



Final report to the Board and the Auditor General
for Scotland on the 2016/17 audit
26 June 2017

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Director introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit Committee for the 2016/17 audit.

As detailed in our plan presented to the Audit Committee on 8 February 2017, the new Code of Audit Practice, which came into force for the 2016/17 audits sets out our responsibilities under core audit and wider scope requirements. A reminder of the requirements is set out below.

- *Opinion on the financial statements and regularity*
- *National performance audits and Best Value audits*



- *Opinion on management commentaries, remuneration reports and governance statements*

- *Public reporting and audit findings*
- *Wider scope reporting*

Director introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Statutory audit

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
 - Compliance with expenditure resource limits (page 11);
 - Valuation of property assets (page 12); and
 - Management override of controls (page 13).
- A summary of the significant risks is provided in the dashboard on page 10.
- We have identified a small number of uncorrected misstatements from our procedures to date. These are detailed in the Appendices.
- Based on the current status of our audit work, we envisage issuing an unmodified audit opinion.

Insight

- We have utilised Spotlight, Deloitte's patented analytics tool, to perform analytics on the journal entries posted in the year and insights have been noted for management consideration at page 15.
- We have also raised insights relating to property, plant and equipment and valuation of property assets which have been identified throughout the course of the audit are explained on page 16 and 17.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
 - receipt of signed management representation letter; and
 - our review of events since 31 March 2017.

Director introduction (continued)

The key messages in this report (continued)

Best Practice

Overall conclusion

- We have reviewed the annual report with reference to the format and content set out in the Government Financial Reporting Manual (FReM), confirming that the annual report and accounts comprise a performance report, an accountability report (which includes the remuneration and staff report, the governance statement and the parliamentary accountability report) and the financial statements.
- As a new requirement in 2016/17, we are required to provide an opinion on whether:
 - the performance report has been prepared in accordance with the accounts direction;
 - the information given in the governance statement is consistent with the financial statement; and
 - the governance statement has been prepared in accordance with the accounts direction.
- Based on the current status of our audit work, we envisage issuing unmodified opinions on the above.
- In addition to the opinion, we have read the performance report and accountability report (including the governance statement) and confirmed that the information contained within both is materially correct and consistent with our knowledge acquired during the course of performing the audit and is not otherwise misleading.
- We have also audited the remuneration and staff report and confirmed that it has been prepared in accordance with the accounts direction.

Director introduction (continued)

The key messages in this report (continued)

Adds Value

Financial Sustainability

NHS Ayrshire & Arran delivered an underspend in 2016/17 against its Core Revenue Resource Limit (RRL) of £136k. This compares with an underspend in 2015/16 of £65k.

Although the 2016/17 Local Delivery Plan (LDP) projected an overspend of £13.2 million, several non-recurring benefits, such as additional funding and improved position on prescribing, have been identified which have resulted in an improvement on this position. As a result NHS Ayrshire & Arran has achieved its Core RRL, Non-core RRL and Capital RL targets in 2016/17.

There is, however, an underlying recurring deficit of £13.2 million which the Transformational Change Improvement Plan (TCIP) is designed to address. The TCIP is a planned process to improve how care is delivered, what staff do and the role of patients that should result in sustainable improvement in outcomes, patient and staff experience and financial sustainability. It sets out the Board's intentions for this period of transformation from 2017 to 2020.

Efficiency savings from 2016/17 of £4.5 million were not delivered recurring and carried into 2017/18. The funding gap for 2017/18 amounts to £21.2 million between the general allocation uplift available of £3.8 million and unavoidable cost pressures of £25 million. £0.9 million of this gap is covered by primary care prescribing budget release and the remaining £20.3 million are new efficiency savings targets for 2017/18, however this still leaves £13.3 million recurring deficit which is the projected deficit for 2017/18.

We are satisfied that the Board is pro-active in respect of its short, medium and longer term financial plan and has achieved short term financial balance. The Board should ensure that the processes described in the TCIP are implemented to ensure longer term financial sustainability.

Financial Management

We have reviewed internal audit reports issued in the year. From our testing throughout the audit we are satisfied that NHS Ayrshire & Arran has adequate systems of internal controls in place.

Whilst the Board has strong financial monitoring arrangements, it should also ensure that budgeting is more robust to sufficiently capture any changes in the achievement of financial targets.

NHS Ayrshire & Arran has a counter fraud service which reports directly to the Audit Committee. The Board also participates in the NFI. We are satisfied NHS Ayrshire & Arran has appropriate arrangements in place for the prevention and detection of fraud and corruption.

Director introduction (continued)

The key messages in this report (continued)

Adds Value

Governance and transparency

NHS Ayrshire & Arran has governance arrangements that are appropriate and operating effectively. The Board is transparent in its decision making with all reports discussed at Board meetings being made available on-line along with the minutes.

The Board meets regularly to review the performance (financial and non-financial) of NHS Ayrshire & Arran. From review of the Board meeting minutes we are satisfied there is scrutiny and challenge by both executive and non-executive members of NHS Ayrshire & Arran. From our attendance at Audit Committee meetings we have observed a good level of challenge and scrutiny by members and we are satisfied the Audit Committee is effective.

The Audit Committee provides assurance to the Board on corporate governance and financial probity. From review of the Audit Committee meeting minutes we are satisfied the Audit Committee meets regularly to provide appropriate assurance to the Board.

Internal audit is performed by PwC. The internal audit plan for the year is agreed by the Audit Committee, with the aim of providing assurance over the adequacy, efficiency and effectiveness of the local governance, risk management and internal control framework. From review of internal audit reports in the year we are satisfied internal audit provides effective, independent assurance.

Value for money

NHS Ayrshire & Arran has a Performance Governance Committee which provides assurance to the Board that procedures are in place to monitor, manage and improve overall performance whilst ensuring value for money is achieved from resources.

The Board has a well established performance management framework in place. Overall the Board has reported an improved performance against LDP targets noted when benchmarked against prior year. A number of actions are in place to address areas where performance is either at risk or not on track.

NHS Ayrshire & Arran are focused on improving the quality of the services whilst achieving financial balance. The Board routinely reviews performance and will challenge any changes in results.

Pat Kenny
Audit Director

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

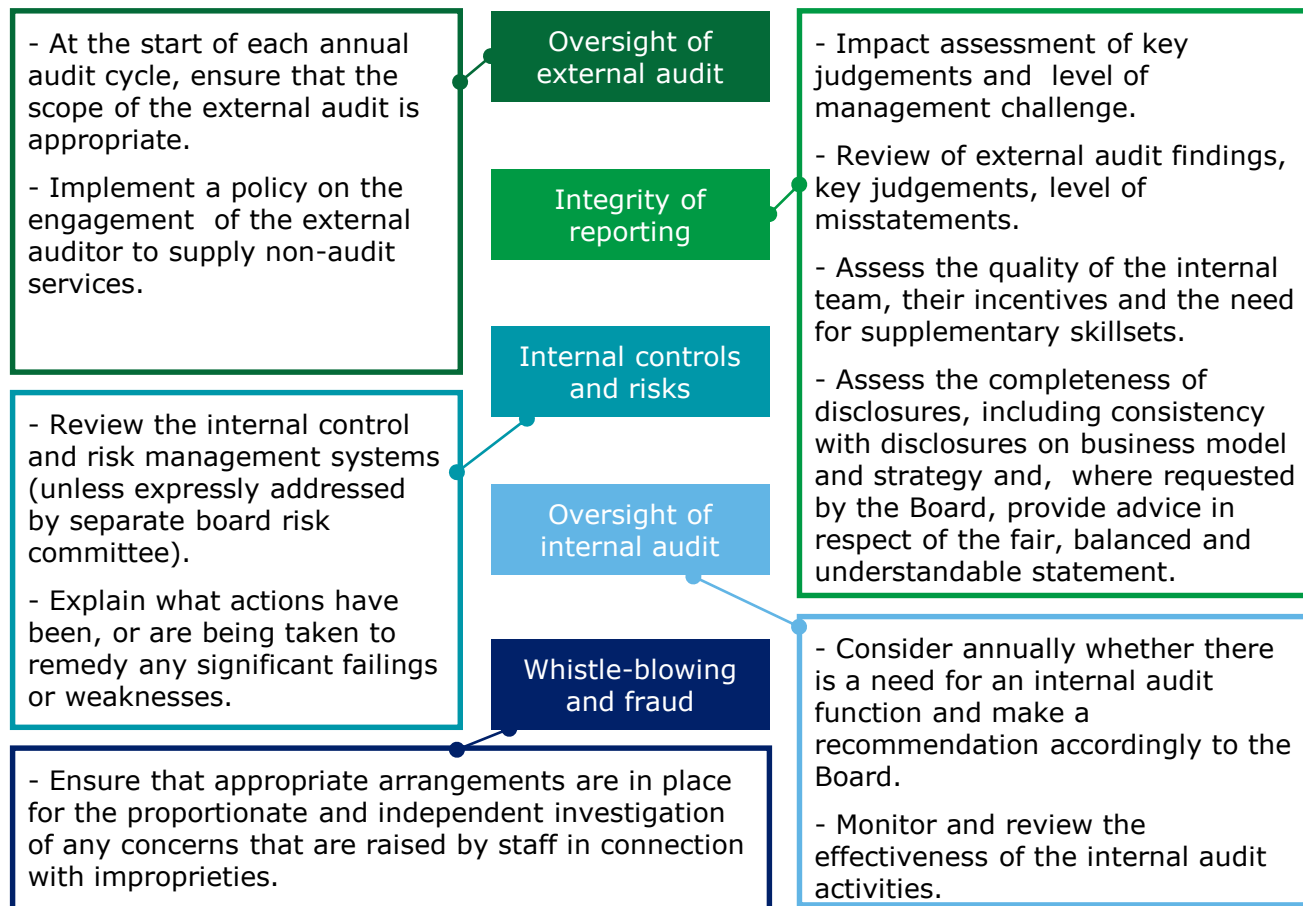
The primary purpose of the Auditor's interaction with the Audit Committee:

- Clearly communicate the planned scope of the financial statements audit
- Provide timely observations arising from the audit that are significant and relevant to the Audit Committee's responsibility to oversee the financial reporting process
- In addition, we seek to provide the Audit Committee with additional information to help them fulfil their broader responsibilities

We use this symbol throughout this document to highlight areas of our audit where the Audit Committee need to focus their attentions.



As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.



Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the four audit dimensions, being:

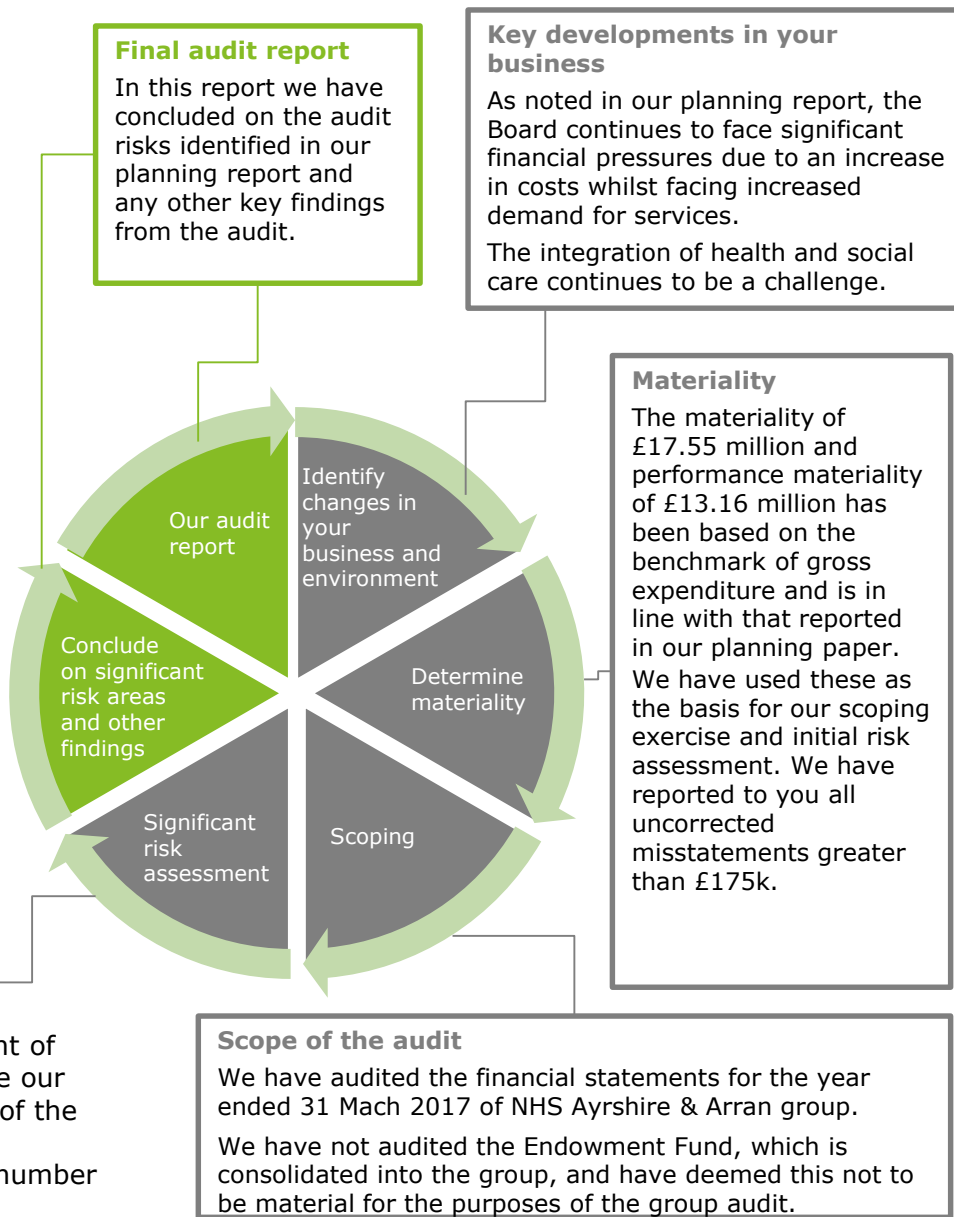
- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 10 provides a summary of our risk assessment of your significant risks.

Quality and Independence

We confirm we are independent of NHS Ayrshire & Arran. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.



Timeline 2017

November 2016 – February 2017

Meetings with management and other staff to understand the processes and controls.

May 2017

Review of draft accounts, testing of significant risks and performance of substantive testing of results.

March 2017

Year end

1 June 2017

Audit close meeting

16 June 2017

Audit committee meeting

26 June 2017

Accounts sign off

Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Substantive testing conclusion	Page no.
Core expenditure resource limits			D+I	Satisfactory		Satisfactory	11
Valuation of property assets			D+I	Satisfactory		Satisfactory	12
Management override of controls			D+I	Satisfactory		Satisfactory	13



Overly prudent, likely to lead to future credit Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Core expenditure resource limits

Risk identified

The key financial duty for NHS Ayrshire & Arran is to comply with the Revenue Resource Limit, Capital Resource Limit and cash requirements set by the Scottish Government. Given the current budget position for the Board and the pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of expenditure within these limits.



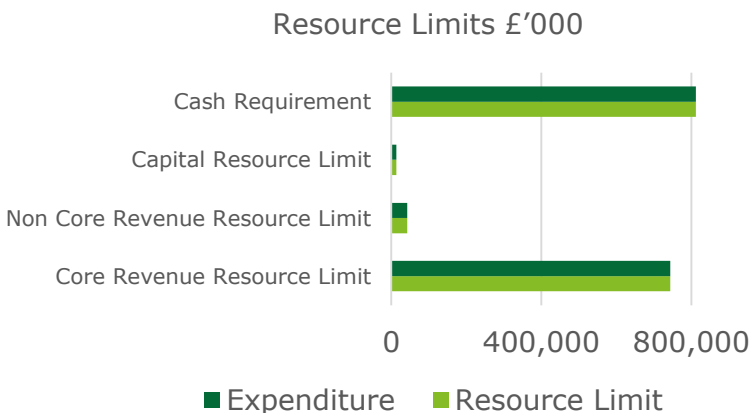
Key judgements and our challenge of them

We must provide an opinion on regularity, to the effect that expenditure and receipts were incurred or applied in line with guidance. We have evaluated the results of our audit testing in the context of the achievement of the targets set by the Scottish Government.



Deloitte response

- We assessed whether expenditure was correctly classified between revenue and capital and whether it has been incurred in accordance with Scottish Government's guidance;
- We performed focused cut-off testing;
- We reviewed and challenged the assumptions made in estimating the prescribing accrual to assess completeness of recorded expenditure; and
- We obtained independent confirmation of the resource limits allocated to NHS Ayrshire & Arran by the Scottish Government.



Deloitte view

- We have concluded through the performance of our year end procedures that the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and the expenditure is valid and correctly classified between revenue and capital.
- We confirm that NHS Ayrshire & Arran has performed within the limits set by the Scottish Government Health and Social Care Directorate (SGHSCD) and therefore is in compliance with the financial targets in the year.

Significant risks (continued)

Valuation of property assets

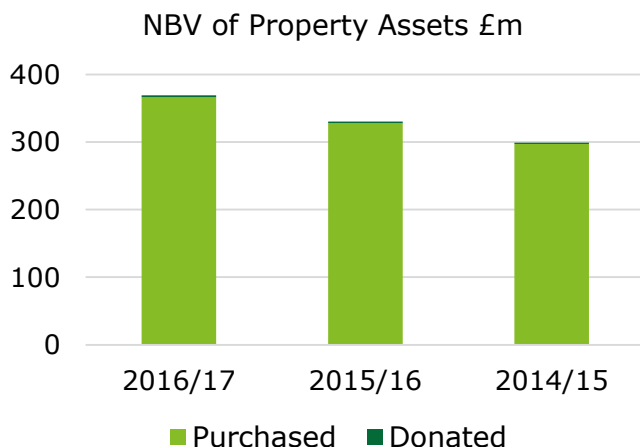
Risk identified

The Board is required to hold NHS property assets (land and building) within Property, Plant and Equipment at a modern equivalent use valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.



Key judgements and our challenge of them

The Board held £369 million of property assets at 31 March 2017. The most significant movement on the prior year is the completion of Woodland View hospital, with a valuation of c.£45 million. Revaluation is calculated on an annual basis on 31 March each financial year by the Board's appointed Valuer. In the year to 31 March 2017, 100% of the portfolio was assessed by the District Valuer Service (DVS).



Deloitte response

- We reviewed the external revaluations performed in the year and assessed whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified independent individuals;
- We reviewed the information provided to the Valuer to assess completeness;
- We re-performed the calculation of revaluations, assessing whether the movement has been recorded through the correct line of the accounts;
- We considered assets classified as surplus or held for sale to assess whether these have been valued and disclosed in line with IFRS; and
- We involved the use of our internal property specialists, Deloitte Real Estate (DRE), to review and challenge the assumptions and methodology adopted by the DVS.

Deloitte view

We have concluded that the valuation of property assets is not materially misstated. The Board's valuation assumptions are in line with other Boards and fall within the expected range highlighted by DRE. There were, however, a number of findings raised by DRE which can be found on page 17.

Significant risks (continued)

Management override of controls

Risk identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.



Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- the Board's results throughout the year were projecting overspends in operational areas. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood and regular discussions were held with Scottish Government; and
- senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Deloitte view

- We have not identified any significant bias in the key judgements made by management.
- The control environment is appropriate for the size and complexity of the Board.
- See insights raised from testing on page 15.

Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis covered the 286,488 journals posted in the year. No issues were noted from our testing.

Accounting estimates

In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements completed with no issues noted.

Significant transactions

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

Other significant findings

Internal control and risk management

ISA 315.12 (UK and Ireland) requires we obtain an understanding of internal control relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit. We do not test those controls we do not consider relevant to the audit. Below we provide a view, based on our audit procedures, on the effectiveness of your system of internal control relevant to the audit risks that we have identified.

Assets held on the fixed asset register do not have unique identifiers that allows their location and existence to be easily verified. There is therefore a risk that asset disposals may not be recorded appropriately. It should be noted, however, that no unrecorded disposals have been identified.

Deloitte noted no issues surrounding the posting or approval of journals. No concerns were highlighted regarding the controls around management override of controls.

Requires significant improvement

Acceptable but could be improved

No issues noted

The control surrounding the valuation of fixed assets is robust. However, the level of challenge from management surrounding the assumptions used by the DVS in their valuation report could be improved to ensure that the methods and assumptions are appropriate to the entity.

Management is open, honest and ethical. Internal control and risk management is prioritised.

Deloitte view

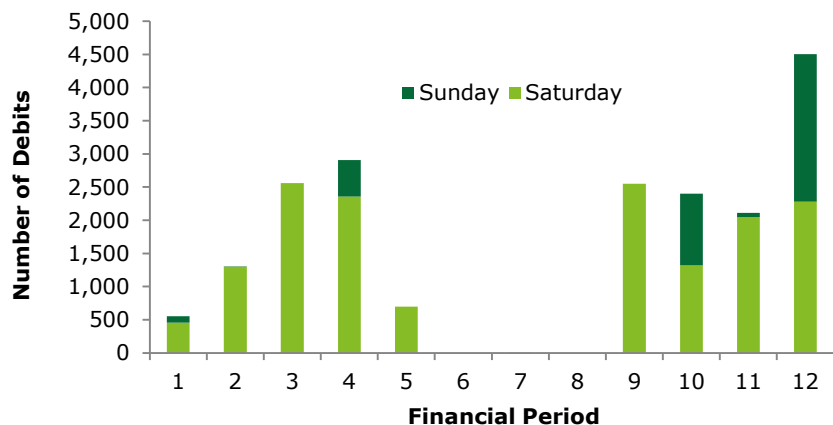
In our view, the quality of working papers prepared by management in support of key judgements are detailed and justify the choices made by management. However, obtaining detailed listings in usable formats often proved an area of difficulty and our audit approach had to be amended accordingly in these areas. Furthermore, the documentation and user-friendliness of the papers could be improved. Deloitte appreciate the work being undertaken by management to deal with these issues by switching to a BOXI based approach to producing papers, which should make the obtaining and use of papers significantly easier in the future.

Other significant findings (continued)

Insights delivered

Journal Statistics

Number of journals	286,488
Dr value of largest journal	95,794,659
Total Dr value of journals	5,866,964,995
Avg Dr value of journals	20,479
Avg absolute value of journals	40,958
Number of zero Dr value journals	12,550



Top 5 Users by Volume

Current Year Users		New Users	
Username	Total Number of Journals	Username	Total Number of Journals
AUTO	117,980	AUTO	117,980
AMH2	73,064	AMH2	73,064
AAH1	32,441	AAH1	32,441
AMB5	18,988	AMB5	18,988
ARB1	8,209	ARB1	8,209

We have utilised Spotlight to perform analytics on all of the journal entries processed during the year. We have highlighted some key themes arising from this work for your consideration.

Management commentary:

The highest volume users are consistent with the transactional nature of the workload generated in the Finance team and in line with our understanding of NHS Ayrshire & Arran. Most postings are automatic and the three highest users after automatic postings are posted using an automated interface from the pharmacy system to the general ledger.

The analysis of debit items posted at weekends shows a correlation between periods of increased workload and journals being posted at the weekend. The transactional activity shows spikes where there are periodic peaks in workload and staff are working weekends in order to meet key deadlines, for example in March where the year end close down process begins. Additionally, such cases where the month-end falls on a weekend would cause a spike in the postings as automatic journals would be posted on such days.

Deloitte view

The volume and nature of journals posted is consistent with our understanding of journals posted within NHS Boards of a similar size.

Going forward Spotlight will be a useful tool to identify trends and any irregularities over the five years of our audit appointment.



Other significant findings (continued)

Insights delivered (continued)

We welcome this opportunity to set out for the Audit Committee our observations from our substantive audit procedures. Below are other insights we have identified from our audit.

Property, plant and equipment

Deloitte response

1. *Fixed asset register clean-up*: The fixed asset register has not been 'tidied' up in many years. This has resulted in many £nil net book value assets, 'batch' assets and lack of detail surrounding historical assets.

There is a risk that the fixed asset register and the disclosure note for property, plant and equipment could be misstated due to the holding of assets on the register in perpetuity, however, it should be noted we have found no evidence of this during our testing. Furthermore, as no tidy-up has taken place, the fixed asset register remains in a continuously poor state with lack of detail surrounding individual assets, location of assets and existence of assets. A tidy-up exercise should be undertaken to verify all assets on the register. Where assets are batched, these should be split into individual assets as there is a risk that the wrong depreciation is being charged if assets in different categories are being batched together.

2. *Fixed asset identifiers*: Assets held on the fixed asset register do not have unique identifier that allows their location and existence to be easily verified.

Assets are often included in 'batch' (such as 'medical equipment'), which makes it difficult to know what the asset actually is. Going forward, all assets should have an individual unique identifier, with no batch assets being kept on the register. Further, a 'location' of each asset should be marked and this should be updated if/when the asset is moved between locations.

3. *Fixed asset disposals*: When fixed assets are acquired, there is a stringent process in place regarding authorisation for purchase and payment. However, the process for disposing of fixed assets does not appear to be followed as stringently.

If the correct disposals procedures are not followed there is a risk of assets remaining on the Fixed Asset Register at a £nil net book value in perpetuity, even when they are no longer held by the Board. When any disposal or movement between department occurs, this should have to be authorised by the relevant line manager and the department should keep a record of all of these. We would recommend an annual process whereby finance contacts each responsible department to reconcile the finance fixed asset register to the detailed asset registers held by these departments. This process has been implemented in other NHS Boards of similar size successfully.

Other significant findings (continued)

Insights delivered (continued)

Valuation of property assets

Deloitte response

1. *Modern Equivalent Asset (MEA) considerations:* Whilst the DVS have confirmed that the MEA has been assessed in relation to assets valued on the depreciated replacement cost basis, limited evidence of this is provided within the valuation report.

The DVS should consider MEA issues and where possible determine the land value reflecting an appropriate site size for a MEA facility and reflecting a site which can be acquired on a least cost basis. There needs to be an ongoing dialogue between NHS Ayrshire & Arran and the DVS on this issue as it is incumbent upon the DVS to take account of all MEA considerations including the size of a modern NHS Ayrshire & Arran estate. Furthermore, it would be useful if the valuation report provided the appropriate commentary from the outset. It would be recommended that these matters are considered in the valuations made next year.

2. *Disclosure for decontamination costs:* Girvan Health Centre has no value attributed to it, partly due to land contamination which the Board monitors. A provision for clean-up costs has never been created as these costs would be met in the year expended if required.

There is no marketing plan in place to sell this asset. Therefore, Deloitte are satisfied that there is no contractual liability to decontaminate the land. However, there may be a legal obligation on NHS Ayrshire & Arran to decontaminate the land even where there is no intention to either use or sell the land. The intention to meet costs in the year expended 'if required' does not discount the potential requirement to recognise a contingent liability for these costs if there exists a possible obligation as at the year end date to decontaminate the land at any point in the future. NHS Ayrshire & Arran should seek legal advice as to whether there is any obligation on their part to decontaminate the land even when there is no intention to either use or sell the land, and to identify at what point any obligation would arise. If there is a possible obligation, NHS Ayrshire & Arran should then employ a suitably qualified expert to provide a valuation of the expected cost of the decontamination and disclose this accordingly as a contingent liability.

Your annual report

We welcome this opportunity to set out for the Audit Committee our observations on the annual report. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Management response	Deloitte response
The Performance Report	The report outlines NHS Ayrshire & Arran's performance, both financial and non-financial. It also sets out the key risks and uncertainty as set out in the Local Delivery Plan (LDP).	<p>We have assessed whether the performance report has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the performance report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	<p>We have assessed whether the information given in the governance statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the accountability report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We have also audited the auditable parts of the remuneration and staff report and confirmed that it has been prepared in accordance with the accounts direction.</p>
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	<p>We have confirmed that the 2017/18 Local Delivery Plan was approved by the Board on 27 March 2017 and included draft budgets for 2018/19 to 2021/22. We have concluded that the plan is sufficiently robust to demonstrate that NHS Ayrshire & Arran will be a going concern for 12 months from signing the accounts.</p> <p>We note that the Plan was approved by the Board on 27 March 2017 and confirmation from the Scottish Government is outstanding.</p>

Wider scope requirements

Financial sustainability

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Areas considered



- The financial planning systems in place across the shorter and longer terms
- The arrangements to address any identified funding gaps
- The affordability and effectiveness of funding and investment decisions made

Deloitte response

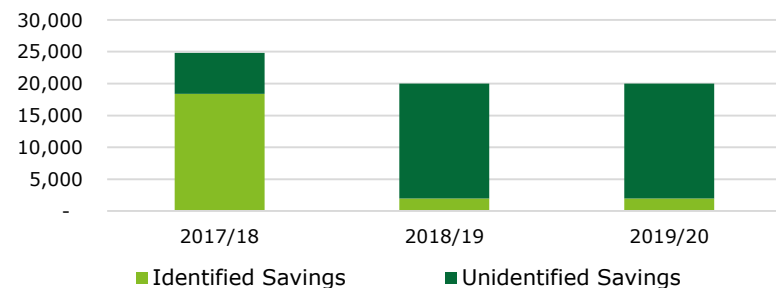


We have monitored the Board's actions in respect of its short, medium and longer term financial plans to assess whether short term financial balance can be achieved, whether there is a long-term (five to ten years) financial strategy and if investment is effective. We have reviewed the Board's 5 year financial plan which is in line with best practice.

We have also monitored the work done in relation to staffing shortages and the development of a sustainability plan, focusing on how this relates to the longer term financial planning. Finally, we will have considered the lessons learned from our wider health transformation work in the sector including our work on increasing productivity, demand management and financial turnaround.

The 2017/18 revenue budget and capital programme were agreed by the Board on 27 March 2017. The budget outlines how NHS Ayrshire & Arran will meet its key revenue targets over the next 3 years, and in doing so, it must achieve recurring cost reductions/productivity improvements in each of these years, which the Board recognises will be challenging. The value of saving is shown below.

Efficiency Savings Required (£'000)



It is good practice to identify savings in full in advance of the start of the year to ensure that sufficient time is set aside to have fully developed implementation plans.

Wider scope requirements (continued)

Financial sustainability (continued)

The Board was notified of a 2017/18 indicative baseline budget of £682.1 million. A further uplift of £1.5 million for movement towards National Resource Allocation Committee (NRAC) parity was confirmed in the allocation letter in February 2017. The uplift on 2016/17 adjusted baseline comprised £7.7 million for social care and £2.3 million general allocation uplift (0.4%).

This is offset by unavoidable cost pressures of £25.0 million. The targeted investments are in line with national health priorities and local priorities.

2017/18 Cost pressures	£'000
Pay	6,355
Medicines	8,525
Prior commitments	3,816
Clinical	5,210
Non-clinical	499
Workforce	600
Total	25,005

Wider scope requirements (continued)

Financial sustainability (continued)

Overall financial performance

The table below illustrates how the Board's performance compares to plan and prior year. The split between recurring and non-recurring is based on the Board's Financial Performance Return submitted to the Scottish Government, which we have confirmed reconciles in total to the audited financial statements.

	2016/17 Recurring £'000	2016/17 Non-Recurring £'000	2016/17 Total £'000	2015/16 Total £'000
Income	726,300	17,667	743,967	703,328
Expenditure	(743,830)	-	(743,830)	(703,275)
Savings against Core RRL	(17,530)	17,667	137	53

NHS Ayrshire & Arran had a year end underspend of £137k. This was achieved through several non-recurring benefits which have resulted in an improvement on the original forecast, which was an overspend of £13.3 million:

- Additional non-core Departmental Expenditure Limits (DEL) funding of £4.7 million.
- Improved position in Prescribing in Primary Care with extended periods of discounts.
- Increased slippage on Primary Care Transformational Programme.
- Approval of additional funding from Scottish Government of £1.5 million to support the introduction of the Combined Assessment Unit at University Hospital Crosshouse and the achievement of outpatient access targets.

Wider scope requirements (continued)

Financial sustainability (continued)

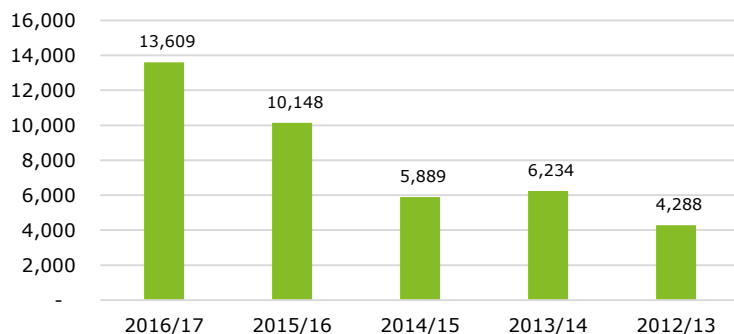
Workforce planning

To achieve the Board's long term vision, managing workforce is vital. Staff development, training and education is key to creating and maintaining a robust and pro-active workforce and remains a high priority for NHS Ayrshire & Arran.

The Board continues to face difficulties in filling medical vacancies in some specialities which has contributed to a staff agency and locum spend of £13.6 million in the year. These costs have increased consistently over the past 5 years and have more than doubled since 2014/15. Taken into consideration with total staff costs, agency costs have increased from 1.3% of total staff costs in 2012/13 to 3.4% of total staff costs in the current year.

A workforce plan is being implemented to take forward various initiatives to support the workforce of the future.

Agency Staff Costs (£'000)



Deloitte view

As with all NHS Boards, NHS Ayrshire & Arran has challenging savings targets to meet moving forward to continue to be financially sustainable. Historically, NHS Ayrshire & Arran has achieved its savings targets, however, this is largely as a result non-recurring funding. The Board has made some progress in identifying areas of the organisation where it will realise these savings in 2017/18, however future years are more uncertain and detailed plans to realise these savings in each area should be agreed as soon as possible to ensure that NHS Ayrshire & Arran can achieve these targets. Further scenario planning and sensitivity analysis should be performed by the Board to assess the impact of these issues.

We would highlight that there is a risk that the £8.5 million of unidentified efficiency savings required in 2017/18 may not be achieved.

We confirmed that the Board has both an organisation-wide and departmental workforce plans in place, however, given the significant increase in temporary staffing over the past 5 years we recommend a review of strategic risk management processes to assess if this issue could have been more proactively managed in previous years and to prevent it happening in future.

Additionally, we recommend the Board reviews its transformational change delivery infrastructure including programme management, benefits realisation tools and templates and supporting change management approach to ensure the TCIP is implemented.

Wider scope requirements (continued)

Financial sustainability (continued)

Case Studies

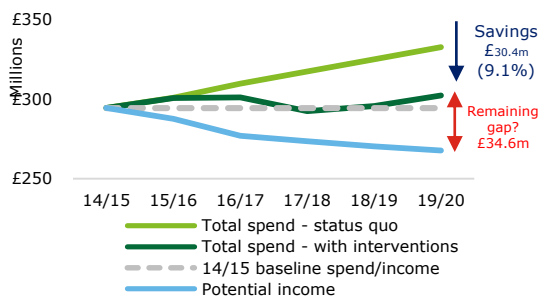
Deloitte has been involved in cost reduction work with a number of NHS bodies. We recommend that the Board reviews these case studies and considers them as opportunities for improvement going forward as potential areas for cost reduction.

Cost Reduction

Working alongside an NHS client we used a range of internal data and external benchmarks to help the Board identify priority programmes for improvement, in particular looking at length of stay and theatres data which identified opportunities for improving value for money. We used tableau dashboards to identify down to an individual consultant, anaesthetist and surgeon level variation in performance which helped us identify opportunities for improvement and potential cost savings. The aim was to link concepts including data analytics, process variation and cost reduction to complement the establishment of its Quality Programme.

Early Intervention

A case study was carried out on an organisation which had an early intervention programme and assisted living service within local communities. We estimated the benefits that might be possible from the programme, looking forward at the financial position on a "do nothing" baseline and then applying assumptions around reductions in activity based on best practice evidence available. We were then able to advise on the make up of the programme and make recommendations on the best approach to delivering the projects and on the governance structures and resourcing required to enable the programme to achieve its ambitions.



From this work we estimated that the programme could deliver £30m in savings as illustrated in the following diagram, which should at the same time improve outcomes.

We recommend that NHS Ayrshire & Arran consider applying a similar analysis to help identify how best to target its work on interventions and to deliver better outcomes from the new pooled budgets.

Agency Cost Reduction

We undertook a review of nurse rostering practices for an NHS client with the aim of reducing premium agency use as well as bank expenditure.

This involved a ward by ward review of rostering protocols working with all lead nurses which highlighted a range of issues for the Board to address, including how best to use data from rostering systems, issues associated with ward performance statistics as well as opportunities to tighten up internal cost controls.

The work was delivered by a team with both nursing and operational management experience to make sure our recommendations and insight were relevant and bespoke to the NHS.

Wider scope requirements (continued)

Financial management

Audit dimension

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.



Areas considered

- Systems of internal control
- Budgetary control system
- Financial capacity and skills
- Arrangements for the prevention and detection of fraud



Deloitte response

We have reviewed internal audit reports in relation to their work on the key financial controls.

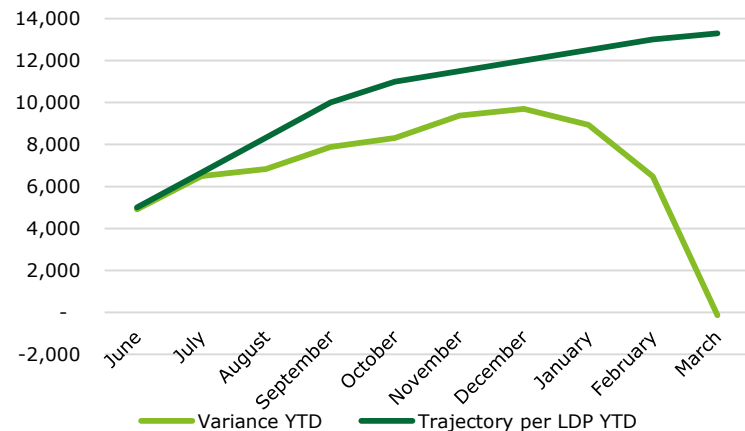
We have reviewed the budget and monitoring reporting to the Board during the year to assess whether financial management and budget setting is effective.

Our fraud responsibilities and representations are detailed on page 38.

NHS Ayrshire & Arran budgeted an overspend of £13.3 million against the Core RRL for the year to 31 March 2017. The final outturn was a surplus against the Core RRL of £137k. Several non-recurring benefits were identified which have resulted in the final outturn. These main sources of improvement were:

- Additional non-core DEL funding of £4.7 million.
- Improved position in Prescribing in Primary Care.
- Increased slippage on Primary Care Programme.
- Approval of additional funding from Scottish Government.

Overspend v Trajectory (£'000)



Wider scope requirements (continued)

Financial management (continued)

Revenue expenditure

Financial balance was achieved through a combination of delivery of productivity and efficiency savings. Looking forward, the Board has recognised within the LDP for 2017/18 a requirement to continue to manage any dependency on non-recurring resources.

Capital expenditure

The Board's capital expenditure in the year was £13.7 million which was in budget with the approved Capital Resource Limit. Capital spend planned in 2017/18 is in line with the notified capital allocation, with expenditure on electro-medical equipment and on the following major projects:

- Tarryholm Drive refurbishment;
- Endoscopy decontamination;
- Biomass boilers at University Hospital Ayr and Biggart Hospital.

The Board intends to continue supplementing these capital allocations with £3 million of revenue budget to support backlog maintenance infrastructure replacement.

Deloitte view

We confirm that we have reviewed the arrangements in each of the areas considered on page 24 and have identified no issues in this regard.

We are comfortable with the fraud arrangements in place. Ongoing potential fraud investigations have been reported to each Audit Committee and are included in SFR 18 (Summary of Losses and Special Payments) submitted to the Scottish Government.

Wider scope requirements (continued)

Governance and transparency

Audit dimension

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

Areas considered



- Governance arrangements
- Scrutiny, challenge and transparency on decision making and financial and performance reports
- Quality and timeliness of financial and performance reporting

Case Study: Clinical Governance

Deloitte has recently performed a review of the Clinical Governance arrangements in place at an NHS client, which was undertaken when the client was undergoing a change in leadership.

It was identified there was a lack of clarity in relation to roles and responsibilities, inadequate papers being presented to the Committee and that standardisation across divisions in the Acute Sector could be implemented to improve effectiveness.

We note that leadership current year has been stable, however, we recommend that NHS Ayrshire & Arran ensure there is standardisation across divisions to mitigate this risk.

Deloitte response



We have reviewed the financial and performance reporting to the Board during the year as well as minutes of all Board meetings to assess the effectiveness of the governance arrangements. Our attending at Audit Committees has also inform our work in this area.

We have reviewed the governance of transformation and benefits realisation process and consider the arrangements in place for securing effective clinical governance and engagement. See case study for recommendations for improvements in clinical governance.

We recommend that the Board reviews its transformational change delivery infrastructure including programme management, benefits realisation tools and templates and supporting change management approach. The Board should satisfy itself that the process for delivery of recurring savings is fully fit for purpose.

Wider scope requirements (continued)

Governance and transparency (continued)

Leadership in the current year has been stable. Within the Board there were two people who took the role of Vice Chair in the year and a new Non-executive Director was appointed. There were no changes in Executive members in the year.

Internal Audit has completed its audits in accordance with the Internal Audit Plan set out on 1 April 2016. Internal Audit has reported its findings from each audit to the Audit Committee throughout the year. All high risk recommendations are then reported to each Audit Committee to monitor progress with implementation. Appropriate disclosure has been made regarding the high risk recommendations made in the year as part of the annual governance statement.

Management have implemented a number of recommendations made by Internal Audit, namely improvements to its internal controls around IT and controls in place over the consultant job planning process.

Deloitte view

We confirm that we have reviewed the arrangements in each of the areas considered on page 26 and have identified no issues in this regard.

We have no concerns around the arrangements with internal audit. We have reviewed the reports issued by Internal Audit and considered whether it will have an impact on our audit approach.

Wider scope requirements (continued)

Value for money

Audit dimension

Value for money is concerned with using resources effectively and continually improving services.

Areas considered



- Value for money in the use of resources
- Link between money spent and outputs and the outcomes delivered
- Improvement of outcomes
- Focus on and pace of improvement

Deloitte response



We have gained an understanding of the Boards self-evaluation arrangements to assess how it demonstrates value for money in the use of resources and the linkage between money spent and outputs and outcomes delivered.

We have also considered the arrangements the Board has in place to monitor how it is achieving its Local Delivery Plan targets and addressing areas of poor performance. Additionally, we have considered the lessons learned from our wider health transformation work in the sector on page 23.

Performance management

The performance of NHS Ayrshire & Arran is monitored by the Scottish Government against a number of 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 2016/17 Local Delivery Plan (LDP).

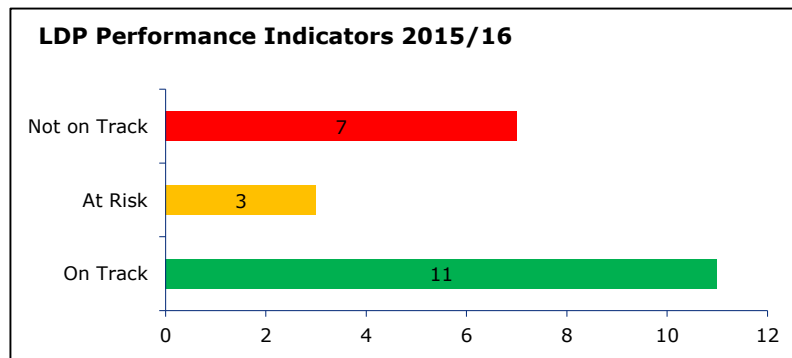
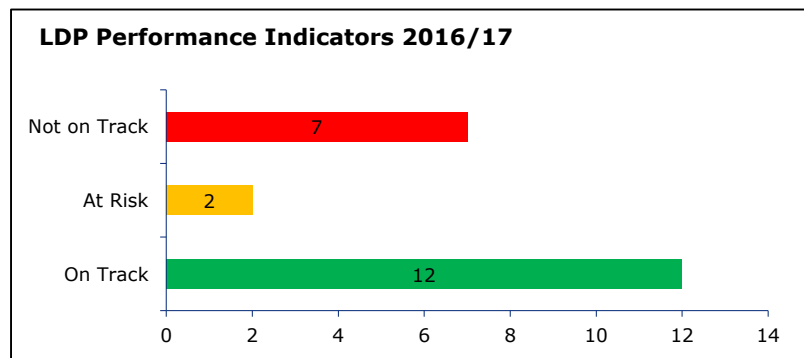
Performance against LDP targets and standards is presented to each meeting of the Performance Governance Committee and subsequent Board meetings by exception. These performance reports also include progress against local performance indicators.

Wider scope requirements (continued)

Value for money (continued)

Overview of performance targets in 2016/17

The Board's performance against its LDP targets is summarised below:



Overall, compared to prior year there has been a slight improvement in performance against LDP targets. There is a higher incidence of 'green' status and 67% of indicators are within 5% of targets (amber) or are achieving targets (green).

The Board has taken pro-active steps to address the areas where performance is out with 5% of targets (red). Examples of this include; plans to increase the number of patients receiving operations within 12 weeks of being listed for surgery, implementation of service improvement initiatives and increase in permanent staffing to satisfy demand.

With the implementation of the Covalent Performance Management system in 2016/17, it is hoped that real time performance reporting and monitoring will aid in identifying any decline in performance indicators.

Deloitte view

The overall approach adopted is that performance management is integral to the delivery of quality and effective management, governance and accountability.

The Board had a well established performance management framework in place. Overall the Board has reported a high number of areas on track against indicators and a slightly improved position is noted when benchmarked against prior year. A number of actions are in place to address areas where performance is either at risk or not on track.

We are satisfied that the performance is appropriately discussed within the Performance Report in the Annual Accounts and management have introduced plans to address areas where progress has not been satisfactory.

Wider scope requirements (continued)

National Fraud Initiative

In accordance with Audit Scotland planning guidance, we are required to monitor the Board's participation in the National Fraud Initiative (NFI) and progress during 2016/17 and complete an NFI audit questionnaire by 30 June 2017. A summary of the matches reported in the NFI system is provided below:

	Payroll	Creditors	Total
Total matches flagged	280	4,235	4,515
Total recommended matches to be investigated	66	485	551
Total processed	Nil	230	230
Frauds	Nil	Nil	Nil
Errors	Nil	Nil	Nil
Outcome	£0	£0	£0

Deloitte view

The results of investigations will be recorded in the NFI system. We recommend that plans be put in place within NHS Ayrshire & Arran to address all recommended matches within the period June to December 2017.

It should be noted that no frauds or errors have been identified during the 2016/17 NFI exercise. We are satisfied that NHS Ayrshire & Arran is fully engaged in the NFI exercise.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the board.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

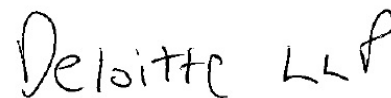
The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated to you on 8 February 2017.

This report has been prepared for the Audit Committee and Board, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.

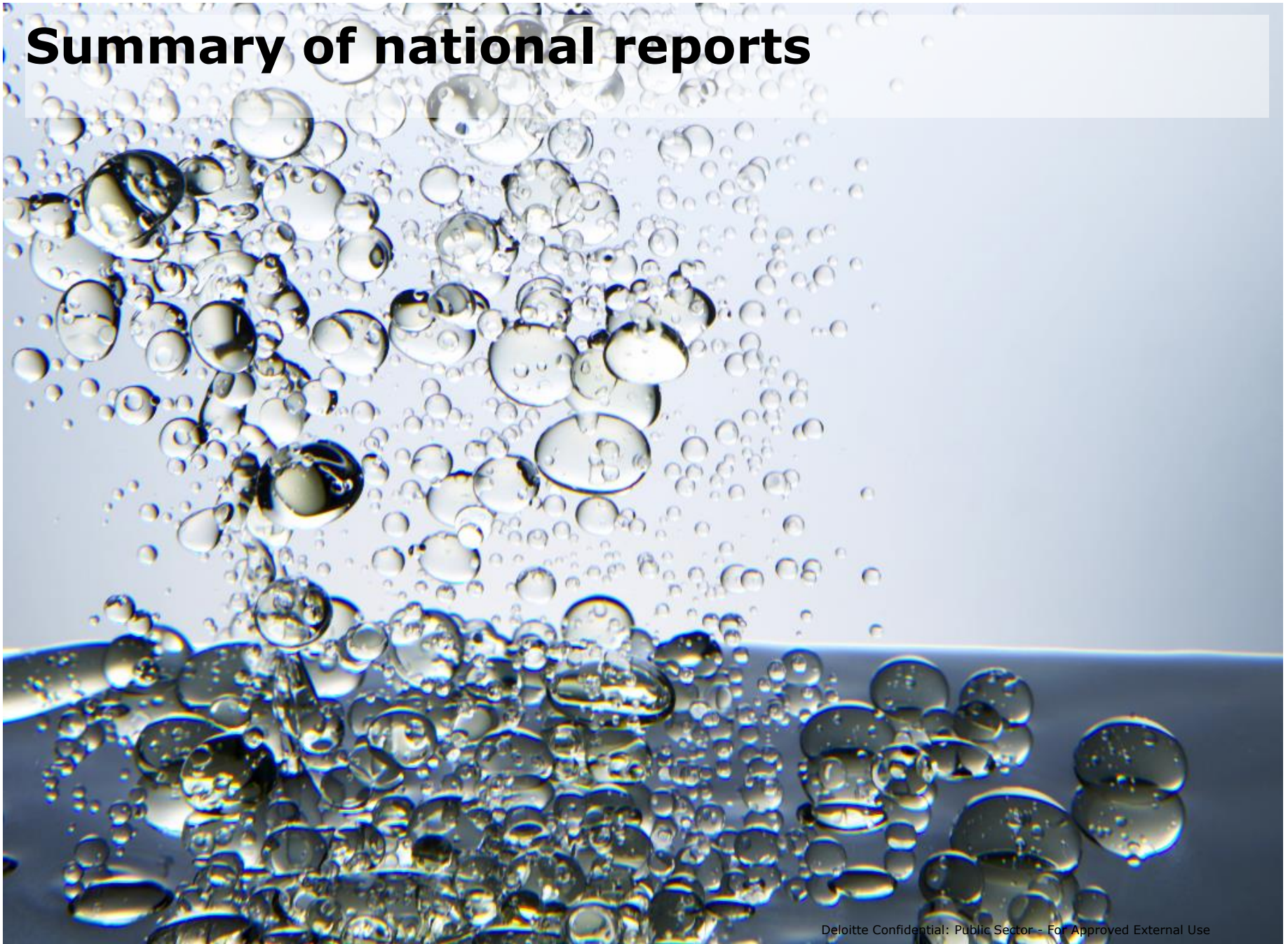


Deloitte LLP

Glasgow

26 June 2017

Summary of national reports



National performance reports

Summary of reports issued over the past year

NHS Scotland 2016

Published October 2016

Headline messages

A combination of increasing costs, staffing pressures and unprecedented savings targets mean that Scotland's NHS boards are finding it difficult to balance demand for hospital care with investing in community-based services to meet future need.

Impact on NHS Ayrshire & Arran

In partnership with the IJBs, NHS Ayrshire & Arran should take ownership of changing and improving services in their local area, working with relevant partner organisations.

They should also develop long-term workforce plans (more than 5 years) to address problems with recruitment, retention and succession planning and to ensure high quality care.

Finally, they should work with the public about the need for change in how they access, use and receive services and to take more responsibility for looking after their own health and managing their long-term conditions.

Scotland's NHS workforce

Published February 2017

Headline messages

Audit Scotland has pulled together published statistics on Scotland's NHS workforce in a new data briefing. The document sets out the challenges being explored by the public spending watchdog in a new two part audit of the NHS workforce. Audit Scotland will publish its first report, focuses on staffing in acute services, in summer 2017.

Impact on NHS Ayrshire & Arran

The following specific areas have been highlighted in relation to NHS Ayrshire & Arran:

- Vacancies – NHS Ayrshire & Arran has higher rurality levels than the Scottish average, but low nursing vacancy rates.
- Turnover – NHS Ayrshire & Arran has the lowest turnover rate (6%)

Appendices



Audit adjustments

Summary of corrected and uncorrected misstatements

The following uncorrected misstatements have been identified during the course of the audit up to the date of this report. There have been no corrected misstatements identified.

	Debit/ (credit) Assets £'000	Debit/ (credit) Liabilities £'000	Debit/ (credit) Taxpayers' Equity £'000	Debit/ (credit) SOCNE £'000
Misstatements identified in current year				
General Fund			753	
Depreciation				(753)
Total	(1)		753	(753)

(1) Asset A0000392 was incorrectly classified as furniture & fittings instead of IT. Consequently, it was being depreciated over ten years rather than five. This was noted in the current year - the sixth year of holding the asset, as such, the asset was fully depreciated to £nil net book value. This means that depreciation in the prior years is understated, and depreciation in the current year is overstated.

Audit adjustments (continued)

Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatements have been identified during the course of the audit up to the date of this report.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Asset A0000392 was incorrectly classified as furniture & fittings instead of IT. Although the net book value was taken down to £nil in the current year, the cost & accumulated depreciation should be reclassified to IT in the note.	Property, plant and equipment are required to be disclosed by category in the notes to the financial statements. These categories should reflect the nature and use of the asset.	The disclosure adjustment is for £1.5m cost. The adjustment is not considered to be material, either qualitatively or quantitatively.

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Fixed asset register	Going forward, all assets should have an individual unique identifier, with no batch assets being kept on the register. Further, the owner of each asset should be identified to ensure the relevant department takes ownership of the asset.	Management to look at tidy up fixed asset register.	Derek Lindsay (Director of Finance)	March 2018	High
Agency staff costs	Board reviews strategic risk management processes to assess if this issue could have been more proactively managed in previous years	Management to monitor agency staff costs closely	Derek Lindsay (Director of Finance)	Ongoing	High
Valuation of property assets	Level of challenge from management surrounding the assumptions used by the DVS in their valuation report could be improved.	Management to discuss with DVS before next valuation process.	Derek Lindsay (Director of Finance)	March 2018	Medium
Audit work papers	Going forward it will be beneficial for the notes to the accounts be backed up by Business Objects XI (BOXI) produced working papers.	Agreed to implement for 2017/18 audit.	Derek Lindsay (Director of Finance)	March 2018	Low

Key:



Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Fixed asset disposals	An annual process whereby finance reconciles the finance fixed asset register to the detailed asset registers held by each department.	Management to implement for 2017/18 audit.	Derek Lindsay (Director of Finance)	March 2018	Medium Priority
Transformational change	Board reviews its transformational change delivery infrastructure including programme management, benefits realisation tools and templates.	PwC have been commissioned to do work over June and July 2017.	Derek Lindsay (Director of Finance)	Ongoing	Medium Priority
National Fraud Initiative	Plans are put in place within the Board to address all recommended matches from NFI exercise.	Work is ongoing to address the recommended matches	Derek Lindsay (Director of Finance)	December 2017	Low Priority

Key:



High Priority



Medium Priority



Low Priority

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the risk of fraud in complying with expenditure resource limits and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the audit committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been identified regarding fraud.



Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland) we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	<p>The audit fee for 2016/17 is £182,892 as detailed in our Audit Plan.</p> <p>No non-audit services fees have been charged by Deloitte in the period.</p>
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>



Events and publications

Our events and publications to support the Board

Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the NHS are shared opposite:

Perspectives: Health & Social Care - The great integration challenge

Bringing health and social care closer together has been a policy ambition for decades, yet it continues to be a challenge. This new piece discusses some of the key factors that affect integration and what can realistically be achieved. Read the full blog post here:

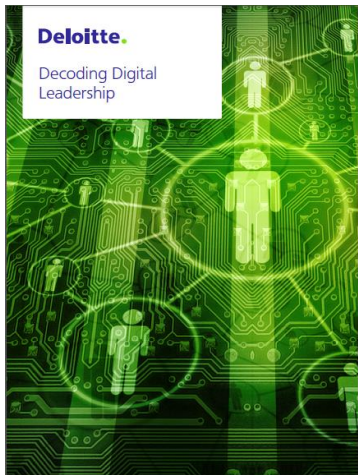
<http://www2.deloitte.com/uk/en/pages/public-sector/articles/the-great-integration-challenge.html>

Perspectives: The public sector's talent retention challenge – How can a talent drain be avoided?

Although global governments are increasingly conscious of the value of skills, the UK's public sector workforce has been hit hard by austerity. Job losses, low morale and pay freezes have all fuelled concerns of a potential drain. Read the full blog here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sectors-talent-retention-challenge.html>

Publications



Decoding Digital Leadership Surviving Digital Transformation

Digital transformation is a hot topic in government. The 2010 Spending Review mentioned the word 'digital' only four times in its reform plans, while the 2015 Review mentioned it 58 times. With that context, are senior leaders across government setting their organisations up for digital success?

Digital transformation requires top to bottom organisational transformation, which requires leaders who are willing and able to leverage digital to innovate, fail fast and drive value in an ambiguous context. Are your leaders equipped to drive digital transformation?

Download a copy of our publication here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/decoding-digital-leadership.html>



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