

Contents

01 Our final report

Introduction	3
Our audit explained	6
<i>Financial statements audit</i>	
Significant risks	8
Other matters	12
Other significant findings	13
Our audit report	14
Your annual report	15
<i>Audit dimensions</i>	
Overview	18
Financial sustainability	19
Financial management	25
Governance and transparency	29
Value for money	35
Specific risks	38

02 Appendices

Purpose of our report and responsibility statement	41
Audit adjustments	42
Action plan	45
Fraud responsibilities and representations	47
Independence and fees	48

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 of NHS Ayrshire & Arran (the Board) for the 2018/19 audit. The scope of our audit was set out within our planning report presented to the Audit Committee in November 2018.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of the Accountable Officers' duty to secure best value.



Introduction (continued)

The key messages in this report (continued)

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

Conclusions from our testing

Based on our audit work completed we have issued an unmodified audit opinion.

The performance report and accountability report comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Board.

The auditable parts of the remuneration and staff report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 8. The Board met its financial targets for 2018/19, however this was only after receiving additional brokerage of £20m from the Scottish Government.

We have identified five immaterial misstatements in excess of our clearly trivial threshold of £0.25m. Four misstatements have been corrected and one remains uncorrected following advice received by the Board from Scottish Government – see pages 42-44.

Conclusions on audit dimensions

As set out on page 3, our audit work covered the four audit dimensions. This incorporated the specific risks highlighted by Audit Scotland, in particular, the impact of EU withdrawal, the changing landscape for public financial management, dependency on key suppliers and increased focus on openness and transparency.

Our overall conclusion on each dimension is summarised on page 5.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Financial sustainability - The Board achieved short term financial balance in 2018/19, however, this was only achieved due to the receipt of £20m brokerage from the Scottish Government. A deficit budget has been set for 2019/20 with the Board not expecting to achieve financial balance until 2021/22. This comes with significant risks.

The Board recognise that significant transformational change is required and has progressed its Transformation Change Improvement Plan (TCIP) during the year, with improved governance arrangements to monitor and track progress. Significant work is still required to make the level of transformational change needed based on the current financial forecasts. The development of detailed programmes, incorporating the more medium to longer term initiatives, with clear action plans, milestones and the associated capacity and resources to deliver, should continue to be a priority for the Board as it moves into 2019/20 in order to achieve long term financial sustainability.

Financial management - The Board has effective financial planning and management arrangements in place, with consistent reporting to the Board throughout the year. The accuracy of the budgeting process has therefore improved from 2017/18 where significant variances were noted. We have noted areas to improve the transparency of the financial reporting further, by including details of reasons for changes in budgets and changing the structure of the monitoring reports to allow a clear comparison of the approved deficit position with the actual.

It is positive to note that work has been ongoing to address the overspends in Acute and reducing Agency spend, however, there still remains significant unachieved efficiency savings and high medical agency costs due to vacancies.

Governance and transparency - NHS Ayrshire and Arran has a good attitude to openness and transparency. It also has strong leadership. However, the workload of Board members is continually increasing therefore we recommend that the it reviews the capacity of all Board members, their roles and responsibilities (including associated responsibilities for the IJBs) and any specific training needs.

It is positive to note that the Board, along with its IJB and Council partners, are reviewing and updating the governance arrangements for the IJBs to take cognisance of the experience from early integration.

Value for money – The Board has a well established performance management framework in place to monitor performance against national standards. While work has progressed during 2018/19 to address areas of poor performance, the impact is not yet evident in the performance data, with the number of indicators below an acceptable standard increasing in 2018/19. There is evidence of the Board directing resources to address areas of poor performance.

Our detailed findings and conclusions are included on pages 17 to 37 of this report.

Next steps

An agreed Action Plan is included at page 45 of this report. We will consider progress with the agreed actions as part of our 2019/20 audit.

Added value

Our aim is to add value to the Board by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Board promote improved standards of governance, better management and decision making, and more effective use of resources. This is provided throughout the report.

We have also provided our separate “Sector Developments” report, where we have shared our research, informed perspective and best practice from our work across the wider public sector that are specifically relevant to the Health Board. We would encourage the Board to consider this as it progresses with its transformation work.

Pat Kenny
Audit Director

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:

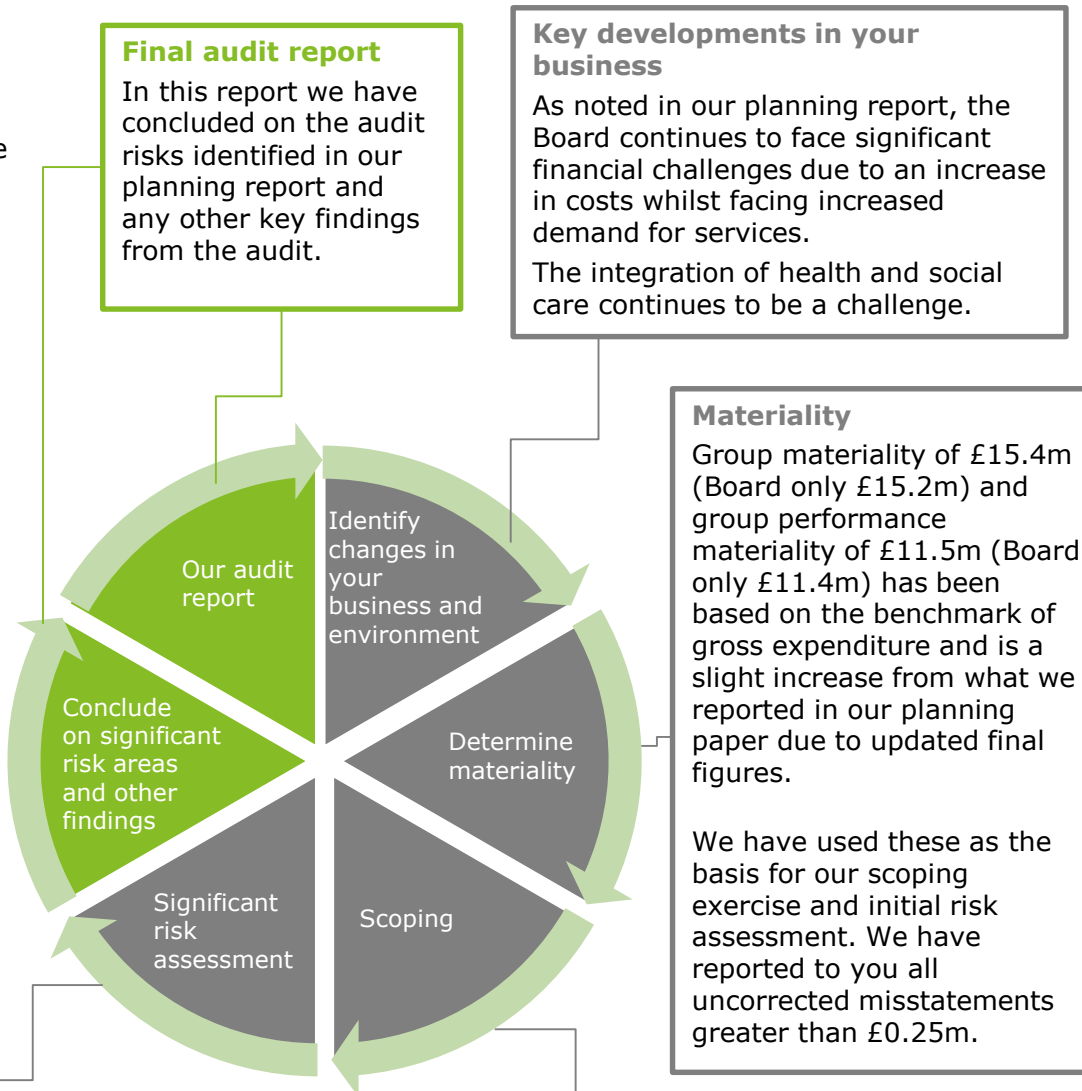
- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 8 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 2018/19



Financial statements audit



Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Achievement of expenditure resource limit			D+I	Satisfactory		Satisfactory	9
Management override of controls			D+I	Satisfactory		Satisfactory	10

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)

Risk 1 – Achievement of expenditure resource limits

Risk identified

There is a key financial duty for NHS Ayrshire & Arran to comply with the Revenue Resource Limit set by the Scottish Government Health and Social Care Directorate (SGHSCD).

For much of the year the Board reported a forecast deficit position in excess of £22m with brokerage required to breakeven. There is a risk that the Board could materially misstate expenditure in relation to year end transactions, in an attempt to align with its tolerance target or achieve a breakeven position or reduce the level of brokerage required. The significant risk is therefore pinpointed to accruals and prepayments made by management at the year end and invoices processed around the year end as this is the area where there is scope to manipulate the final results.



Key judgements and our challenge of them

Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.



Deloitte response

We have evaluated the results of our audit testing in the context of the achievement of the target set by the Scottish Government. Our work in this area included the following:

- evaluating the design and implementation of controls around monthly monitoring of financial performance;
- obtaining independent confirmation of the resource limits allocated to NHS Ayrshire & Arran by the Scottish Government;
- performing focused testing of accruals and prepayments made at the year end; and
- performing focused completeness testing based on expenditure directly post year end.

(Note: Prepayments recorded at year end were quantitatively immaterial for the purposes of our audit and therefore were not tested in detail.)

Deloitte view

We have concluded that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers. We can confirm that NHS Ayrshire & Arran has performed within the limits set by SGHSCD and therefore is in compliance with the financial targets in the year.

Brokerage of £20m was required from Scottish Government in order to meet financial limits. Without this brokerage a deficit of £19.4m would have been reported by the Board. The brokerage was agreed upon in March 2019 and we are satisfied this has been accounted for appropriately and that the Board has therefore met its expenditure resource limit. See page 26 for a more detail assessment of financial performance during the year.

Significant risks (continued)

Risk 2 - Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Board's controls for specific transactions.



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.

Significant and unusual transactions

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

Journals

We have performed design and implementation testing of the controls in place for journal approval. We have followed up the related finding raised in our 2017/18 audit report and found that the finding has been addressed in the year.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest. We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

We have not identified any instances of management override of controls in relation to the specific transactions tested.

Accounting estimates (see next page)

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud. See summary on the following page. We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements focusing on the areas of greatest judgement and value, including:

- CNORIS
- PFI
- PPE Valuations
- Considerations of any adjustments required for the transition to the new standards IFRS 15 (Revenues from contracts with customers and IFRS 9 Financial Instruments)

Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Significant risks (continued)

Risk 2 - Management override of controls (continued)

Key judgements The key judgments in the financial statements are those which we have selected to be the significant audit risks around the achievement of expenditure resource limits. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

As part of our work on this risk, we reviewed and challenge management's key estimates and judgements including:

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
PPE Valuation	The value of PPE is based on valuations provided by a professional valuer. The full revaluation of PPE occurs every year and assets are measured subsequently at fair value.	Revaluations are carried out by professional valuers, District Valuer Services, every year. In 2018/19, Deloitte Real Estate performed an analytical review of all revaluations and identified those which were not in line with expectation and therefore may indicate error. Those revaluations were investigated further and no issues were noted as a result. We are therefore satisfied that the estimate is reasonable.
Clinical Negligence and Other Risks Indemnity Scheme ('CNORIS') provision	<p>NHS bodies in Scotland are responsible for meeting negligence costs up to a threshold per claim. Costs above this threshold are reimbursed from the CNORIS scheme by the Scottish Government. NHS Ayrshire and Arran provide 100% for Category three claims and 50% for all Category two claims notified by the NHS Central Legal Office, according to the value of the claim. As at 31 March 2019, there were 85 claims specific to NHS Ayrshire and Arran included in the provision.</p> <p>NHS Ayrshire & Arran also provides for its liability from participating in the scheme. This provision recognises NHS Ayrshire and Arran's respective share of the total liability of NHS Scotland as advised by the Scottish Government, based on information from NHS Boards and the Central Legal Office.</p>	<p>The provision is valued by the Central Legal Office (CLO) based on the information on claims and historical experience. The value of claims is notified to NHS Ayrshire & Arran by the CLO. We have obtained independent confirmation directly from the CLO of all outstanding claims at 31 March 2019 and reconciled this to the amount recognise and challenged managements provision policy and concluded that it is reasonable.</p> <p>The other element of the provision – contribution to the national pool - is material. It is advised by the Scottish Government (SG) and we receive direct confirmation from the Scottish Government of the balance which has been reconciled to the amount recognised.</p> <p>We have also obtained assurance from Audit Scotland on the methodology used in the preparation of these figures and the relevance and reliability of the information provided by the CLO. Whilst we were informed of one immaterial error reflected within the Board's figures (which has been corrected – see page 42), there were no other issues noted with the methodology adopted by the Scottish Government. Audit Scotland also concluded that the CLO is objective, has sufficient expertise and the capability, time and resources to deliver reliable information.</p>
Private Finance initiatives ('PFI')	NHS Ayrshire and Arran currently have three PFI projects, East Ayrshire Community Hospital, Ayrshire Maternity Unit and Woodland View. Each PFI liability is valued based on the value of the remaining lease payments under IAS 16 and IAS 17. The minimum lease rental is split between interest and principal using the actuarial method.	We obtained and assessed the initial PFI agreements in place and reconciled to the payment schedules for each model. We have conducted a retrospective review of the prior year liability to assess accuracy, and have challenged any changes made to the model. We have assessed the value of the underlying buildings through our Valuations work above. No issues noted through procedures performed.

Other matters

Implementation of IFRS 9 and IFRS 15

Matter identified The Board is required to adopt the new accounting standards IFRS 9 *Financial Instruments* and IFRS 15 *Revenues from contracts with customers* in the year ended 31 March 2019. In both cases, the Board is using a modified retrospective approach to implementation where effectively the cumulative impact of transition to 1 April 2018 is posted as an adjustment to reserves. The Board has posted no retrospective adjustments with regard to IFRS 9 or IFRS 15 as there is no material impact on the financial statements.

Response Management held discussions regarding the accounting impact of the new standards on the Board for the period and determined that the impact is immaterial.

The key element impacted by IFRS 9 is the accounting for the bad debt provision, which must move to a methodology of expected credit losses. A practical expedient available for portfolios of debt is to use a matrix based on past experience, and modified in specific cases where more information is available, in order to provide at a suitable percentage. As the majority of the Health Board's revenue is driven either by other NHS Health Boards or the Scottish Government, the expected credit loss model would not have a material impact on the financial statements. The Health Board concluded that there is a presumption that NHS debts will not require a credit loss provisions as these are effectively guaranteed by the State as a last resort. Whilst the provision as a whole is not material, we have reviewed the revised calculation methodology and considered the assumptions in light of past experience. We have concluded that IFRS 9 has been applied appropriately and no material adjustment is needed.

Regarding IFRS 15, management was satisfied that no transitional adjustments would be required due to the Board's sources of material income. The vast majority of income received is passed on from Scottish Government and is recognised in line with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. The Board also recognises a significant level of income received from the three Ayrshire Integrated Joint Boards (IJBs). This income falls under the scope of IFRS 15, however this income is already recognised as performance obligations are met in the form of commissioned services, therefore no adjustment to recognition is required.

The only other long term income generating contracts the Board has in place are service level agreements (SLAs) with each other Scottish NHS territorial Board to provide financial systems support which is centralised at Ayrshire & Arran. The SLAs stipulate that annual charges are determined on a recharge basis. Costs incurred by NHS Ayrshire & Arran in providing financial systems support are recharged amongst other Boards on the basis of the number of system users at each Board. Income is recognised by NHS Ayrshire & Arran in line with actual costs incurred and the new standard does not impact this accounting treatment. No other long term contracts with customers are held by the Board.

We have reviewed and challenged management's assumptions in light of the Board's contractual arrangements with no issues noted.

Deloitte view

We agree with management's position that the new accounting standards do not have a material impact for the Board. We have noted that management's new accounting policies regarding recognition of expected credit losses relating to receivables carried forward are in line with the new requirements of IFRS 9. No issues to note.

Other significant findings

Internal control and risk management

During the course of our audit we have identified two internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
Preparation for IFRS 16	The implementation of IFRS 16, Leases, for 2020/21 is expected to have a greater and more complex impact upon most NHS bodies than the adoption of IFRS 9 and 15. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier stage than has been the case for IFRS 9 and 15 to allow for financial reporting timetables to be met. We recommend the Board targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Board's underlying accounting systems.	●
Financial operating procedures	A number of the documented financial operating procedures which detail management procedures in relation to financial reporting, planning and budget setting have not been updated for some years. Documented operating procedures should be reviewed on regular basis (e.g. annually), even if significant change is not required.	●

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.



Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

While NHS Ayrshire and Arran is faced with financial sustainability issues (as discussed on page 20) and received brokerage of £20m from the Scottish Government to meet its financial targets in the year, there is a general assumption set out in Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom) that no part of the NHS will be allowed to cease operation, therefore will continue as a going concern.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 15.



Your annual report

We are required to provide an opinion on the auditable parts of the remuneration and staff report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Requirement	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. 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> <p>It was also noted that the quality of the performance report has increased significantly from 2017/18, and our finding regarding compliance with the FReM has been largely addressed. There is, however, further scope to reduce the level of historical detail disclosed to ensure the main messages in relation to the current year are not lost.</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>The annual budget for 2019/20, which was approved by the Board of Directors on 25 March 2019, has projected a deficit budget of £14.7m. We have concluded that although it is challenging, 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>Brokerage was required in 2018/19 to achieve financial balance and there is uncertainty around the achievement of savings to balance future year budgets. In order to achieve a break even balance in 2019/20, brokerage will be needed from the Scottish Government. The Scottish Government has committed to ongoing funding of the Board; accordingly the accounts have been prepared on the going concern basis. These facts have been appropriately disclosed within the Performance Report.</p>

Your annual report (continued)

Audit Scotland have issued a series of Good Practice notes to highlight where Annual Reports can be improved. We have provided below some extracts which should be considered by NHS Ayrshire & Arran in drafting future Annual Reports. We have also benchmarked the length of the Annual Report against other NHS bodies.

Length of performance report

The Board's Annual Report is only slightly shorter than average and therefore generally in line with accepted practice. However, as noted on page 15, there is scope to reduce the level of historical detail within the report. Following the removal of this historical detail, it is likely the Board's performance report would become notably shorter than those of other Territorial Boards. Management should therefore ensure that its assessment of in-year performance within the report is complete and provides all of the detail required to inform readers of the accounts.

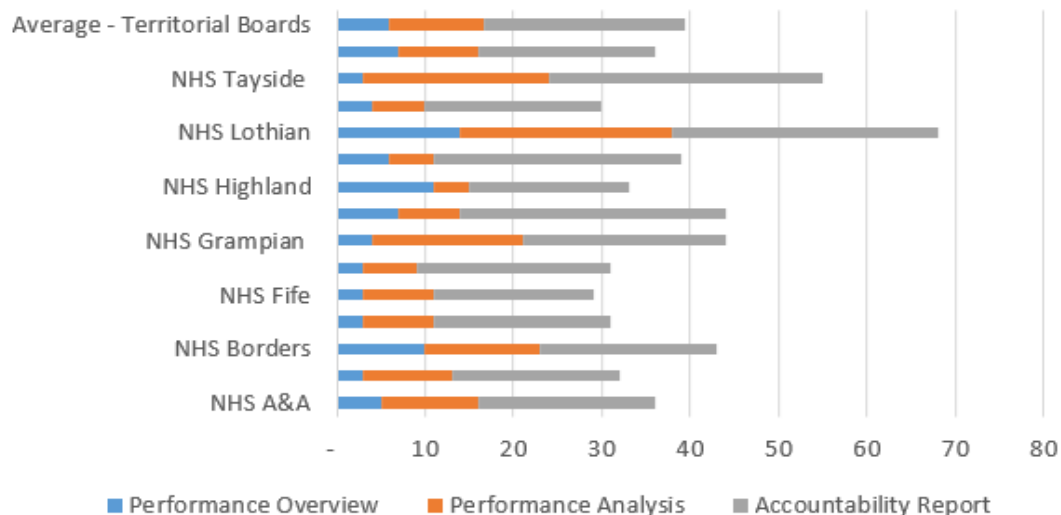
A checklist of the 13 items which are required to be included in the Performance Report is outlined in the Technical Guidance Note provided to management in early 2019. Going forward, management should review the Performance Report against these requirements and exclude unnecessary information.

Length of governance statement

As with the performance report, the Board's governance statement is only slightly shorter than the average elsewhere. Again, the Board should ensure that only detail relevant for the current year is included, and that the detail given is complete.

A checklist of the 10 items which are required to be included in the Accountability Report is outlined in the Technical Guidance Note provided to management in early 2019. Going forward, management should review the Accountability Report against these requirements and exclude unnecessary information.

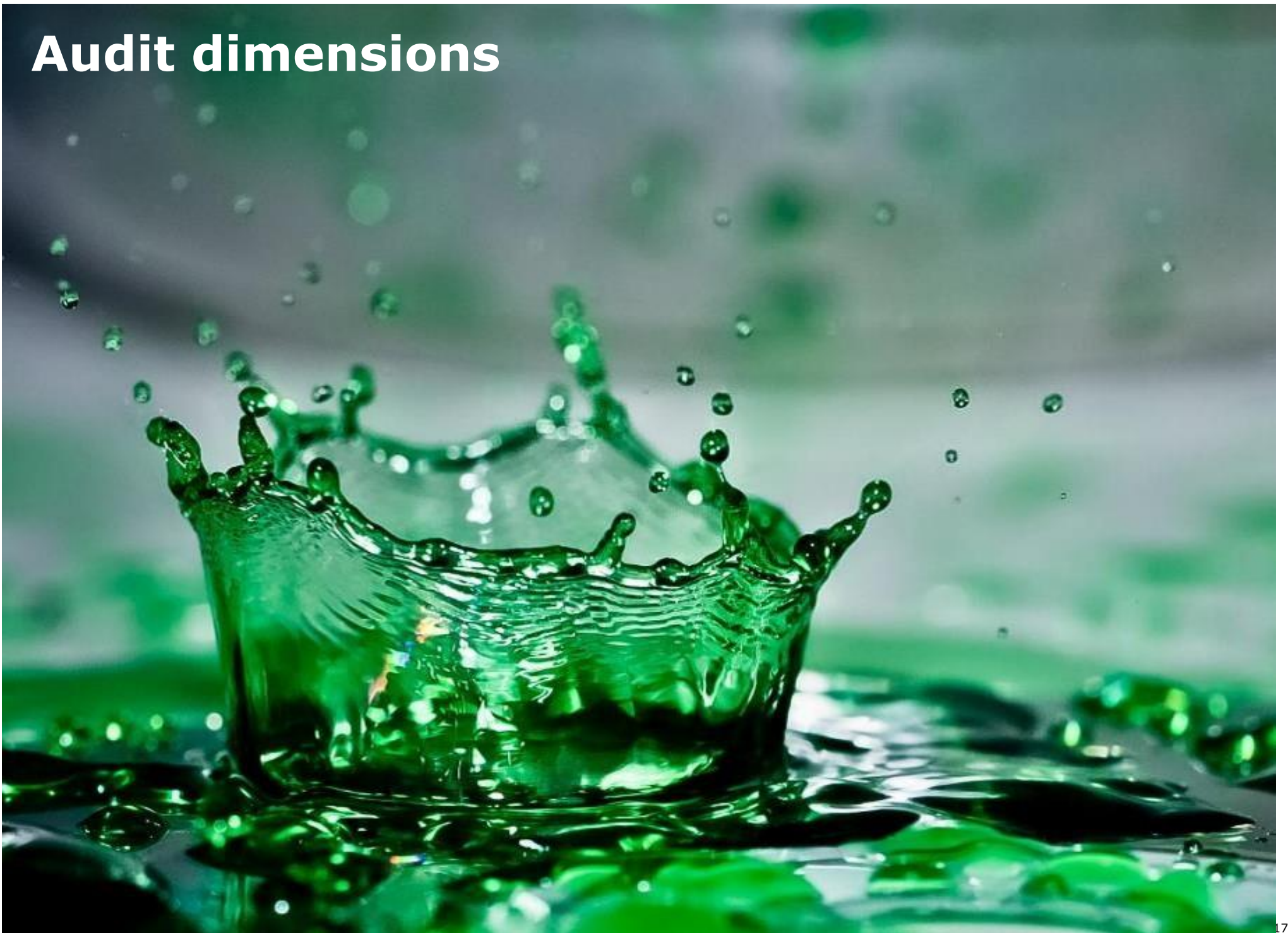
Territorial Boards - Length by section of 'Front Half' of Annual Report (2017/18)



A list of comments for improvement, including the above, have been provided to management with a recommendation that these be implemented for 2019/20. Deloitte are pleased to note that management have accepted the majority of these recommendations and the annual accounts have been updated, with a commitment to consider the remaining recommendations for the 2019/20 accounts.

We have reviewed NHS Ayrshire & Arran's Annual Report against comparable NHS bodies. This shows that NHS Ayrshire and Arran is a similar length to the average Territorial Boards – with all three Performance Overview, Performance Analysis and Accountability Report being within two pages of the average length of all. Although the Annual Report must cover a wide breadth of information, it is important that they are concise. We are pleased to note that the level of information provided is sufficient to enable users to understand the operations of the Board and the Annual Report is compliant with regulations.

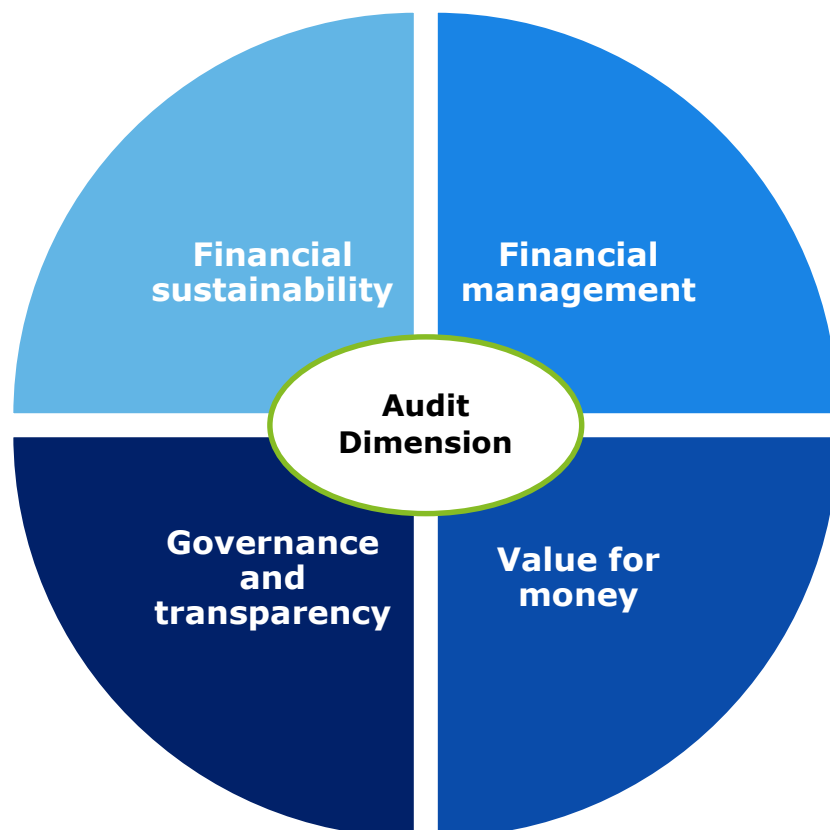
Audit dimensions



Audit dimensions

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following area. Our report is structured in accordance with the four audit dimensions, but also covers our specific audit requirements on best value and specific risks as summarised below.



Best Value (BV)

The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

We have considered the accountable officers' duty to secure BV as part of the governance arrangements considered as part of the audit dimensions work.

Specific risks (SR)

As set out in our Annual Audit Plan, Audit Scotland had identified a number of specific risks (SRs) faced by the public sector which we have considered as part of our work on the four audit dimensions.

SR 1 – EU Withdrawal

SR 2 – Changing landscape for public financial management

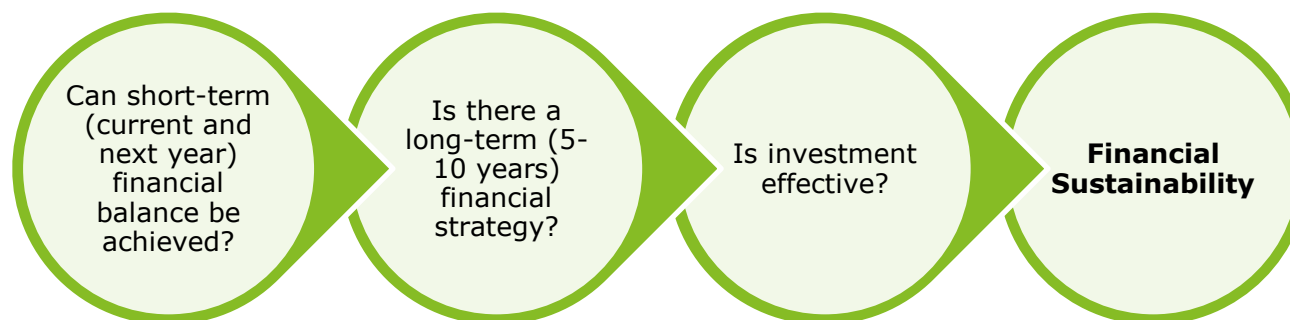
SR 3 – Dependency on key suppliers

SR 4 – Openness and transparency

Audit dimensions

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.



Audit risks

Within our audit plan we identified a number of risk as follows:

- A risk that the Board does not have realistic action plans, accompanied by the capacity and resources required to deliver it, in order to address the issues it faces;
- A risk that the Board will not be able to operate within its own financial means in the short to medium term and further brokerage from the Scottish Government will be required; and
- A risk that the Board's long-term financial planning could be inconsistent with the Scottish Government's five-year plan.

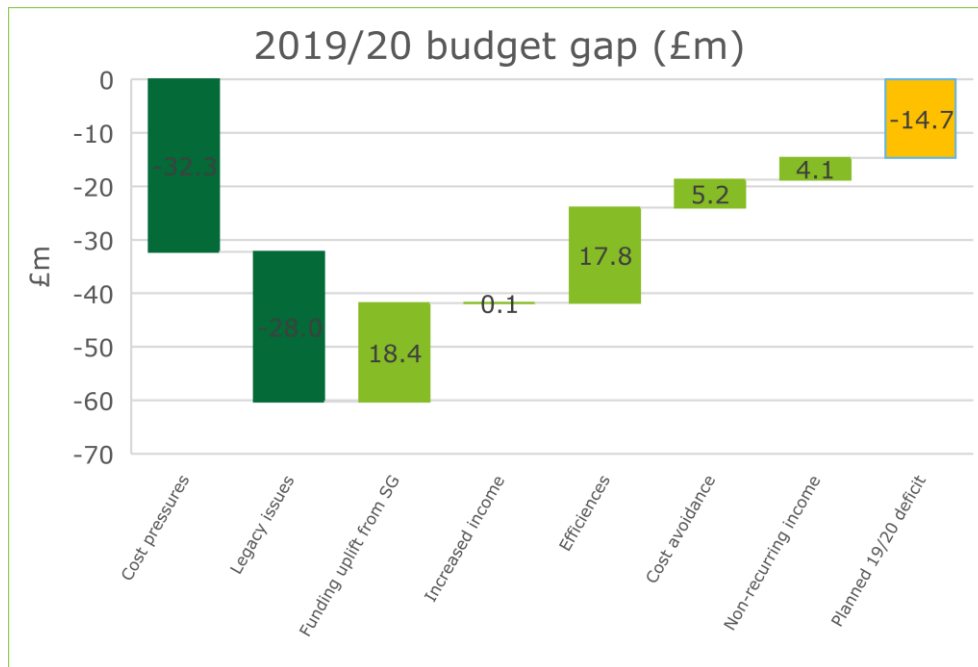
Following the publication of our 2017/18 annual audit report, the Auditor General submitted a report under section 22(3) of the Public Finance and Accountability (Scotland) Act 2000 to draw the Parliament's attention to the scale of the challenge NHS Ayrshire and Arran faces in meeting its financial targets and to provide an update on the work that was underway to address these pressures. Our audit work has considered the findings and conclusions from that report.

Audit dimensions (continued)

Financial sustainability (continued)

2019/20 budget

The Board approved a deficit budget of £14.7m for 2019/20 on 25 March 2019 against a baseline budget of £720m. This was based on the following key cost pressures and associated income and savings plans.



As discussed on page 21, the Board has submitted a 3 year plan to the Scottish Government at the end of March 2019. It is currently not projecting to breakeven over the three year period 2019/20-2021/22.

Further work is planned during quarter 1 of 2019/20 to scope and operationalise the impact of 6 key programmes for including in 2019/20 and beyond as part of the overall **transformation improvement plan**, as discussed on page 23.

In setting its budget the Board has recognised that a number of **risks** including:

- £16.75m of cost pressures for pensions is not included in the budget as the Board has assumed this will be funded in full by the Scottish Government.
- Delivery of cash releasing efficiency savings (CRES) is increasingly challenging and a 3% operational CRES for acute services amounts to £4.5m, which needs to be considered on top of the £3.6m unachieved CRES carried forward from previous years.
- Unscheduled care demand has led to additional acute beds opening in the past years.
- Impact of expensive new medicines.
- Challenges in workforce availability, especially hard to fill consultant posts.

Audit dimensions (continued)

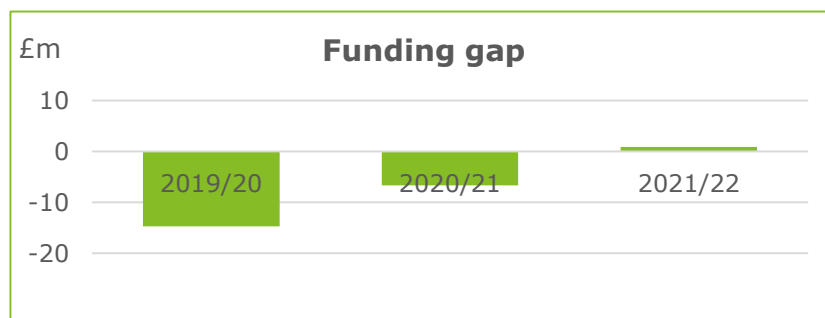
Financial sustainability (continued)

Medium to long term financial planning

The **Health and Care Delivery Plan 2019-2022** was approved by the Board in March 2019. This is in response to the requirement from the Scottish Government to provide a three year financial plan. The Delivery Plan links the individual component plans (as illustrated on the right) to ensure there is a clear and direct relationship between implementing operational programmes and enabling progress towards the Board’s agreed strategic direction.

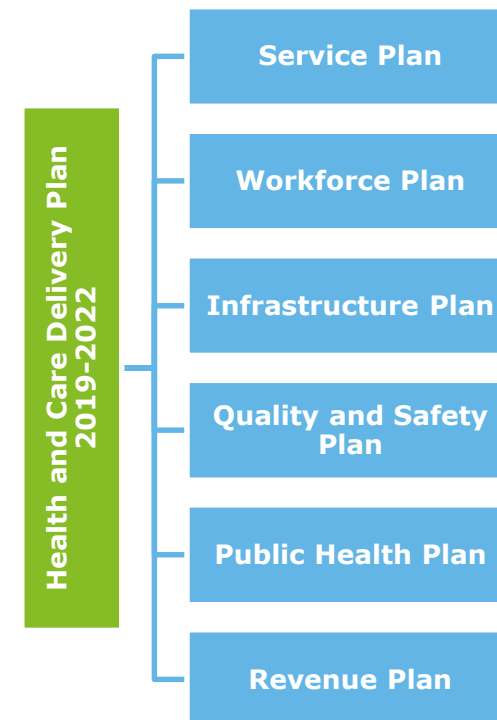
The Board has noted that it has set out a challenging and realistic plan that recognises the need to improve performance and organisational efficiency, whilst driving forward service reform, without compromising its primary aim to deliver safe services.

A high level three year revenue plan has been presented, which assumes general allocation uplifts for 2020/21 and 2021/22 to be around £17.6m per annum. Based on this, legacy issues, known cost pressures and expected CRES targets, the Board is not projecting to achieve a breakeven position until 2021/22. In accordance with the Scottish Government, the Board will remain part of the NHS board performance escalation framework.



As part of the Performance Governance Committees consideration of the initial three year plan in October 2018, an analysis of the Scottish Government Medium Term Health and Social Care Financial Framework was considered including pay, price, demographic and non-demographic cost pressures as well as areas of focus for reforming health and social care including shifting the balance of care, regional working between Boards and public health and prevention.

Workforce planning is a key element of the Health and Care Delivery Plan. As discussed further under “financial management” on page 26, whilst the Board has made some progress in reducing both nursing and medical agency expenditure in the year through the work of the Workforce Scrutiny Group, medical agency spend is still around £7.5m due to over 40 consultant vacancies. In our separate “Sector Developments” paper, we have shared research from our Centre for Health Solutions including recommended good-practice examples for health care leaders to increase staff morale and wellbeing, recruit and retain top talent, and offer new models of care.



Audit dimensions (continued)

Financial sustainability (continued)

Transformational change

In September 2016, NHS Ayrshire and Arran set out a programme of significant transformational change that would deliver health and social care designed to meet the needs of the local population. The **Transformation Change Improvement Plan 2017-20** is set against the national policy and strategic context and reflects the direction more recently expressed in the "Health and Social Care Delivery Plan", acknowledging the intention to deliver a regional approach to service planning moving forward. An Improvement Director was engaged by the Board during 2018 and continued in post during 2018/19.

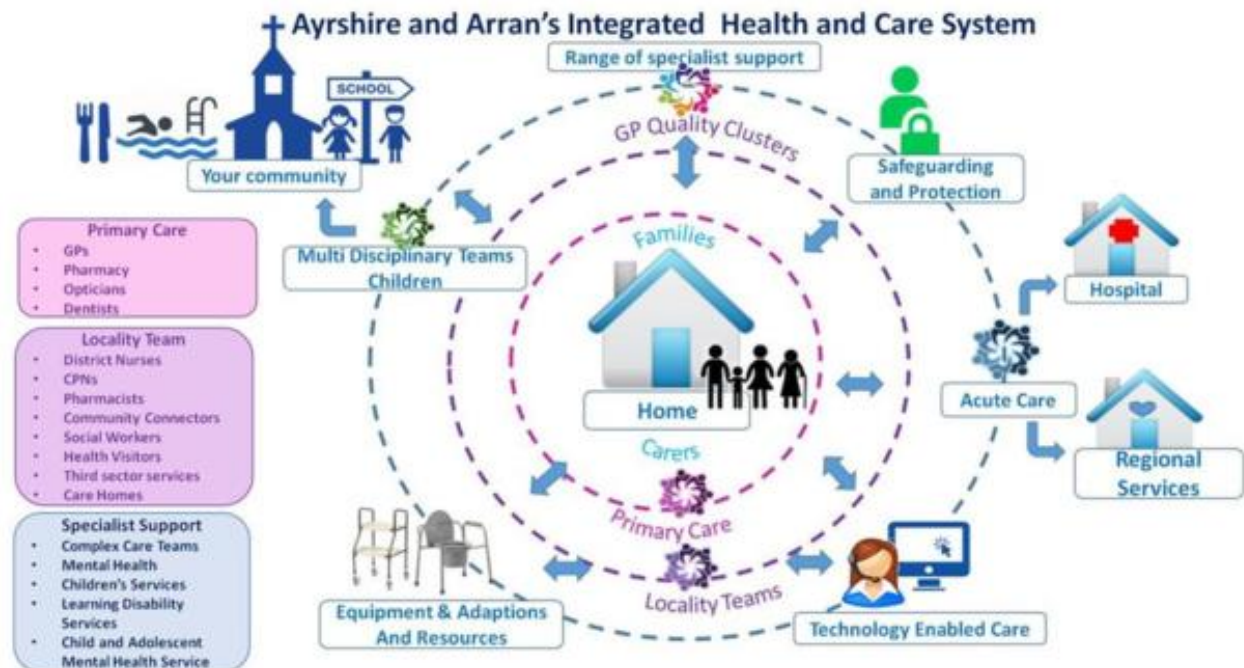
Against this background, NHS Ayrshire and Arran and the three Health and Social Care Partnerships have worked collaboratively to define a model for delivering an Integrated Health and Social Care System in Ayrshire and Arran, as represented in the diagram below.

Key enablers to the vision for health and care are the **digital** and **estate infrastructure**. Work is progressing to look at those key infrastructure enablers following the Scottish Capital Investment Manual business process to secure funding to support a proposal to re-provide NHS estate. A Strategic Assessment was presented to the West of Scotland Regional Programme Board in February 2019, which set out, at a high level, the need for change, what benefit will be gained and what solutions may be required. It acknowledges the recognised challenges with the existing estate from a District Hospital level, through to Community Hospital and Community and Primary Care estate. It sets out what benefit would be gained both to the service user and in terms of creating an efficient and sustainable estate and suggests a solution and associated provisional cost.

It is expected that over a ten year time horizon, as that is how long it is anticipated it will take to complete the process to re-purpose and re-provide facilities in Ayrshire, that as a whole system, NHS Ayrshire and Arran will be better placed to "right size" its service provision, whether at primary, community, community hospital or district general hospital level and to meet its ambition to provide services more appropriately closer to home.

Capital expenditure of £17.7m is planned for 2019/20 (more than double that of 2018/19), rising to £21.9m in 2020/21. Over this period, there will be a number of business cases developed for creation of health and social care hub facilities and a new acute hospital.

It is positive to note that NHS Ayrshire and Arran, and its partners, are now looking to the medium to longer term. This is in line with the key messages in Audit Scotland's 2018 NHS overview report which noted "to meet people's health and care needs, the NHS urgently needs to move away from short term fire-fighting to long-term fundamental change". It is imperative that NHS Ayrshire and Arran drive forward this change to ensure that the benefits set out are achieved.



Audit dimensions (continued)

Financial sustainability (continued)

Transformational change (continued)

We reported in our 2017/18 report that the Board's TCIP had been the subject of an external review and a key finding was that the current transformation plans in place were not substantial enough to achieve long term financial sustainability and that plans for greater medium and longer term transformational change was required.

The TCIP is supported by a Portfolio **Programme Management Office** (PMO) structure, whose primary role and responsibility is to oversee the programme from a governance and project management perspective. During 2018/19, the PMO has worked to strengthen arrangements to monitor and track the progress of programmes/projects and savings. This has been strengthened through the roll out of the Pentana system, which works to capture activity and their status.

During 2018/19, the Board's internal auditors undertook a review of the Board's PMO governance, as related to transformational activity. The review concluded that the processes provide a **"partial" level of assurance** to the Board. There are some weaknesses in the controls designed to mitigate governance risks that require enhancing. Five recommendations were made in their report, three of which were graded "medium" as follows:

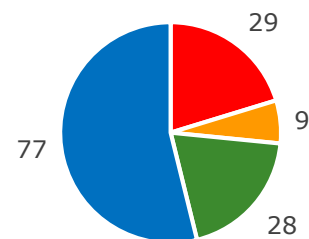
- There is a complexity in arrangements given that programmes have been retrofitted to an existing governance structure. The reporting lines within programmes should be made clearer so to evaluate potential interdependencies.
- There was no consistent approach to how interdependencies are identified, documented, and therefore managed.
- The PMO Delivery Tracker is a working Microsoft excel workbook which contains all programmes that are monitored by the PMO and acts as the main benefit analysis tool for all workstreams. The internal auditors review found inconsistencies such as cells left incomplete and scrutiny groups not identified. There is also a need for guidance to its use in the absence of the Finance Manager.

Improvement initiatives

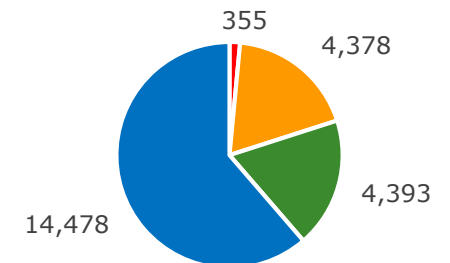
Regular reporting on progress with the improvement initiatives is made to the Corporate Management Team and the Performance Governance Committee. NHS Ayrshire and Arran is also participating in a pilot with the Scottish Government – Health Finance Department, where on a monthly basis a financial improvement framework will be submitted. This includes an overview and the value of the improvement initiatives, in year delivery and BRAG (Blue, Red, Amber, Green) rating of improvement initiatives, milestone performance and the top ten delivery improvement initiatives.

In 2018/19, 143 improvement initiatives were identified to support the need to make savings of £23.6m (as discussed further on page 24). At the end of December 2018 (latest available data), the BRAG ratings for these were as follows:

Number of initiatives



Value of initiatives (£'000)



Key:

Blue – scheme fully implemented.

Green – scheme not yet implemented but forecast to deliver in full.

Amber – scheme not yet implemented but detailed planning underway.

Red – scheme still at early stage of development/ scheme not delivering plan saving

Audit dimensions (continued)

Financial sustainability (continued)

Improvement initiatives (continued)

The Revenue Plan for 2019/20 identifies the following 6 key programmes of transformation for inclusion in 2019/20 and beyond, with scoping expected to be completed no later than quarter 1 of 2019/20:

- **Medical and Nursing Workforce** – exploring the integration and impact of implementation of Allocate for consultant job planning and e-Rostering for nursing staff.
- **Digital** – significant investment requires further scoping to determine the return on investment.
- **Pain Management** – reform of the service.
- **Single Acute Service for Ayrshire** – benefit to be gained through a single acute service rather than separate service provision in each hospital.
- **Right Care, Right Place** – programme of service reform looking to reshape unscheduled care services, older people's services and end of life care.
- **Transforming Outpatients** – programme of work to explore and optimise appointments across all service areas.

In addition to these, the Board has noted there is also a programme of service reform at a regional level which may also influence local service provision.

Deloitte View – Financial sustainability

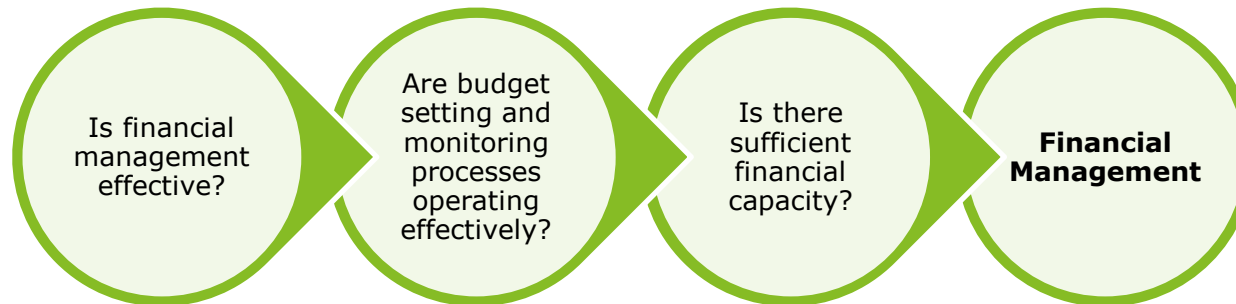
As discussed on page 26, the Board achieved short term financial balance in 2018/19, however, this was only achieved due to the receipt of £20m brokerage from the Scottish Government. As part of setting out its three year financial plan, the Board considered the Scottish Government Medium Term Health and Social Care Financial Framework to ensure consistency. A deficit budget has been set for 2019/20 with the Board not expecting to achieve financial balance until 2021/22. This comes with significant risks, particularly around the challenging CRES targets in Acute together with the increasing demand for services.

The Board recognise that significant transformational change is required and has progressed its TCIP during the year, with improved governance arrangements to monitor and track progress. Significant work is still required to make the level of transformational change needed based on the current financial forecasts. The development of detailed programmes, incorporating the more medium to longer term initiatives, with clear action plans, milestones and the associated capacity and resources to deliver, should continue to be a priority for the Board as it moves into 2019/20 in order to achieve long term financial sustainability.

Audit dimensions

Financial management

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



Audit risks

Within our audit plan we identified a number of risk as follows:

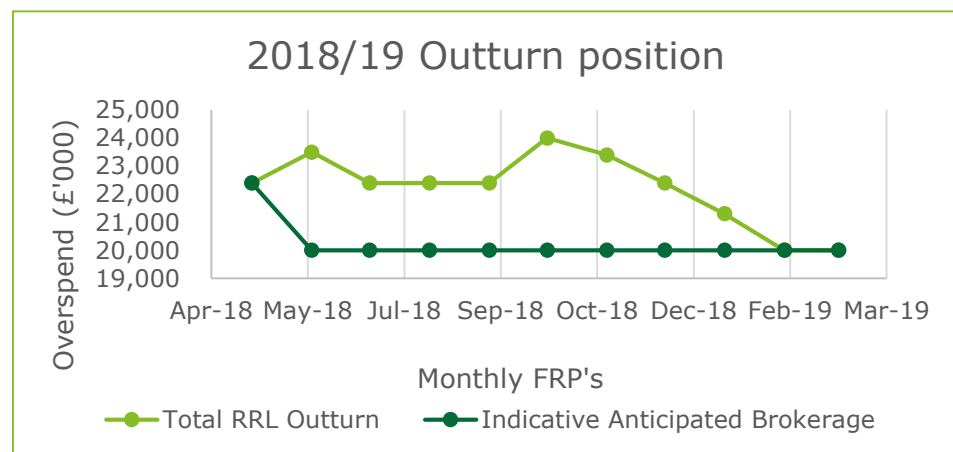
- A risk that the Board's budgeting process is not accurate enough to determine spending forecasts and the underlying financial performance of the Board may not be transparently reported.

Audit dimensions (continued)

Financial management (continued)

2018/19 Financial performance

The Board achieve a year-end breakeven position compare to budget. However, this was only achieved by receiving £20m of brokerage from the Scottish Government, This has been consistently reported to the Board throughout the year and is largely in line with the revenue plan approved in June where a £22.5m deficit was projected.



The key reasons for the variances were:

- Acute services continue to overspend in line with the revenue plan approved in June, with the final position being an overspend of £8.2m, compared with a budgeted overspend of £5.1m. This comprises largely of an overspend against the nursing budget of £5.8m and unachieved CRES carried forward from previous years of £2.9m.
- Reserves, being the £13.2m underlying deficit from 2016/17 brought forward, ended the year as an overspend of £10.5m. During the year there was a further requirement to plan for £1.4m of "pay as if at work" liability, however, some non-recurring mitigation in the year and lower than anticipated primary care prescribing prices increases helped to alleviate this pressure.

Work has been ongoing to address the overspends in Acute. During 2018/19, most of the 130 unfunded beds were closed, reducing the nursing pay overspend average from £650k per month in the first half of the year to £450k per month in the second half of the year. There, however, remains significant unachieved planned efficiency savings.

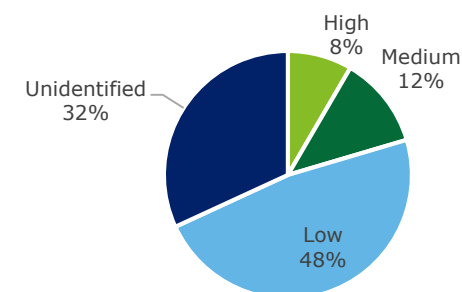
The Board has also made some progress in reducing agency spend, with agency nursing reducing by over £1m (to less than £1m in 2018/19) and medical agency spend also reducing by around £1m. However, medical agency spend is still around £7.5m due to over 40 consultant vacancies.

The Board received £8.566m in Capital Resource Limit in the year which was fully utilised. This funding included specific allocations towards the National Forensic Children and Adolescent Unit, Building Better Care Phase 3 and NHS Scotland Recycle Savings Scheme. Actual expenditure is monitored through the Capital Programme Management Group each month as well as through the monthly monitoring to the Scottish Government.

Savings Plans

The approved revenue plan for 2018/19 included target CRES of £23.8m, 32% of which were classed as "unidentified" at the time of approval in June 2018.

Based on the final position, actual CRES achieved was £18.4m. The majority of unachieved savings have been carried forward to 2019/20.



During the year, reports to the Board and CMT consistently reported savings that were at a high risk of not being achieved (including those still unidentified).

It is imperative when approving budgets at the start of the year that clear plans are in place for the savings required to ensure that there is sufficient lead in time to implement the changes required.

Audit dimensions (continued)

Financial management (continued)

Financial reporting

The Board has effective financial planning and management arrangements in place. The Corporate Management Team review financial performance on a monthly basis and both the Performance Governance Committee (PGC) and the Board review at each meeting. The results reported during 2018/19 were consistent during the year (as illustrated on page 26), giving assurance that the original budget was a reasonable estimate of the expenditure of the Board.

From our review of the monitoring reports during 2018/19, it is clear that in overall terms the reports to management, PGC and the Board are consistent to that reported to the Scottish Government. However, where there are changes to the budget during the year, the underlying reasons are not transparently reported. For example, the total budget increased by circa £10m (less than 1%) during the year from £840m reported in June to £850m reported in January, however, the reasons for this are not clearly set out in the monitoring reports.

Given that the Board had set a deficit budget for 2018/19, overspends were (as expected) reported during the year. However, the current reporting does not clearly compare the expected overspend with the actual on a department basis. As a result, it is not clear to the reader whether the actual overspend is in line with the budgeted position or if it is as a result of a deviation from the budget. To illustrate, Acute reported a year-end overspend of £9.3m, however, as part of the approved £22.8m deficit budget, a £5.1m overspend was expected in Acute, therefore the deviation from budget of £4.2m which should be the focus of management and Board members is not clearly set up. We note that a recent Internal Audit review has made some recommendations in relation to financial monitoring which are in line with our findings above, with agreed action being taken forward by management.

Internal Audit

We have completed an assessment of the independence and competence of the Board's internal auditor and reviewed their work and findings with no significant issues noted.

The internal audit function was provided by Grant Thornton during 2018/19. An indicative 3 year (strategic) Internal Audit Plan 2018/19 to 2020/21 was approved by the Audit Committee in June 2018. This provided indicative thematic areas which they would wish to cover either every year or on a rotational basis over the 3 year period, with assigned priorities covering:

- Transformation
- Financial Sustainability
- Wider risks associated with the workforce including medical and GP challenges
- West of Scotland Regional Working/ partnership working
- Health and Social Care

Regular progress reports have been provided to the Committee throughout the year. During the year we have reviewed all internal audits presented to the Audit Committee and the conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

Standards of conduct for prevention and detection of fraud and error

We have reviewed the Board's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Board's arrangements to be operating effectively.

Audit dimensions (continued)

Financial management (continued)

Finance team capacity

We are satisfied that the finance team is led by a team of qualified and experienced members of staff, including the Director of Finance and two Assistant Directors of Finance.

One of the Assistant Directors of Finance also performs the role of Section 95 Officer for the South Ayrshire IJB. It is positive to note that recruitment is ongoing for a Finance Manager to provide support in this role in recognition of the increased workload that is required in relation to the IJB. We will monitor the impact of this during our separate audit of the IJB.

National Fraud Initiative (NFI)

In accordance with Audit Scotland planning guidance, we are required to monitor the Board's participation and progress in the NFI during 2018/19. An NFI audit questionnaire was completed and submitted to Audit Scotland by 30 June 2019, which concluded that the Board was fully engaged in the exercise.

A summary of the matches reported in the NFI system is provided in the table below which notes that no frauds or errors have been identified from the matches processed to date.

	Total
Total matches flagged	5,300
Total matches flagged as high risk	5,219
Total processed	221
Remaining matches to be processed	5,079

Deloitte view – Financial management

The Board has effective financial planning and management arrangements in place. It achieved a year-end breakeven position compare to budget, however, this was only achieved by receiving £20m of brokerage from the Scottish Government, This has been consistently reported to the Board throughout the year and is largely in line with the revenue plan approved in June 2018 where a £22.5m deficit was projected. The accuracy of the budgeting process has therefore improved from 2017/18 where significant variances were noted.

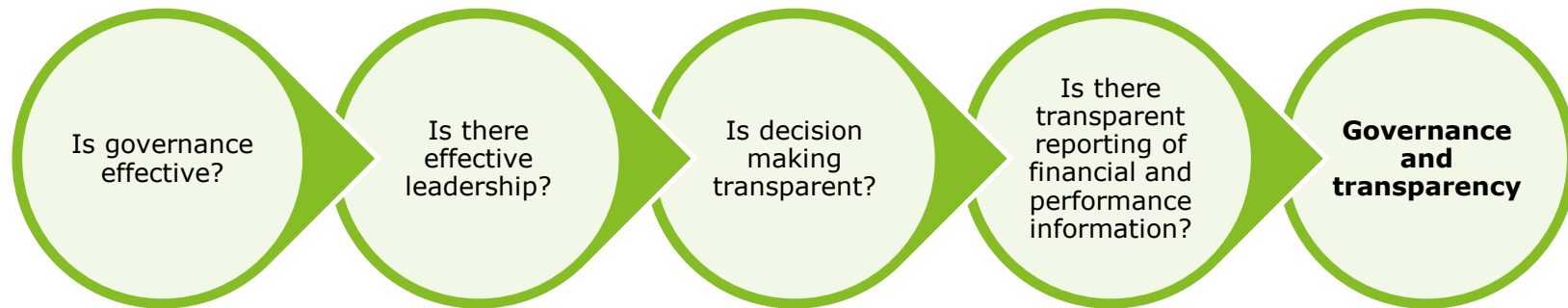
In overall terms the reports to management, PGC and the Board are consistent to that reported to the Scottish Government during the year. We have, however, noted improvements could be made in the transparency of reasons for changes in the budget reported during the year. We also noted that the structure of the monitoring reports be reviewed to help improve clarity when comparing an approved deficit position to the actual deficit position so that any deviations from budget are clearly reported and explained. These improvements are being taken forward following a recent internal audit review.

It is positive to note that work has been ongoing to address the overspends in Acute and reducing Agency spend, however, there still remains significant unachieved efficiency savings and high medical agency costs due to vacancies. It is imperative when approving budgets at the start of the year that clear plan are in place for the savings required to ensure that there is sufficient lead in time to implement the changes required.

Audit dimensions

Governance and transparency

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



Audit risks

Within our audit plan we identified a number of risk as follows:

- A risk that there could be inefficient challenge of management from the Board members leading to a lack of accountability within the Board; and
- A risk that the Board's approach may not be keeping pace with public expectation and good practice.

Audit dimensions (continued)

Governance and transparency (continued)

Openness and transparency

Taking an **open approach** to business can support good governance.

It is about behaviours, centred on a preference for sharing information about how and why decisions are made. In the public sector, this is based on the recognition that public services are delivered for the public good using public money.



Transparency can be seen as a process. Access to information provides insight into decision-making and how the organisation works. Transparency in the public sector is supported by statutory requirements and regulations. These are minimum requirements and it is for individual organisations to decide whether the content and volume (in terms of quantity and amount of detail) of the information that they make available contributes to increased understanding. There are judgements to be made, and an approach designed to increase transparency rather than comply with minimum standards is more likely to be satisfied the good governance test.

Openness and transparency are individually important, and working well together they help demonstrate that public organisations are acting in the public interest.

We have considered the Board's approach to openness and transparency, how good the Board's information is; and its commitment to improving openness and transparency.

In general, NHS Ayrshire and Arran has a good attitude to openness and transparency and there is a supportive culture that underpins this.

All board meetings are open to the public (albeit public attendance is rare), and papers covering plans and performance are available on-line and items are only discussed in private where considered confidential. All minutes of board committees are also available via the board's website. Consideration should be given to whether the associated papers for each governance committee could be made available on the website to further enhance openness and transparency.

All Board reports follow a standard format, with a cover sheet clearly setting out recommendations and key messages.

The Code of Corporate Governance is reviewed annually and the Chief Executive recently presented a high level self assessment against the national Blueprint for Good Governance.

The Chief Executive has recently increased his communication sessions with staff. Also, the Board has recently engaged the Consultation institute in order to ensure that the Board has a progressive and effective approach to engaging on service reform. The Board has recently agreed a Communication Plan for the first step in informing and engaging with communities on change.



Audit dimensions (continued)

Governance and transparency (continued)

Governance and scrutiny arrangements

We reviewed the Board's governance and accountability arrangements which included:

- Confirming that the governance framework and governance arrangements, including decision-making and scrutiny, are regularly reviewed and updated to ensure they remain effective.
- Assessing the effectiveness of decision-making to ensure it is balanced by effective scrutiny and challenge by those independent of the body.
- Confirming that there is effective scrutiny and challenge in place over policy decisions, service performance and programme management.
- Confirming that decision makers have the information they need to scrutinise, challenge and make best value and transparent decisions.
- Ensuring that it is clear what decisions have been made, who make them and the rationale supporting the decisions.

The Scottish Government has published "**A blueprint for good governance**" to ensure that all boards assess and develop their corporate governance systems.

The blueprint sets out the importance of a consistent and systematic approach to assessing current governance arrangements. Boards are required to annually self-assess their performance using a tool developed to measure the delivery of the functions, enablers and support. The self-assessment should be validated by a tri-annual independent review of the corporate governance system.

The Chief Executive, in consultation with the Integrated Governance Committee Members, presented a high level self assessment to the Board in February 2019.

The self assessment survey was sent to all Board members for completion by the 1 March 2019 and the data and outcomes considered at a Board workshop on 25 March 2019. Areas for improvement were identified and a learning and improvement plan, building on a previous self evaluation in Autumn 2018, was submitted to the Scottish Government by the end of April 2019, and formally endorsed by the Board on 27 May 2019.

The report to the Board highlighted the respondents to the survey as follows:

- 78% of Non-Executive Members
- 60% of Non-Executive stakeholder members
- 100% of Executive Members
- 22% of Directors in attendance at Board.

The importance of an improved response rate for the 2020 annual survey has been highlighted in the report.

Audit dimensions (continued)

Governance and transparency (continued)

Leadership

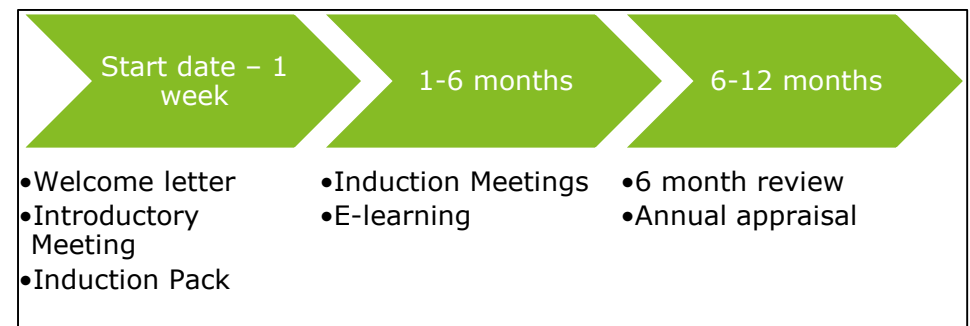
NHS Ayrshire and Arran has strong leadership and, with its partners, has a clear vision for what it wants to achieve for the people of Ayrshire and Arran. The Board and staff support the vision.

The roles and responsibilities of all Board members has increased over the last few years with the creation of the IJBs and their associated committees which is putting a pressure on both the non-executive and executive leadership. Added to this, the significant financial challenges faced by the Board (as discussed on page 26) and the transformational changes planned (as discussed on page 22) result in further pressure. From interviews with a sample of non-executive Board members, there is a general feeling that the workload of some is significantly in excess of the expected 8 hrs per week, particularly at peak times of the year.

There have been some changes in non-executive Board members, with further changes planned in 2019/20 including the chair of the Audit Committee retiring at the end of 2018/19 and the current Chairman stepping down in December 2019. The Board should take this opportunity to review the capacity of all Board members, their roles and responsibilities (including associated responsibilities for the IJBs) and any specific training needs. In particular we recommend:

- The Audit Committee should formally assess its effectiveness each year. Our publication "Governance in focus: Audit Committee effectiveness" could be used to frame this assessment.
- Board members annual appraisals should incorporate a gap analysis and training needs, with formal training plans developed.
- The support available to non-executive Board members should be assessed to ensure that they are being given the information they require to make informed decisions in a timely fashion.

A formal induction process is in place for all new non-executive Directors which is tailored to specific needs. Work is also ongoing nationally through NHS Education for Scotland to develop a series of "Once for Scotland" templates to ensure consistency in the induction process across NHS Boards, which sets out key milestones during their first year as directors.



NHS Ayrshire and Arran is currently reviewing its induction process, which has started with the two new non-executive directors, and plans are in place to include specific training sessions on Information Governance (GDPR, FOI, Corporate records) and Risk Management, Information Security and IJB arrangements.

Audit dimensions (continued)

Governance and transparency (continued)

Governance arrangements with Integrated Joint Boards (IJBs)

A report was presented to the Board in June 2018 setting out the findings from a first stage review of the Integration Schemes with North Ayrshire Council and East Ayrshire Council. The same report was also considered by the two IJBs and two Councils in June 2018.

The review process confirmed a number of areas that required to be addressed in order to improve planning, governance and delivery of Health and Social Care Services in Ayrshire. It also identified that the full powers of the current Integration Scheme have not been utilised and there is further scope to take action within current arrangements. These included:

- **Collaboration across Ayrshire** – There is strong alignment across all 3 partnerships and Lead Partnership arrangements are in place. These arrangements are, however, complex, human resource intensive and can be slow in decision making.
- **Decision making** being made by one IJB which impact on the other two IJBs without due regard or consultation with the other areas. This is exacerbated in lead partnerships .
- **Financial governance** – the arrangements for financial accountability between IJBs in relation to Lead Partnership arrangements requires review. There is potential for conflict over budget setting, detrimental impact of decisions by IJBs and overspends.
- **Performance governance** – Legislation requires that decisions made by an IJB that have an impact on neighbouring IJBs require to be consulted upon. In the lead partnership model this is even more evident as decisions made by a Lead Partnership IJB have direct impact on services in other areas and on Acute. These issues are not limited to lead partnership arrangements and can include strategic service and finance decisions of an IJB that impact adversely on residents of another area.
- **Financial context** – on an annual basis, the IJBs are required to agree that the finance available from NHS/ Councils is sufficient to delivery on the Strategic Plan. With increasing demand and restrictions on public sector funding, this is increasingly difficult. This presents a risk to early intervention and preventative services.

As a result of this review the following changes were made to the governance arrangements:

- To consider the potential conflicts in financial governance around the lead partnership model, it was agreed to move to more “fair share” commissioning, based on the National Resource Allocation Committee (NRAC).
- It was agreed to utilise mental health as the initial example of this commissioning model, to bring financial commitments to usage. Unscheduled care and set aside will also require similar considerations but are more complex.
- Some changes were made to how services are devolved, including Allied Health Professionals, Family Nurse Practitioner Services and Telehealth and United for Health and Smartcare European Programme.

In response to the need to improve the financial and performance governance arrangements, NHS Ayrshire and Arran and the three Partnerships are working with the Scottish Government on a pilot project to review Directions. It is recognised that while the Scottish Government Good Practice Note on Directions, issued in April 2016, clearly sets out that in the case of an IJB, a direction must be given in respect of every function that has been delegated to the IJB, there is no consistency on how Directions are implemented. The purpose of this pilot project is to develop an exemplar set of directions to make commissioning more transparent.

It is positive to note that NHS Ayrshire and Arran and its partners are reviewing and updating the governance arrangements for the IJBs to take cognisance of the experience from early integration.

Audit dimensions (continued)

Governance and transparency (continued)

Governance arrangements with IJBs (continued)

In relation to the individual Ayrshire IJBs, we will present our separate audit reports to the respective Boards in due course, but in summary note the following:

- **East Ayrshire** – The IJB is expecting to achieve a marginal underspend in 2018/19 and is progressing transformation work through its Strategic Commissioning for Sustainable Outcomes Programme Board. An updated medium term financial plan is expected towards the end of 2019.
- **North Ayrshire** – During 2018/19, there has been a significant improvement in the financial position of the IJB and it is forecasting an underspend of £0.945m. This is after £1.5m is transferred back from North Ayrshire Council which was held on behalf of the IJB. The IJB will repay a sum of £0.668m towards the outstanding debt to the Council. It was envisaged that during the year the first instalment of the repayment would be £1.5m, however a surplus of that value was not generated due to variations between projections and actual costs at the financial year end.

This improvement is in part as a result of the recruitment of a dedicated Head of Finance and Transformation with a good understanding of the challenges faced who is independent from both partner bodies. Improved financial management has also been implemented, with close monitoring of transformation work. An updated medium term financial plan is expected in the summer of 2019.

- **South Ayrshire** – The IJB has reported significant overspend against its approved budget. Whilst a recovery plan was presented to the IJB during the year, this was not fully accepted, and as a result, discussions have since taken place on which partner body was responsible for providing additional funding. This then spread into a wider discussion around the clarity of roles and responsibilities for the IJB and the respective partners as set out in the Integration Scheme. A programme of three-way meetings between the IJB, Council and NHS have taken place and will continue to develop this understanding, including mediation. It has been agreed that these meetings would also consider the Ministerial Strategic Group report on the Review of Progress with Integration of Health and Social Care which included a recommendation that IJBs must be empowered to use the totality of resources at their disposal to better meet the needs of their local population.

Deloitte view

NHS Ayrshire and Arran has a good attitude to openness and transparency. It is positive to note that the Board has recently engaged the Consultation institute in order to ensure that the Board has a progressive and effective approach to engaging on service reform. It has also recently agreed a Communication Plan for the first step in informing and engaging with communities on change.

The Board has recently carried out a self assessment, under the new “blueprint for good governance”. The response rate to the self assessment survey was mixed and has been highlighted by the Board as a focus for improvement in 2020.

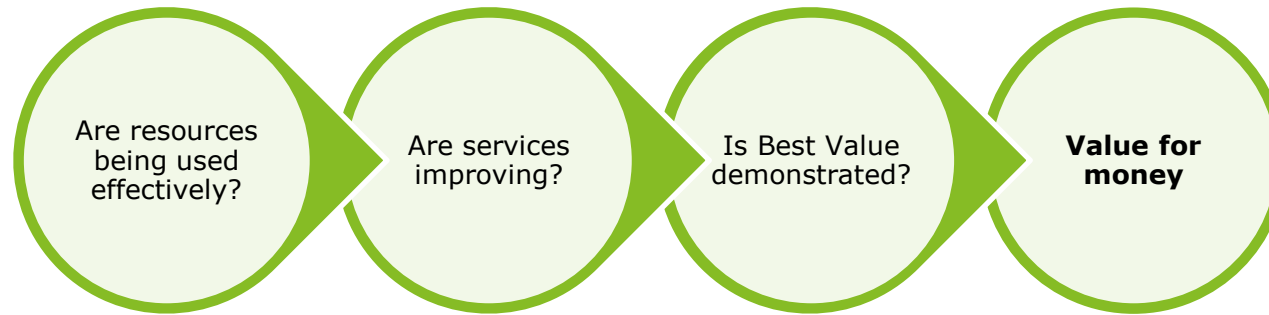
NHS Ayrshire and Arran has strong leadership. The workload of Board members is continually increasing as a result of the financial challenges, transformation change and additional workload associated with the IJBs. Given recent and upcoming changes to the non-executive Board members, the Board should take this opportunity to review the capacity of all Board members, their roles and responsibilities (including associated responsibilities for the IJBs) and any specific training needs.

It is positive to note that the Board, along with its IJB and Council partners, are reviewing and updating the governance arrangements for the IJBs to take cognizance of the experience from early integration.

Audit dimensions

Value for money

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



Audit risks

Within our audit plan we identified a number of risk as follows:

- the Board may not make effective use of resources and fail to deliver transformational change to services;
- the Board may not clearly report on its contribution towards the national outcomes.

Audit dimensions (continued)

Value for money (continued)

Best value (BV)

The Scottish Public Finance Manual (SPFM) explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure BV.

We have considered the arrangements in place in this regard as part of our planning and reporting on the audit dimensions.

Performance management

The Board has a well established performance management framework in place to monitor performance against national standards. Board members have access to the performance management system so are able to look at details where required.

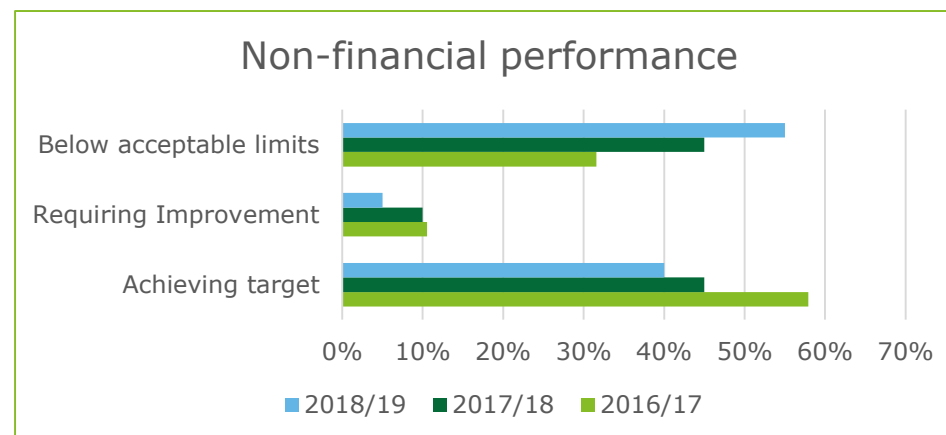
Performance Data

In 2017/18, we reported that there was a decline in performance compared to the previous year, with the number of indicators which were below an acceptable standard increased from seven in 2016/17 to ten in 2017/18. This has increased in 2018/19, with 11 indicators now below the acceptable limits.

A number of actions were put in place in the 2018/19 Annual Operational Plan.

- Reduction in unplanned admissions
- Reduction in admissions from Emergency Department
- Reduction in occupied bed days for unscheduled care
- Reduction in attendance at Emergency Department
- Reduction in delays in discharge from hospital
- Increase in time spent at home or in a community setting in last six months of life
- Maintain balance of care for all ages

While work has progressed during 2018/19 on the above actions, the impact is not yet evident in the performance data. This has included investment in the new Enhanced Intermediate Care and Rehabilitation Service which went live in November 2018, aimed to support discharge and these transfers of care. A dedicated Improvement Team has been established to support early discharge planning and the setting of estimated dates of discharge with the aim of increasing flow within the Acute Hospitals.



Audit dimensions (continued)

Value for money (continued)

Performance Data (continued)

Other initiatives in progress include:

- A whole system review of psychological services has been undertaken, supported with additional Scottish Government and NES fixed term funding and investment in improving access to Psychological Therapies.
- Active recruitment to all posts within Child and Adolescent Mental Health Services (CAMHS) in response to significant increase in demand.
- The Primary Care Improvement Plan is focused on multidisciplinary team working to ensure that patients have access to the right professional and services at the right time.
- In 2019/20 a non-recurring investment of £130,000 has been made to increase capacity with a target to reduce sickness absence by 0.5% in 2019/20 and a further 0.5% reduction in 2020/21.

Deloitte view – Value for money

The Board has a well established performance management framework in place to monitor performance against national standards. While work has progressed during 2018/19 to address areas of poor performance, the impact is not yet evidence in the performance data, with the number of indicators below an acceptable standard increasing in 2018/19. There is evidence of the Board directing resources to address areas of poor performance.

Audit dimensions (continued)

Specific risks

As set out in our Audit Plan, Audit Scotland identified a number of areas as significant risks faced by the public sector. We have considered these as part of our audit work on the four audit dimensions and summarised our conclusions below.

Risk	Areas considered	Conclusion
EU Withdrawal	We have assessed what work the Board has done to prepare for the impact of EU withdrawal, specifically considering people and skills; finance; and rules and regulations.	<p>We have considered whether NHS Ayrshire and Arran was under prepared, partly prepared or well prepared against each of the areas highlighted.</p> <p>People and skills: NHS Ayrshire and Arran is communicating with staff regularly to give reassurance to staff and provide support when required, There has been no formal assessment of the potential impact of the workforce, but anecdotally, this is not expected to have a significant impact on the workforce as NHS Ayrshire and Arran have circa 26 employees who are non-UK EU nationals. When further clarity on the impact of EU withdrawal is available, NHS Ayrshire and Arran should formally assess the impact on its workforce and reflect in long-term planning.</p> <p>Conclusion: Partly prepared.</p> <p>Finance: NHS Ayrshire and Arran understands the level of EU funding it and its key partners receive and has concluded that this area will not be majorly impacted. Plans to respond are at a national level rather than done locally and as such, finance risks are not regularly considered by the Senior Management Team or Board, with discussion focussing more on areas which can be addressed locally.</p> <p>Conclusion: Well prepared.</p> <p>Rules and regulations: NHS Ayrshire and Arran confirmed that it receives products and services primarily on the National Procurement Framework and has worked closely with the Scottish Government to ensure sufficient work has been done to ensure the continuing flow of vital products and services which are sourced from the EU. There is contingency and emergency planning carried out at both a local and national level. NHS Ayrshire and Arran has identified which regulatory and legislative changes will impact it as a result of EU Withdrawal and has identified the impact as being primarily on the potential loss of legal protection for medicines which are currently authorised through the EU. Work is being done at a national level to address any risk arising from this, with NHS Ayrshire and Arran playing an active part. The Chief Executive is in constant contact with the local multi-agency groups (including the three Ayrshire Councils and the Police) and has reviewed business continuity, command and control structures in the event of a “no deal”.</p> <p>Conclusion: Well prepared.</p>

Audit dimensions (continued)

Specific risks (continued)

Risk	Areas considered	Conclusion
Changing landscape for public financial management	As part of our audit work on financial sustainability (see page 21) we have considered how the Board have reviewed the potential implications of the Scottish Government's MTFS for its own finances, including long term planning.	As noted on page 21, as part of the Performance Governance Committees consideration of the initial three year financial plan in October 2018, an analysis of the Scottish Government Medium Term Health and Social Care Financial Framework was considered including pay, price, demographic and non-demographic cost pressures as well as areas of focus for reforming health and social care including shifting the balance of care, regional working between Boards and public health and prevention.
Dependency on key suppliers	We obtained a detailed breakdown of expenditure by supplier and performed and performed an analysis to identify if there were any risks of dependency on key suppliers.	From the analysis of expenditure by supplier for 2018/19, we have not identified any risks of dependency on key suppliers. All suppliers which made up more than 1% of the total Board expenditure were with other public sector bodies.
Openness and transparency	We have considered the Board's approach to openness and transparency as part of our audit work on governance and transparency (see page 30).	As discussed on page 30, NHS Ayrshire and Arran has a good attitude to openness and transparency and there is a supportive culture that underpins this.

Appendices



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) 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 again in this report.

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.



Pat Kenny

for and on behalf of Deloitte LLP
Glasgow

20 June 2019

Audit adjustments

Summary of corrected and uncorrected misstatements and disclosure deficiencies

Corrected misstatements

		Debit/(credit) SoCNE £m	Debit/(credit) net assets £m	Debit/(credit) prior year reserves £m
Misstatements identified in current year				
Trade and other receivables – reimbursement of provisions after more than one year	[1]		1.725	
Operating expenses – other operating expenses	[1]	0.025		
Provisions – clinical & medical legal claims against NHS	[1]		(1.750)	
Trade and other receivables – reimbursement of provisions after more than one year	[2]		0.484	
Operating expenses – other operating expenses	[2]	0.046		
Provisions – clinical & medical legal claims against NHS	[2]		(0.530)	
Group operating income – intergroup adjustment	[3]	1.608		
Group other health care expenditure – intergroup adjustment	[3]	(1.608)		

[1] An omission from the Board's clinical and medical legal claims was identified. A provision has now been recorded along with a corresponding receivable to reflect reimbursement of costs from Scottish Government through CNORIS (Clinical Negligence and Other Risks Indemnity Scheme). The excess charge is posted to expenditure.

[2] Estimated legal costs incurred as a result of previously settled claims had not been recognised within provisions. A provision has now been recorded along with a corresponding receivable to reflect reimbursement of costs from Scottish Government through CNORIS. Excess charges related to each individual case are posted to expenditure.

[3] Intergroup income and expenditure transactions between the Board and the Endowment Fund had not been adjusted for when determining consolidated group balances. Intergroup transactions are now reversed out.

Audit adjustments (continued)

Summary of corrected and uncorrected misstatements and disclosure deficiencies (continued)

Corrected misstatements (continued)

		Debit/(credit) SoCNE £m	Debit/(credit) net assets £m	Debit/(credit) prior year reserves £m
Misstatements identified in current year				
Independent primary care services – general dental services	[4]	0.312		
Independent primary care services – pharmaceutical services	[4]	0.307		
Independent primary care services – general ophthalmic services	[4]	0.070		
Operating income – patient charges for primary care	[4]	0.063		
Trade and other payables – FHS practitioners	[4]		(0.752)	
Net impact of corrected misstatements		0.823	(0.823)	-

[4] This adjustment reflects the difference between the Board's estimated Family Health Services (FHS) accrued expenditure as at the end of the year and the actual accrued expenditure as confirmed by National Services Scotland (NSS) after year end. As these costs are funded on a non-cash limited basis, there is a corresponding increase in the FHS non-discretionary allocation funding received, hence the Board's final surplus position per its Summary Resource Outturn remains unaffected.

No other corrected misstatements have been identified from our audit work performed.

Audit adjustments (continued)

Summary of corrected and uncorrected misstatements and disclosure deficiencies (continued)

Uncorrected misstatements

		Debit/(credit) SoCNE £m	Debit/(credit) net assets £m	Debit/(credit) prior year reserves £m
Misstatements identified in current year				
Provisions - participation in CNORIS	[1]		(0.355)	
Operating expenses – other operating expenses	[1]	0.355		
Net impact of uncorrected misstatements		0.355	(0.355)	-

[1] Provision figures for the Board's participation in CNORIS are determined by Scottish Government's NHS Central Legal Office (CLO) for each NHS Board. Audit Scotland performs a review of this work conducted by the CLO on behalf of the auditor of each Board. Audit Scotland identified an error in relation to the recognition of Periodic Payment Order provisions across a number of Boards which impacted the clinical share of the total CNORIS provision recognised at each Board. Following advice received from Scottish Government, the Board has not adjusted for this error. It will be considered by Scottish Government as part of consolidation adjustments to Whole of Government Accounts, and will be considered at Board level for 2019/20.

No other uncorrected misstatements have been identified from our audit work performed.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work.

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial sustainability – transformational change</i>	The Board should continue to prioritise the development of detailed programmes, incorporating the more medium to longer term initiatives, with clear action plans, milestones and the associated capacity and resources to deliver. (see page 22 for more information)	Medium and longer term initiatives will continue to be developed through the Corporate Management Team.	Chief Executive	Immediate	High
<i>Financial management – savings plans</i>	It is imperative when approving budgets at the start of the year that clear plan are in place for the savings required to ensure that there is sufficient lead in time to implement the changes required. (see page 26 for more information)	Corporate Management Team will develop savings plans through its ongoing budget planning process and in advance of the new financial year.	Chief Executive	Immediate	High
<i>Financial reporting – preparation for IFRS 16</i>	We recommend the Board targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Board’s underlying accounting systems. (See page 13 for more information)	The impact analysis will be carried out during 2019/20.	Assistant Director of Finance	31 March 2020	Medium
<i>Governance and transparency – leadership</i>	The Board should take this opportunity to review the capacity of all Board members, their roles and responsibilities (including associated responsibilities for the IJBs) and any specific training needs. (see page 32 for more information)	All non executive Directors are appraised formally annually and informally throughout the year. A review of responsibilities and roles is conducted with the Vice Chair and Head of Corporate Governance annually on completion of the appraisals	Chair	December 2019	Medium
<i>Internal control – financial operating procedures</i>	We recommend that financial operating procedures be reviewed on a regular basis (e.g. annually) even if significant change is not required. (See page 13 for more information)	The procedures will be reviewed and a program of future reviews put in place.	Assistant Director of Finance	31 March 2020	Low

Action plan (continued)

Follow-up 2017/18 action plan

We have followed up the recommendations made in our 2017/18 annual report in relation to the wider scope areas and are pleased to note that four of the six total recommendations made have been fully implemented. See below for an update on the remaining recommendations:

Area	Recommendation	Management Response	Responsible person	Priority	2017/18 Update
Review of transformational change delivery infrastructure	The Board should review its transformational change delivery infrastructure in place. The Board should determine the extent of transformation required to achieve financial sustainability and improve performance. A change management strategy should be articulated, understanding the barriers to achieving the desired transformation and the processes and roles required to achieve its aims.	The matters will be kept under review by Transformation Leadership Group chaired by the Board vice-chair.	Director of Transformation and Sustainability	High	<p><i>Partially implemented</i></p> <p>Update: Progress was made during the year (see page 22). However, another related finding has been raised within the 2018/19 action plan. See recommendation on 'financial sustainability – transformational change' on page 45.</p> <p>Updated target date: Immediate</p>
Capacity and development of NEDs	The capacity and development of NEDs (non-executive directors) should be continuously reviewed by the Board. In particular, capacity of NEDs should be closely monitored as their responsibilities for both the Board and the IJBs increase, and training programmes in place should be monitored to ensure effective challenge and governance from those in post.	The Chairman conducts an annual appraisal with each non executive Director and both workload and development needs are formally identified at this time. Additionally non executive Directors may be nominated or self nominate, through the Corporate Business Manager, for regional and national development events. As an example many non executive Directors have attended a series of Quality Improvement Workshops.	Chair	Medium	<p><i>Not implemented</i></p> <p>Update: This finding has been raised again within the 2019/20 action plan. See recommendation on 'governance and transparency – leadership' on page 45.</p> <p>Updated target date: December 2019</p>

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 achievement of expenditure resource limits and management override of controls as key audit risks for your organisation.

During the 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), 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 The audit fee for 2018/19, in line with the fee range provided by Audit Scotland, is £161,340 as broken down below:

	£
Auditor remuneration	137,070
Audit Scotland fixed charges:	
Pooled costs	16,040
Audit support costs	8,230
Total fee	161,340

No non-audit fees have been charged by Deloitte in the period.

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 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.

We are not aware of any relationships which are required to be disclosed.





Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.