of income and expenditure transactions across material account areas as part of year end testing. The board achieved all its financial targets for 2015/16 and recorded a small underspend (£0.065 million).
Health and social care integration Integration Joint Boards now provide services to the communities they serve in Ayrshire. However, there remains a risk that the board and its local authority partners encounter problems in working together in these new arrangements. This could adversely impact on the effectiveness of service delivery.	• Review of reports to Integration Joint Boards. • Regular communication with IJB audit teams.	• Reviewed progress reports on HSCI submitted to the board. • Reviewed NHS board, council and IJB minutes and papers. Our work did not identify any issues to report to those charged with governance.

Audit Risk	Assurance procedure	Results and conclusions
Performance targets There is a continued risk that performance targets are not being achieved and the delivery of quality affordable services is not sustained. In common with other NHS boards, certain targets are proving to be particularly difficult to achieve alongside financial challenges.	• Review of performance reports to assess progress.	• Reviewed core performance reports during 2015/16. • Reviewed waiting times reports. We concluded that the board performs well in a number of areas but is not achieving all of its performance targets, in particular, those relating to access and waiting times.
Workforce planning NHSAA faces a significant challenge in maintaining adequate staffing levels in medical and nursing. Continued reliance on bank and agency staff is not sustainable.	• Local follow-up work based on the recommendations in the 2013 *Scotland's Public Sector Workforce* report.	• We reviewed the Financial Monitoring Reports specifically information on pay costs, and workforce, to gauge the extent of reliance on agency staff. • We reviewed workforce planning as part of local follow-up audit of Scotland's Public Sector Workforce report. We concluded that the board continues to have difficulties in filling medical vacancies which contributed to a medical agency and locum spend in 2015/16 of around £7 million. The board also incurred a significant overspend in 2015/16 on nursing costs mainly due to use of bank / overtime / excess hours.

Audit Risk	Assurance procedure	Results and conclusions
Electronic Employment Support System (eESS) implementation This system has been delayed nationally. As a consequence NHSAA are currently paying for this system alongside their existing Empower system.	• Monitoring the progress in implementation of the eESS system in the board. • Monitoring board reports on the funds spent and delay on the project.	• The Board took the decision to extend the contract with Northgate for the existing Empower system for 2 years from 1 April 2016. • The Board currently pay £35,692 as an annual cost for eESS, in addition to the £26,000 annual cost of the current system, Empower. The £35,692 has been flagged as an ongoing cost pressure into 2016/17.

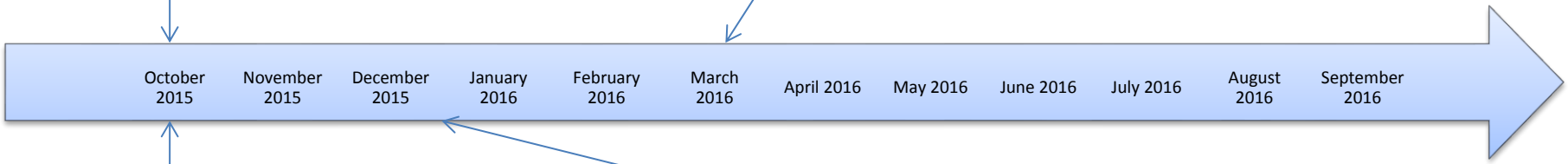
Appendix II: Summary of NHS Ayrshire and Arran local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16

NHS in Scotland 2015 (October 2015): This report looks at the annual performance of the NHS and its future plans. A key message in the report is that fundamental changes and new ways of delivering healthcare are required now to ensure that the NHS is able to continue providing high quality services in future.

Changing models of health and social care report (March 2016): This report says that transformational change is required to meet the Scottish Government's vision to shift the balance of care to more homely and community-based settings. NHS boards and councils need to significantly change the way they provide services and how they work with the voluntary and private sectors.



NHS 24 Update on management of IT contract (October 2015): The Auditor General presented an update report to Parliament on significant financial issues arising from the implementation of a new IT system at NHS 24. The report has lessons applicable across all public bodies engaged in the specification, procurement and implementation of large scale IT contracts.

Health and Social Care Integration (December 2015): This report reviewed the progress made to establish new integration authorities, which will be responsible for planning joint health and social care services and managing budget totalling over £8 billion by 1 April 2016. The report highlights that significant risks must be addressed if a major reform of health and social care is to fundamentally change how services are delivered and improve outcomes for the people who use them.

Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	Table 1 (page 10)	***Issue*** Information provided to the Board on proposed accounting entries, to achieve financial balance, was not sufficiently detailed to facilitate scrutiny by board members. ***Recommendations*** Accounting practices should not be compromised to achieve financial targets. Financial risks should be more clearly explained in the monthly finance reports to the Board. In accordance with the document *Corporate Governance: Being effective – what NHS non-executive directors need to know,* the Board should consider its effectiveness in challenge of the monthly financial information presented to them, to ensure financial risks are identified and managed.	The proposed accounting treatment of the second Easter in 2015/16 was provided to Audit Scotland in December 2015 and referred to in three subsequent financial management reports (FMRs) to Board meetings in early 2016. It is accepted that the FMRs did not detail the proposed accounting entries. Financial risks will be more clearly explained in future FMRs. Chair of Audit Committee to discuss with Chair of Board	Director of Finance December 2016 Chair of Audit Committee Immediate

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	Table 1 (page 11)	***Issue*** For 2015/16, the board has relied on non-recurring funding to break even. An additional allocation of £1 million from Scottish Government was conditional upon the board getting to within £1 million of financial balance and may have contributed towards deliberate movement of costs between years. Financial sustainability is predicated on balancing recurring spending with recurring income. ***Recommendation*** The board needs to discuss the timing of project specific allocations further with the Scottish Government to enable better financial planning thereby minimising financial risk to the board.	The financial management reports for the period to 31 January 2016, 29 February 2016 and 31 March 2016 concluded "There are recurring pressures being met with non-recurring solutions with an underlying recurring over-commitment". Discussion is ongoing with Scottish Government regarding the board's underlying recurring over commitment.	Director of Finance September 2016

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3.	45	***Issue*** In year overspends against budget were significant. Per the month 12 Scottish Government Financial Return, £6.579 million (35%) of the savings achieved in 2015/16 were on a non-recurrent basis. 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. ***Recommendation*** The board should identify recurring savings as far as possible in order to relieve pressure on future years' budgets.	Savings targets in 2015/16 were £13.31 million recurring and £5.7 million non-recurring. All savings planned in 2016/17 are recurring and amount to £25 million, which is a significant increase and will be extremely challenging to achieve.	Director of Finance March 2017

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
4.	61	***Issue*** The board's backlog maintenance has reduced by £2.9 million from 2014/15 to £74.9 million in 2015/16. However, savings of £0.550 million were applied in 2015/16 to the board's recurring annual allocation to backlog maintenance of £3.0 million. There is a risk that backlog maintenance may increase leading to further deterioration of the assets. ***Recommendation*** The board should ensure that sufficient funding is available to allow assets to continue to operate at an acceptable standard.	Backlog maintenance is a risk on the corporate risk register and the performance governance committee considered a detailed (25 page) report at its meeting in September 2015. The recurring revenue budget of £3 million for backlog maintenance has been maintained for 2016/17.	Director of Finance June 2016

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
5.	66	***Issue*** The board has seen improvements in its sickness absence rate however at 31 March 2016 the rate was 4.96%. This is above the 4% standard specified by the Scottish Government. 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. ***Recommendation*** The effectiveness of measures implemented to reduce absence levels should be assessed to ensure they are appropriate and can deliver improved attendance at work.	Maximising attendance at work is a key service, financial, quality and people priority for the Board, and having a robust approach to promoting attendance and managing staff absence is a key part of this. The average absence rate for 2015/16 was 4.96%, which represents a steady improvement over the last four years: 2012/13 - 5.7%; 2013/14 - 5.35%; 2014/15 - 5%; 2015/16 - 4.96%. The 2015/16 position for each month, and the year end average, was better than the NHSScotland average position for both long and short term absence; and, in comparison with other Boards, NHS Ayrshire & Arran has consistently been among the best performing Boards. However, we recognise that further sustained improvement is required and this is evidenced in the approach we are taking. Focused and targeted actions which are deemed to be appropriate are taken on a monthly basis, with performance being scrutinised by the Corporate Management Team, Area Partnership Forum and Staff Governance Committee.	Promoting Attendance Manager March 2017

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
6.	143	***Issue*** Breaches of the Treatment Time Guarantee reached 1,980 for 2015/16, which has increased significantly from 433 in 2014/15. This was mainly due to a backlog in orthopaedic patients in the final quarter of 2014/15 which has not been resolved. ***Recommendation*** The board should ensure that support for local recovery plans is in place to meet demand in order to achieve statutory targets.	Management have discussed TTG compliance with Scottish Government and secured an initial £1.5 million to support a reduction in numbers waiting. NHS Ayrshire and Arran has not been able to allocate additional recurring funding due to other financial pressures and therefore TTG will remain under pressure, however do not consider as good value for money investing a further £2.65 million in private sector waiting list initiatives to clear the 300 orthopaedic patients who each month wait longer than 12 weeks outpatient and diagnostic.	Director of Acute Services December 2016