



**NHS Ayrshire & Arran**

Report to the Audit Committee, the Board and the Auditor  
General for Scotland on the 2019/20 audit

Issued on 15 June for the meeting on 22 June 2020

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# 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 2019/20 audit. The scope of our audit was set out within our planning report presented to the Audit Committee in January 2020.

This audit was carried out under unusual circumstances, being a remote audit conducted during the national lockdown in response to COVID-19. We recognise the extra pressure faced by NHS Ayrshire & Arran staff in preparing the annual report and in preparing for the audit. We engaged early with management on the potential implications of COVID-19 for the preparation of the annual report as well as the audit, and management confirmed their desire to work to the original timetable. While the shift to remote working placed pressure on the original timetable for preparation of the annual report and completion of the audit, we have worked closely with management to mitigate this whilst maintaining audit quality as our number one focus.

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 to date we expect to issue an unmodified audit opinion.

The impact of COVID-19 has led to a material uncertainty being identified by the Board's property valuers in relation to the valuation of the Board's estate. As a result, we expect to include an 'Emphasis of Matter' paragraph within our audit report.

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 10. The Board met its financial targets for 2019/20, however this was only after receiving additional brokerage of £14.7m from the Scottish Government.

One uncorrected misstatements in excess of our reporting threshold of £250k has been identified up to the date of this report which is included within the Appendix to this report. This has no impact on the final results of the Board.

### **Status of the financial statements audit**

Our audit work is now complete.

### **Conclusions on audit dimensions**

As set out on page 3, our audit work covered the four audit dimensions. Our audit work was risk based and proportionate, covering each of the four dimensions.

The outbreak of COVID-19 has brought unprecedented challenges to organisations around the country. It is not yet known what long term impacts these will have on populations and on the delivery of public services, but they will be significant and could continue for some time. While this report makes reference to COVID-19 where relevant in each of the dimensions, we have not considered the full impact of COVID-19 on the Board at this stage.

# Introduction (continued)

## The key messages in this report (continued)

### Conclusions on audit dimensions (continued)

**Financial management** – The Board has effective financial planning and management arrangements in place. It achieved a year-end breakeven position, however, this was only achieved by receiving £14.7m of brokerage from the Scottish Government. Significant resources have been deployed to increase capacity to cope with increased health and social care demands as a result of COVID-19. This has put additional pressures on finance staff with weekly reporting in place to the Scottish Government to assess the financial impact of COVID-19. It is important that this is closely monitored.

**Financial sustainability** – The Board continues to be faced with an extremely challenging financial position in the medium to longer term. A deficit budget has been set for 2020/21 with the Board not expecting to achieve financial balance until 2022/23, a year later than was projected last year. This includes a number of significant risks. The impact of COVID-19 increases this risk further, although we note that the Board expect to receive additional funding from the Scottish Government to cover COVID-19 associated costs.

Significant work is still required to make the level of transformational change needed based on the current financial forecasts. The 'Caring for Ayrshire' programme is a positive step forward, but still at early stages of development, with COVID-19 impacting on progress.

**Governance and transparency** – The Board continues to have strong leadership and governance structures in place and has demonstrated continuous improvement through its self assessment completed under the "blueprint for good governance". Appropriate processes have been put in place to temporarily change the governance arrangements in response to COVID-19.

The Board has made good progress with improving integration, which includes refreshing the Directions, and improving three way communication between leaders of the IJBs, the Board, and the Councils.

**Value for money** – There continues to be a clear framework in place to ensure that the Board's performance is monitored and reported. The 2020/21 AOP has been put on hold while the NHS focuses on responding to the COVID-19 pandemic.

There has been a decline in performance in comparison with previous years and a number of areas remain below the national targets. Management should continue to focus on improving performance across these areas. We do, however, recognise that resources are currently focussed on managing the impact of COVID-19. It is important that as the Board move to the next phase in responding to COVID-19 that it focuses on lessons learned and how some of the changes made can be sustained.

Our detailed findings and conclusions are included on pages 20 to 36 of this report.

# Introduction (continued)

## The key messages in this report (continued)

### **Emerging issues**

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. Most recently, a number of articles have been published focussing on the impact of COVID-19. We have provided a summary of those most relevant to the Board as part of our Sector Developments on page 37 of this report.

### **Next steps**

An agreed Action Plan is included as an Appendix on pages 44 to 47 of this report. We will consider progress with the agreed actions as part of our 2020/21 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. In addition, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. In addition, invites have been issued to our weekly webinar "Responding to COVID-19: Updates and practical steps" which are open to anyone to join.

**Pat Kenny**  
**Audit Director**








# Financial statements audit



# Quality indicators

## Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason
Timing of key accounting judgements		Documentation in relation to key areas of judgement in relation to property valuations and provisions was provided early in the audit process.
Adherence to deliverables timetable		The audit of the annual accounts progressed largely in line with the original timescale. The receipt of the financial statements and notes to the accounts were provided on 11 May 2020, but the first draft of the Annual Report was delayed due to competing priorities as a result of COVID-19; this was received on 22 May 2020 in line with revised timescales discussed with management. The group figures were not provided until 29 May 2020.
Access to finance team and other key personnel		Deloitte and NHS Ayrshire and Arran have worked together to facilitate remote communication during the audit which has been successful.
Quality and accuracy of management accounting papers		On the whole documentation provided has been a good standard. However, we encountered some issues with the documentation and evidence provided for accruals and prepayments. This is discussed further on page 15.
Quality of draft financial statements		A full draft of the annual report and accounts was received for audit on the 22 May 2020. Whilst generally compliant with the reporting requirements, a number of amendments were required. These are discussed further on page 18.
Response to control deficiencies identified		Control deficiencies have been disclosed and management have investigated appropriately. These are discussed further on page 15.
Volume and magnitude of identified errors		We have not identified any significant financial adjustments to date. We have identified a number of disclosure adjustments which could have been prevented by a more detailed management review.



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Developing

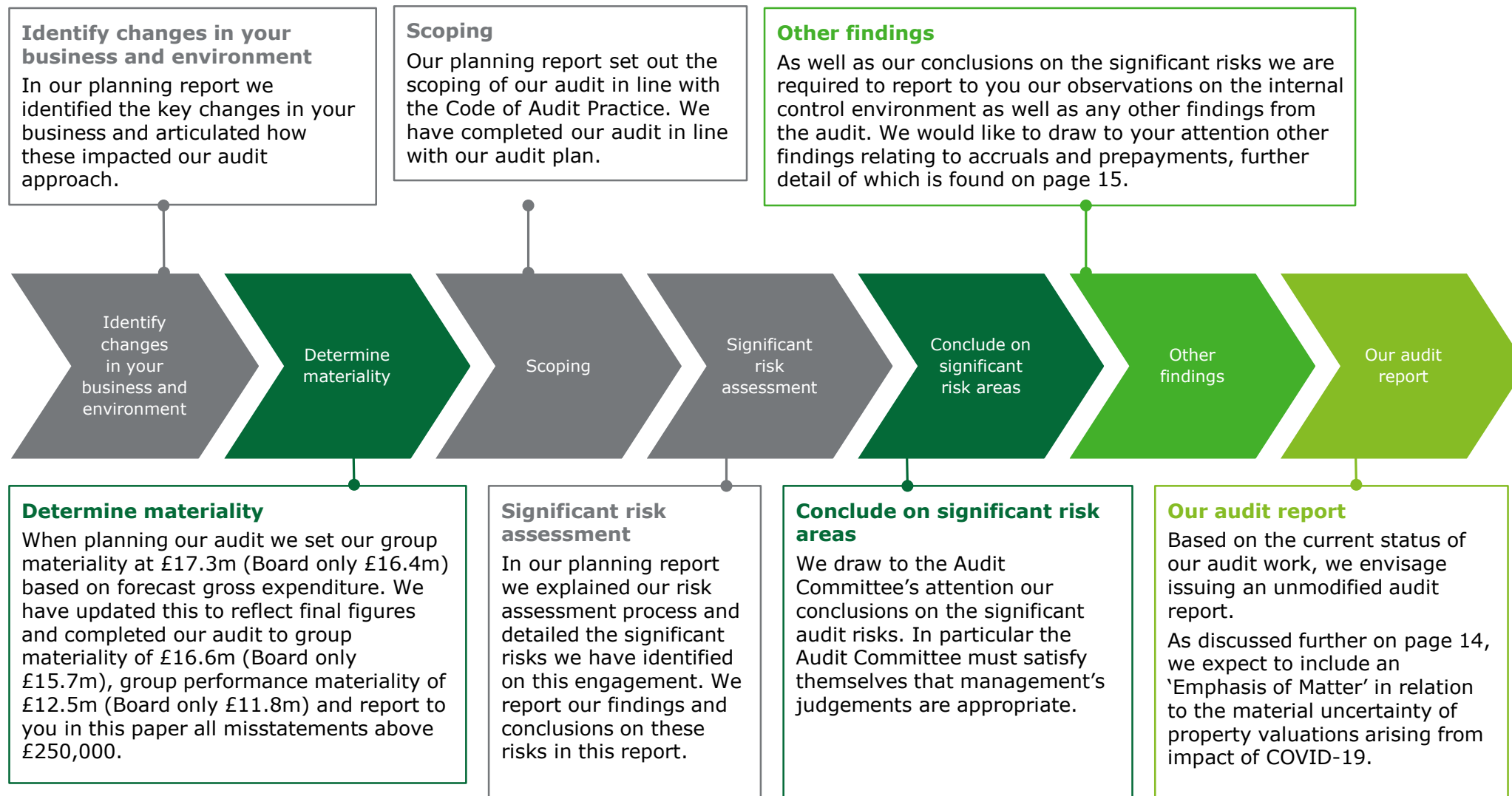


Mature









# Our audit explained

## We tailor our audit to your business and your strategy



# 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.
Operating within the expenditure resource limits			D+I	Satisfactory		Satisfactory	11
Management override of controls			D+I	Satisfactory		Satisfactory	12

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 – Operating within the expenditure resource limits

### Risk identified

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In line with previous years, we do not consider this to be a significant risk for NHS Ayrshire and Arran as there is little incentive to manipulate revenue recognition with the majority of revenue being from the Scottish Government which can be agreed to confirmations supplied.

We therefore considered the fraud risk to be focused on how management operate within the expenditure resource limits set by the Scottish Government. 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. The significant risk was therefore pinpointed to the completeness and occurrence of 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

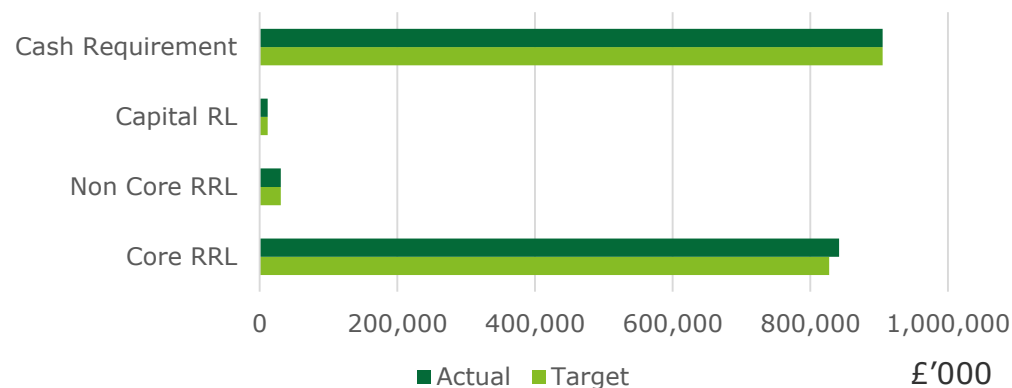
Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.



### 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 the Board by the Scottish Government;
- performing focused testing of accruals and prepayments made at the year end; and
- performing focused cut-off testing of invoices received and paid around the year end.



### 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.

Based on our testing to date, we confirm that the Board has performed within the limits set by Scottish Government Health and Social Care Directorate (SGHSCD) and therefore is in compliance with the financial targets in the year. However, this was only achieved by the receipt of brokerage of £14.7m from the Scottish Government, in line with that originally agreed as part of the approved budget.

# 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 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.

### Accounting estimates and judgements (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). This included a retrospective review of 31 March 2019 estimates and a review of the corresponding estimates as at 31 March 2020.

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
- Property, Plant and Equipment Valuations

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

### Deloitte view

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

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

# Significant risks (continued)

## Risk 2 - Management override of controls (continued)

### Key judgements

The key judgments in the financial statements includes those which we have selected to be significant audit risks around expenditure recognition (see page 11). This is inherently the area in which management has the potential to use their judgement to influence the financial statements. We have also specifically considered the judgements in property valuations given the material uncertainty as a result of COVID-19 (see page 14).

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
Clinical Negligence and Other Risks Indemnity Scheme ('CNORIS') provision	<p>NHS bodies in Scotland are responsible for meeting negligence costs up to a threshold of £25,000 per claim. Costs above this threshold are reimbursed from the CNORIS scheme by the Scottish Government. The Board provide 100% for Category three claims and 50% for all Category two claims notified by the NHS Central Legal Office (CLO), according to the value of the claim. As at 31 March 2020, there were 117 claims specific to NHS Ayrshire and Arran included in the provision.</p> <p>The Board 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 the Board by the CLO. We have obtained independent confirmation directly from the CLO of all outstanding claims for NHS Ayrshire and Arran at 31 March 2020 and reconciled this to the amount recognise and challenged managements provision policy and concluded that it is reasonable.</p> <p>The provision for NHS Ayrshire and Arran's share of the national liability is calculated by the Scottish Government based on information from the CLO in relation to all Boards. We have receive direct confirmation from the Scottish Government of the balance which has been reconciled to the amount recognised.</p> <p>We await 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.</p>
Private Finance initiatives ('PFI')	<p>The Board currently has 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.</p>	<p>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.</p> <p>We are satisfied that the PFI liability recognised in the accounts is in line with the models and there is no indication of management bias.</p>

# Other areas of audit focus

## Property valuations

### Risk identified

The Board is required to hold property assets within Property, Plant and Equipment at a modern equivalent use valuation. The valuations are, by nature, significant estimates based on specialist and management assumptions and which can be subject to material changes in value. We did not identify this as a significant risk in our Audit Plan as our property specialists, Deloitte Real Estate, reviewed the methodology applied by the Board's valuer in previous years and concluded it was robust.

The Board has had an independent valuation carried out at 31 March 2020 for the purposes of the 2019/20 financial statements. The impact of Covid-19 has led to a material uncertainty being identified by the Board's property valuer regarding the valuation of properties. Although our overall assessment of the risk level regarding the Board's property valuation, has not increased to 'significant', we expect to include an 'Emphasis of Matter' in our Independent Audit Report.



### Key judgements

The valuation method has not changed from the prior year and is in line with International Financial Reporting Standards, with a full revaluation being carried out in line with previous years. The Board's revaluation has resulted in an upward valuation to property values of £23.5m.

The District Valuer identified a material uncertainty due to the impact of Covid-19 on individual markets, this is in line with RICS guidance published on 18 March 2020, as follows:

*"The outbreak of the Novel Coronavirus (COVID-19) declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.*

*Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.*

*Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of these properties under frequent review".*



### Deloitte response

- We have engaged our property specialist and assessed the competency, capability and objectivity of the valuer.
- Our property specialists have performed an analytical review of all revaluations and identified those which were not in line with expectation. Explanations and supporting evidence was provided for each outlier.
- We have assessed the presentation of revaluation movements and impairments, taking into account revaluation reserves for individual assets, and the disclosures included in the financial statements.
- We have reviewed the District Valuer's report and assessed managements disclosure of the key source of estimation uncertainty.




### Deloitte view

Based on the audit evidence obtained, we are satisfied that the valuation of the Board's estate is appropriate. However, we expect to include an 'Emphasis of Matter' in our Independent Audit Report due to the material uncertainty identified by the valuers concerning valuations at 31 March 2020 due to the impact of COVID-19 on the property market. This has been appropriately disclosed in the notes to the financial statements.

# Other significant findings

## Internal control

During the course of our audit we have identified one internal control finding, which we have included below for information.

Area	Observation	Priority
Accruals and prepayments	<p>During the course of the audit, we identified a number of errors relating to how accruals and prepayments are accounted for. While these were immaterial, there is a risk that similar errors could occur with more material values. This included the following:</p> <ul style="list-style-type: none"><li>Using the incorrect balance sheet account code to make corrections to accruals and prepayments, e.g. where an error is made in posting a prepayment, instead of correcting this by posting a correcting journal to the same account code to which the prepayment was posted, the correction was posted to an unrelated accrual code;</li><li>Incorrectly classifying amounts as accruals when they relate to invoices received from suppliers and dated pre-year-end, which should be accounted for as trade creditors.</li></ul> <p>We recommend that training be undertaken with management accounting staff to ensure sufficient understanding of the difference between accruals and prepayments and how to appropriately account for these amounts in the ledger and financial statements.</p>	
FHS receivables	<p>As part of the 2017/18 audit, we identified that cash advances relating to amounts paid to GP practices for the first two months of the next financial year had been incorrectly offset against accruals. An adjustment was posted to correct this and move the amount to receivables. However, the internal processes for accounting for the cash advances was not amended resulting in subsequent amounts continuing to be processed against accruals. The net impact of these adjustments is below our reporting threshold. However, we recommend that the process is revised to account for these movements correctly against receivables.</p>	
WTE staff numbers	<p>The process for reporting on the whole time equivalent (WTE) staff numbers to the Board (as part of the monthly management accounts pack), and in the Remuneration and Staff Report should be formally documented to ensure consistency.</p>	

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

# Coronavirus (Covid-19) outbreak

## Impact on the annual report and audit

The current crisis is unprecedented in recent times. The NHS is most directly exposed to the practical challenges and tragedies of the pandemic, and is undergoing major, rapid operational changes in response.

The uncertainties and changes to ways of working also impact upon the reporting and audit processes, and present new issues and judgements that management and Audit Committees need to consider. Technical Accounting Group (TAG) has issued guidance relating to the impacts on the annual report to assist in making relevant disclosures. We summarise below the key impacts on reporting and audit:

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### Impact on Board annual report and financial statements

The Board need to consider the impact of the outbreak on the annual report and financial statements including:

- Principal risk disclosures
- Change in the funding regime for 20/21
- Property valuation material uncertainty
- Impairment of non-current assets
- Allowance for expected credit losses
- Fair value measurements based on unobservable inputs
- Onerous contracts and any potential provisions
- Going concern
- Events after the end of the reporting period

### Impact on our audit

Covid-19 has fundamentally changed the way we have conducted our audit this year including:

- Teams are primarily working remotely with some challenges in accessing 'physical' documentation and with availability of some Board staff.
- The teams have had regular status updates to discuss progress and facilitate the flow of information.
- Timetable of the audit has been shorter given initial accounts delay and audit committee date.
- Consideration of impacts on the areas of the financial statements and annual report listed has been included as part of our audit work in the current year and comments have been included where appropriate within this report.
- In conjunction with the Board, we will continue to consider any developments for potential impact up to the finalisation of our work in June 2020.



# 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 30) and received brokerage of £14.7m 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**

As discussed on page 14, we expect to include an 'Emphasis of Matter' paragraph within our audit report in relation to the material uncertainty associated with the property valuations. 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.

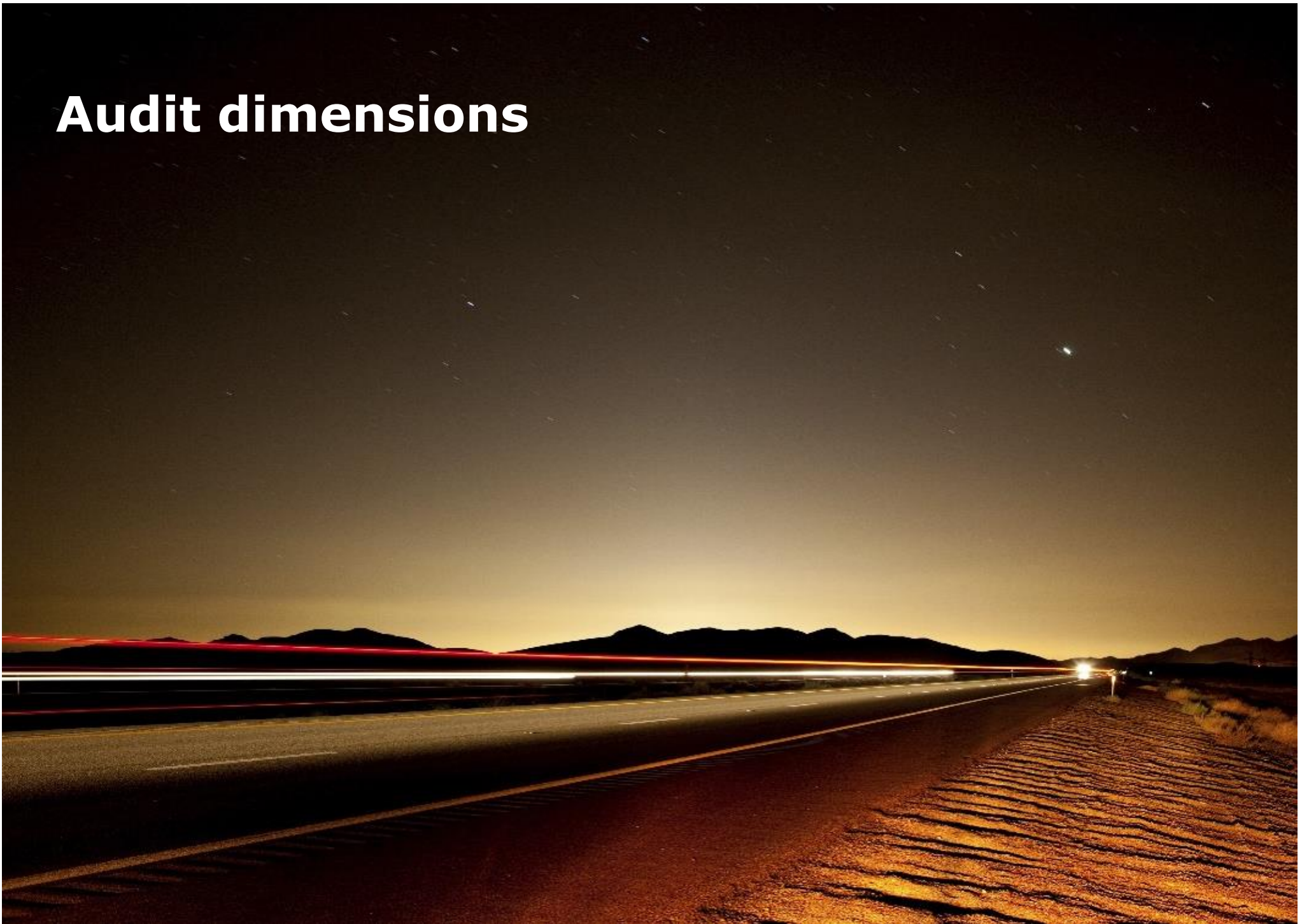
Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 18.

# 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 the Board's performance, both financial and non-financial. It also sets out the key risks and uncertainty as set out in the Annual Operating Plan.	<p>We have assessed whether the performance report has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the performance report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We provide management with comments and suggested changes and have received an updated version reflecting these changes. This includes additional disclosure on the impact on COVID-19, additional narrative on the financial position and required disclosures in relation to the material uncertainty with the property valuations.</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. We provide management with comments and suggested changes and have received an updated version reflecting these changes.</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 Board approved the annual budget for 2020/21 on 30 March 2020. This included a challenging efficiencies target of £17.2m and need for further brokerage of £13.5m to breakeven. This position assumed business as usual and needs to be updated to incorporate the impact of COVID-19, however, the Scottish Government have committed to provide the NHS with the funding necessary to address the current crisis which removes the short term uncertainty over finances. We have concluded that the position remains challenging (as discussed further on page 28), however plans are in place which are sufficiently robust to demonstrate that the Board will be a going concern for 12 months from signing the accounts.</p> <p>Brokerage was required in the last three years and is anticipated to be required for the next two financial years, with the first forecast break-even/surplus year anticipated to be in 2022/23. There also remains uncertainty around the achievement of savings to balance future year budgets. However, 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>

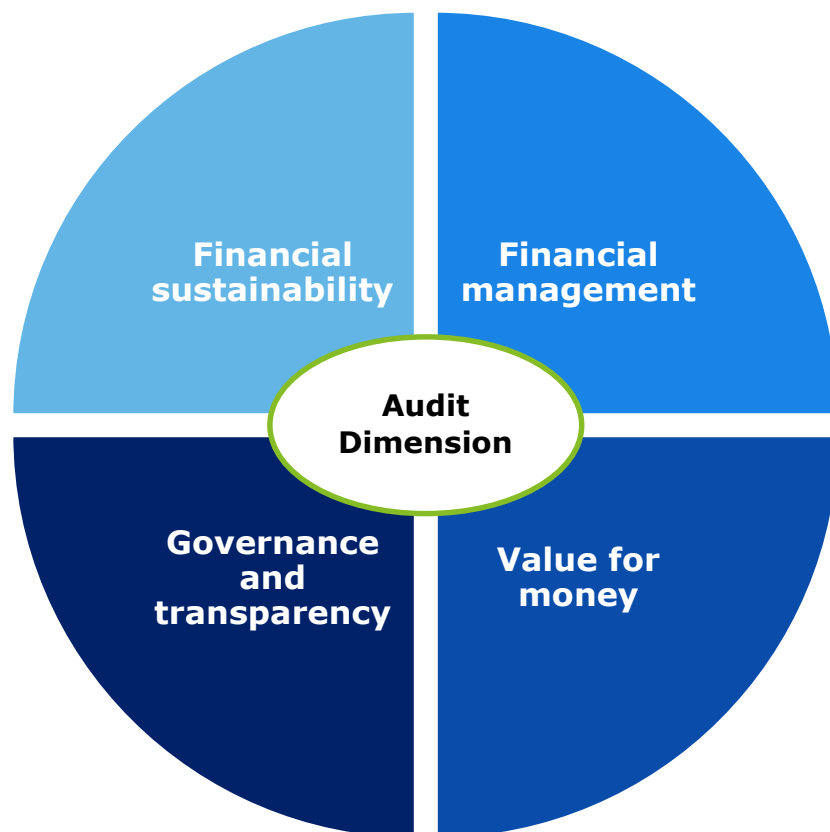
# Audit dimensions



# Audit dimensions

## Overview

As set out in our Audit Plan, 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 as summarised below.



### **Best Value (BV)**

The Scottish Public Finance Manual explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.

We have considered the organisational arrangements in place in this regard as part of our audit work in the 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.



## Areas considered

Our approach to the audit dimensions is risk focussed. Within our audit plan we confirmed that while there was no specific risk in relation to financial management, we would continue to review the Board's financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as delivery of savings plans.

## 2019/20 financial performance

**2018/19 Conclusion:** The Board had effective financial performance arrangements in place, which included the achievement of a break-even position after brokerage of £20m. This included consistent reporting of the projected deficit of £20m throughout the year.

**2019/20 Update:** The Board has achieved a year-end breakeven. However, once again this was only achieved by receiving £14.7m of brokerage. This has been consistently reported to the Board throughout the year and is largely in line with the revenue plan approved in March 2019 where a £14.7m deficit was projected.

The biggest reason for the deficit was an £11.5m deficit in acute services, which was largely attributable to:

- £8.4 million of unallocated savings target; and
- £3.8 million overspend on nursing pay, largely driven by demand and delayed discharges, which required additional beds during the year. By the end of March 2020 there were no additional beds open in either of Ayr University Hospital or Crosshouse University Hospital due to enacting the COVID-19 Mobilisation Plan.

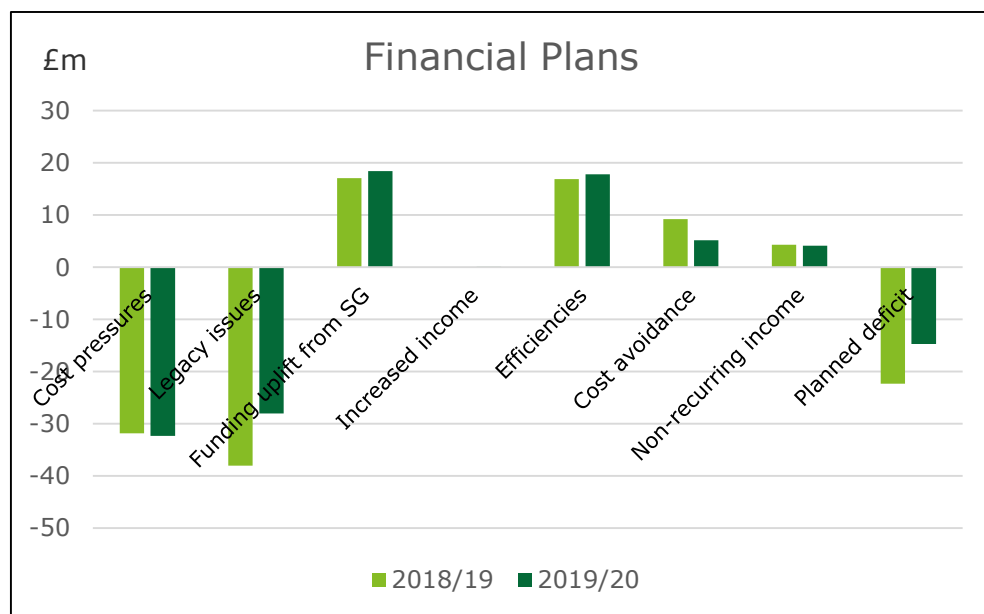
The performance of Acute services continues to be an area for concern for the Board given the significant unachieved planned efficiency savings of £8.4m. The Board needs to identify recurring efficiencies to ensure future financial sustainability.

The Board has managed to make some progress in reducing agency spend, with Acute Medical Agency reducing by £1.0m each year since 2018/19, with a £1.2m reduction in 2019/20. This has helped reduce the underlying pressures faced by the Board, as discussed further on the next page.

# Financial management (continued)

## 2019/20 financial performance (continued)

There is some improvement in the financial performance of the Board, as illustrated in the graph below. This has largely been achieved through addressing some of the legacy issues, including unfunded acute beds. However, significant challenge remains.



**2019/20 Conclusion:** the Board continues to have effective financial planning and management arrangements in place, with the final outturn reported in line with the original budget. Compared to 2018/19 the Board has achieved a smaller deficit before brokerage of £14.7m through addressing some legacy issues. This has been consistently reported to the Board and the Scottish Government throughout the year.

## Savings Plans

**2018/19 Conclusion:** The Board delivered £18.4m savings in the year compared to the budgeted target of £23.8m. We concluded that it was imperative when approving budgets at the start of the year that clear plans were put in place for the savings required to ensure that there was sufficient lead in time to implement the changes required.

**2019/20 Update:** The approved 2019/20 budget included a need to make savings of £23.2m. The final outturn confirms a shortfall of £6.4m against the savings target. The shortfall is largely attributable to unachieved savings of £8.4m attributable to acute services as discussed on the previous page. This shortfall was offset by additional savings elsewhere.

**2019/20 Conclusion:** the Board continues to face challenges in achieving savings required. In order to ensure future financial sustainability, it is critical that the Board set more realistic targets, setting out clear plans, and ensuring that there is sufficient lead time to implement the changes required.

# Financial management (continued)

## Financial reporting

**2018/19 Conclusion:** The Board had effective financial planning and management arrangements in place, incorporating regular reviews by the Corporate Management Team, Performance Governance Committee and the Board.

**2019/20 Update:** From our review of the monitoring reports during 2019/20, it is clear that in overall terms the reports to management, PGC and the Board are consistent to that reported to the Scottish Government.

Significant resources have been deployed to increase capacity to cope with increased health and social care demands as a result of COVID-19. This has put additional pressures on finance staff with weekly reporting in place to the Scottish Government to assess the financial impact of COVID-19.

**2019/20 Conclusion:** The Board continues to have effective financial planning and management arrangements in place. The impact of COVID-19 and associated increased reporting has provided an additional pressure to finance staff. It is important that this is closely monitored.

## Financial capacity

**2018/19 Conclusion:** The finance team was led by a team of qualified and experienced members of staff.

**2019/20 Update:** There have been no significant changes to the senior finance team and it continues to be led by a team of qualified and experienced members of staff, including the Director of Finance and two Assistant Directors of Finance.

We are pleased to note that a full time Chief Finance Officer has now been appointed for the South Ayrshire Integration Joint Board, a post previously covered on a part-time basis by the Assistant Director of Finance. This is in recognition of the increased workload associated with the IJB role.

**2019/20 Conclusion:** the Board has a qualified and experienced finance team.

## Internal audit

The Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

From our review of the internal audit reports issued during 2019/20, we have noted no "High Risk" graded recommendations, and only a handful of "Medium Risk" graded recommendations, therefore there are no issues to report with regard to the Board's control environment. We note that no frauds have been identified as a result of these findings reported by internal audit, and management has either addressed or made plans to address the risks highlighted. The latest follow up actions report presented at the previous Audit Committee confirmed that at the time there were only 15 open actions still to be actioned, none of which were "High Risk", and 7 of which were not yet due.

While Internal Audit paused its programme in March and has deferred three reviews due to NHS staff focussing on COVID efforts, this has not impacted on the overall annual opinion for 2019/20.

# Financial management (continued)

## 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 designed and implemented appropriately.

## National Fraud Initiative (NFI)

All Boards are participating in the most recent NFI exercise which commenced in 2018/19. We have continued to monitor the Board's participation and progress in the NFI during 2019/20 and submitted an assessment of the Board's participation to Audit Scotland in February 2020. The information submitted will be used by Audit Scotland in its next national NFI report which is due to be published in the summer of 2020.

We concluded that the Board was fully engaged in the exercise.

## Fraud and corruption in respect of the procurement function

As noted in our audit plan, and in accordance with Audit Scotland planning guidance, fraud and corruption in the procurement function (such as illicit rebates, kickbacks and false invoicing) is a risk across the public sector. We have therefore considered the Board's controls and processes as a matter of particular focus, and concluded:

- The risk of procurement fraud is acknowledged on the Board's operational risk register for the Procurement Scrutiny Group (PSG). The Head of Procurement has ownership for these risks. If these are deemed to be a high or very high risk they would be escalated to the PSG for inclusion in the Strategic Risk Register (SRR). However, there are currently no procurement risks in the SRR.
- There are controls in place around the procurement process, including segregation of duties.
- There is a gift and hospitality policy in place to prevent unacceptable instances taking place. An updated version has recently been finalised and approved by the Audit Committee in March 2020.
- While staff involved in procurement related decisions do not receive specific training on how to identify procurement fraud 'red flags' (e.g. excessive entertaining of procurement staff by suppliers) they do receive general fraud training, and there is also guidance in the gift and hospitality policy. We have recommended that future training includes discussion on 'red flags' (see Action Plan on page 44).
- Internal Audit has not performed any specific audits of the procurement function in 2019/20 and is not planning to as part of the 2020/21 internal audit plan. This is proportionate to the risks posed by procurement given that there is no procurement risk on the SRR.
- Arrangements are in place to encourage and protect whistle-blowers.

Based on the above, we are satisfied that the arrangements for the prevention and detection of fraud and corruption in the procurement function are effective and appropriate.



## Financial management (continued)

### Deloitte view – financial management

The Board has effective financial planning and management arrangements in place. It achieved a year-end breakeven position, however, this was only achieved by receiving £14.7m of brokerage from the Scottish Government. This is a slight improvement on 2018/19 when the Board achieved a deficit of £20m before brokerage which has been possible through addressing some legacy issues. The underlying deficit has been consistently reported to the Corporate Management Team, PGC and Board throughout the year and is in line with the Revenue Plan approved in March 2019 where a £14.7m deficit was projected. Significant resources have been deployed to increase capacity to cope with increased health and social care demands as a result of COVID-19. This has put additional pressures on finance staff with weekly reporting in place to the Scottish Government to assess the financial impact of COVID-19. It is important that this is closely monitored.

While we note that improvements have been made to reduce agency spend, acute services continue to be an area of overspend which needs to be improved given significant unachieved efficiency savings of £8.4m in the year. As recommended in our previous reports, 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.

The capacity of the finance team has remained consistent during the year and is bolstered by the addition of a full time Chief Finance Officer for South Ayrshire Integration Joint Board, which has freed up the Assistant Director's Health Board role. We conclude that the finance team has sufficient capacity to support the Board's financial management arrangements.

# 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.



## Areas considered

Our approach to the audit dimensions is risk focussed. Within our audit plan we identified the following risk:

*“There is a risk that the significant work required to make the level of transformational change needed is not progressing at the pace required”.*

## Budget setting

**2018/19 Conclusion:** A deficit budget of £14.7m was approved for 2019/20, which included a number of cost pressures and savings plans.

**2019/20 Update:** The Board approved a deficit budget of £13.5m for 2020/21 on 30 March 2020. This slightly improved position compared to the previous year, as illustrated in the graph on the next page, is as a result of a combination of a reduction in pressures from legacy issues and increased funding from the Scottish Government.

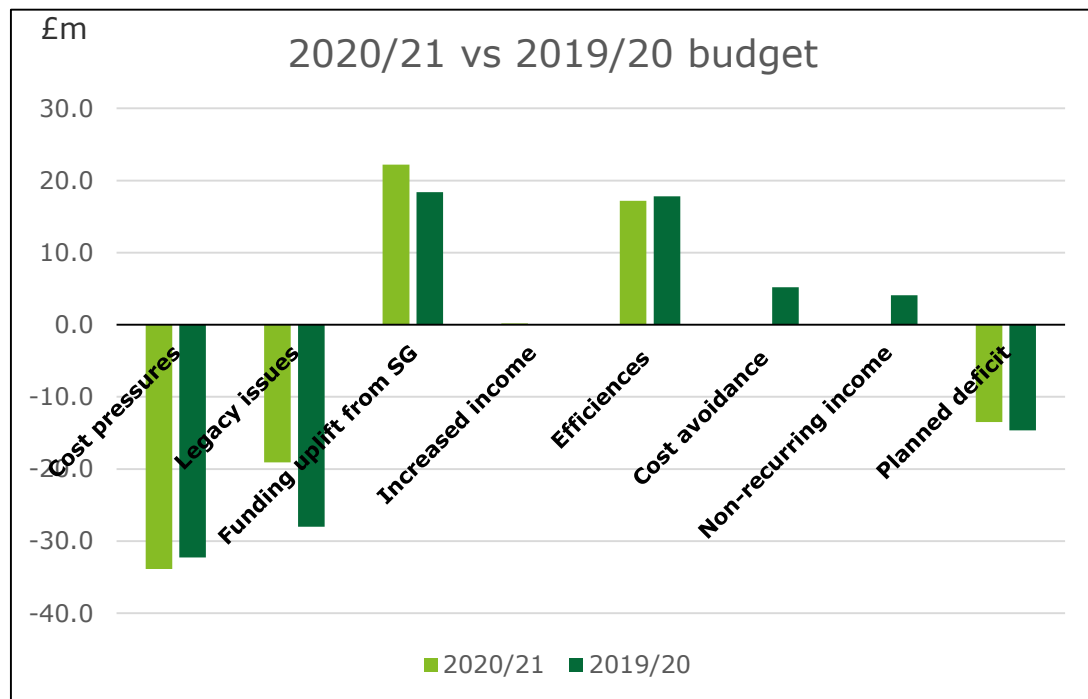
The budget includes targeted savings of £17.2m. The biggest risk remains the Acute service which has a target of £8.5m savings, out of which £3.8m is currently unidentified.

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

- Delivery of cash releasing efficiency savings (CRES) is increasingly challenging and a 3% operational cash releasing efficiency savings will be difficult to deliver. Of particular note is the full acute operational savings target of £8.5m which relates entirely to unachieved savings from previous years and has a high risk of being achieved.
- Medicine cost pressure of £8.5m, which includes primary care prescribing overspend of £3.4m, in part due to expensive new medicines.
- Unscheduled care demand has led to additional acute beds opening in past years.
- £18.5m final year of Agenda for Change pay increase.

# Financial sustainability (continued)

## Budget setting (continued)



## Impact of COVID-19

In setting the budget, the Board has highlighted that the Annual Operating Plan process has been frozen and special funding arrangements are being put in place for additional COVID-19 costs. The approved budget therefore does not incorporate these costs.

It also noted that a risk assessment of the savings plans had been undertaken to take into account the impact of COVID-19 work taking priority and making assumptions around how long the additional pressures on services will last. The budget has assumed that any shortfall in CRES will be met non-recurringly by the Scottish Government in 2020/21 from COVID-19 funding.

Finally, unscheduled care demands has led to additional acute beds opening in past years. COVID-19 demands will place much greater pressure on health and social care services in 2020/21 and the Scottish Government have indicated that they will fund these additional costs.

**2019/20 Conclusion:** Given the level of savings identified before considering the impact of COVID-19, the Board’s history of not achieving savings targets and the budget deficit position, the Board continues to have a significant risk of not achieving short term financial balance.

# Financial sustainability (continued)

## Medium to long term financial planning

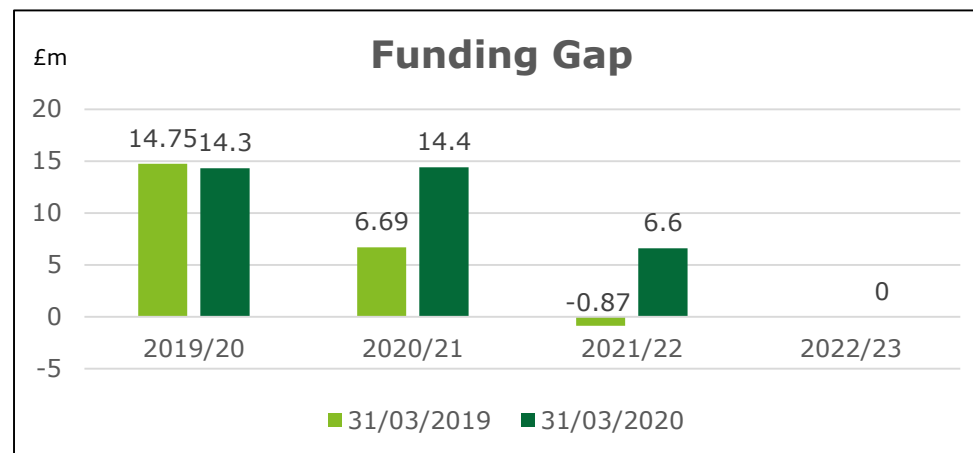
**2018/19 Conclusion:** The Health and Care Delivery Plan 2019-2022, was approved by the Board in March 2019 in response to the new requirement from the Scottish Government to provide a three year financial plan. Based on general uplift assumptions, legacy issues, known cost pressures and expected CRES targets, the Plan concluded that the Board was not projecting to achieve a breakeven position until 2021/22.

**2019/20 Update:** A high level three year revenue plan has been presented, which assumes general allocation uplifts of £15.3m in 2021/22 and £19.0m in 2022/23. Based on this, legacy issues, known cost pressures and expected CRES targets, the Board is now not projecting to achieve a breakeven position until 2022/23. In accordance with the Scottish Government, the Board will remain part of the NHS board performance escalation framework.

The estimated funding gap is therefore showing a worsening position to that estimated at the end of 2018/19, as illustrated in the graph to the right, with the Board not expecting to achieve a breakeven position until 2022/23, compared to 2021/22 reported last year.

One of the means by which the Board is seeking to deliver wholesale transformation to service reform is through 'Caring for Ayrshire' which is discussed in more detail on page 29.

**2019/20 Conclusion:** The Board continues to be faced with an extremely challenging financial position in the medium to longer term. Given the risks associated with COVID-19 highlighted in the 2020/21 budget, discussed on page 27, these will need to be taken into account in updated medium and long term plans.



## Transformational change

**2018/19 Conclusion:** We reported that the Board recognised that significant transformational change is required and had progressed its Transformation Change Improvement Plan (TCIP) during the year, with improved governance arrangements to monitor and track progress. Significant work was still required to make the level of transformation change needed based on the current financial forecasts.

**2019/20 Update:** Regular reporting on progress with the improvement initiatives is made to the Corporate Management Team and the Performance Governance Committee. This is also reported to the Scottish Government.

In 2019/20, 64 initiatives were identified to support the need to make savings of £23.2m (as discussed on page 22).

# Financial sustainability (continued)

## Transformational change (continued)

The latest position as at March 2020 reports 57 out of 66 transformational change schemes as being 'Delivered'. The newly 'Delivered' transformational schemes include:

- UHA and UHC Cardiac Ward reconfigurations
- Medical workforce
- Outpatient Paperlite

There remains three key areas which have not delivered the expected savings and therefore require further work in 2020/21:

- **Acute CRES 3% savings** – An improvement plan is being developed for the next 18 months.
- **Enhanced Intermediate and Rehabilitation Care** – due to high number of delayed discharge, no bed closures have happened, resulting in no savings in the year.
- **Adherence to the nursing budget** – the Workforce Scrutiny Group highlighted that some aspects of this spend are now within budget but other aspects are driven by operational and/ or clinical necessity.

As part of its transformation agenda, the Board commenced its '**Caring for Ayrshire**' programme during 2019/20, which is a ten year vision for health and social care provision. Engagement with the public commenced but this was put on hold due to the COVID-19 pandemic.

### 'Caring for Ayrshire' programme

Caring for Ayrshire is the whole system health and care service redesign over that ten year strategic direction and beyond as opposed to any redesign or change that would be over a shorter timescale.

Due to wide range of factors that are not unique to Ayrshire, the Board concluded that it needed to adapt and embrace new ways of delivering its health and care services, for future sustainability.

A Project Initiation Document (PID) was developed to inform the Caring for Ayrshire Programme Board on the projects aims and objectives in delivering a whole system redesign approach for NHS Ayrshire and Arran in terms of its health and care services. In addition, it outlined all key phases and stages, delivery methodologies, key milestones encompassing its stakeholder engagement and communication activity along with the recommended governance and management structure.

The PID was approved by the Board in September 2019

**2019/20 Conclusion:** the Board continues to build on improvement initiatives that it started in 2018/19 in terms of tracking the progress of programmes/projects and savings. This includes regular reporting by the PMO on progress in implementing transformational change schemes. Significant work is still required to make the level of transformational change needed based on the current financial forecasts, with COVID-19 likely to impact on original timelines.

## Financial sustainability (continued)

### Deloitte view – Financial sustainability

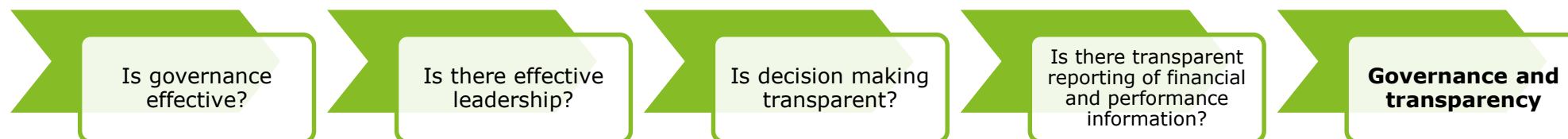
As discussed on page 21, the Board achieved short term financial balance in 2019/20, however, this was only achieved with brokerage received from the Scottish Government. A deficit budget has been set for 2020/21 with the Board not expecting to achieve financial balance until 2022/23, a year later than was projected last year. This includes significant risks, particularly around the challenging CRES targets in acute services together with the increasing demand for services. The impact of COVID-19 increases this risk, although we note that the Board expect to receive additional funding from the Scottish Government to cover COVID-19 associated costs. The Board therefore continues to be faced with an extremely challenging financial position in the medium to longer term.

The Board recognises that significant transformational change is required and continues to make progress with its TCIP with regular reporting to the CMT, PGC, and the Board on progress to date against the Portfolio of Transformational Change Programmes. There still remains a number of areas, particularly within Acute services, where savings are not being achieved.

Significant work is still required to make the level of transformational change needed based on the current financial forecasts. As recommended in previous years, 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 2020/21 in order to achieve long term financial sustainability. The 'Caring for Ayrshire' programme is a positive step forward, but still at early stages of development, with COVID-19 likely to impact on original timelines.

# 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



## Areas considered

Our approach to the audit dimensions is risk focussed. Our planning paper identified the following risks:

*"There is a risk that there is insufficient capacity of Board members to effectively scrutinise decisions taken at Board and other relevant committee meetings".*

*"The governance arrangements for health and social care integration are an area of particular interest to the Auditor General. There is an ongoing risk that the IJBs do not achieve the full benefits of integration".*

## Governance and scrutiny arrangements

**2018/19 Conclusion:** We reported that the Board had recently carried out a self assessment, under the new "blueprint for good governance", with a mixed response rate to the self assessment survey. This had been highlighted by the Board as a focus for improvement in 2020.

**2019/20 Update:** Following the initial self assessment that was submitted to the Board in February 2019, a follow up paper was issued to the Board in April 2019 setting out the outcomes from the Board workshop discussions on 25 March 2019 when the survey outputs were considered. This identified a number of improvements to be made, including to:

- Ensure all Members continue to have the opportunity to be involved and engaged in financial decision making – *completed in November 2019;*
- Ensure Members skills are used appropriately, e.g. Audit committee chair with Finance background – *completed in May 2019;*
- Ensure a robust appraisal process is in place for Members – *completed in May 2019;* and
- Deliver a robust process with as few "to follow" papers as possible so that members have enough time to consider papers fully in advance of the board meeting – *completed in November 2019.*

An Improvement Plan update was submitted to the Scottish Government in December 2019.

In addition to the self assessment, there has been appropriate scrutiny during the year through the Audit Committee and Integrated Governance Committee. Key governance documents have also been reviewed during the year, including revisions to the Code of Corporate Governance ("the Code"). The Code was not updated in June 2019 due to a national review to produce 'Once for Scotland' documents. The first of these, the Standing Orders, was approved at the 30 March 2020 Board meeting.

# Governance and transparency (continued)

## Governance and scrutiny arrangements (continued)

In response to the challenges arising as a result of COVID-19, the Board agreed some temporary changes to its corporate governance arrangements on 30 March 2020. This included:

- The Board meeting in March was not held in public as it was convened as a telephone conference. Arrangements for future Board meetings will be considered nearer the time. The agenda for such meetings will be focused on decisions required to support the work of the health and care teams.
- Board Governance and standing committees were paused to the end of June 2020. This is with the exception of the Audit Committee.
- Ad hoc governance meetings or additional Board meetings will be arranged as appropriate.

**2019/20 Conclusion:** The Board continues to have strong governance and scrutiny arrangements as demonstrated by the improvements that have been made since last year to implement the improvement actions in response to the self assessment against the “blueprint for good governance”. Appropriate processes have been put in place to temporarily change the arrangements in response to COVID-19.

## Leadership

**2018/19 Conclusion:** The Board has strong leadership. We highlighted that the workload of Board members is continually increasing as a result of the financial challenges, transformation change and additional workload associated with the IJBs. We recommended that the Board take the opportunity to review the capacity of all board members, their roles and responsibilities and any specific training needs given a number of changes were planned during 2019/20.

**2019/20 Update:** There have been a few changes in the Board composition during the year with a new Chair of the Board appointed in January 2020, and a new Chair of the Audit Committee, appointed in April 2019. There have also been a number of changes in senior management, with a new HR Director in March 2020, a new Medical Director in April 2020, and a new Infrastructure Director in May 2020.

In response to our prior year recommendation, a review has been performed of the capacity and skills mix across the various layers of governance.

The induction process has been standardised but tailored, which includes, for example, background information on Health and Social Care Integration, and the option to have detailed introduction meetings with representatives from each of the Directorates to get a better understanding of the organisation. We are pleased to note that the two new Non-Executive Board members have undergone the new induction process. In addition, there is an annual self appraisal planned to review the effectiveness of Board members in their scrutiny and oversight roles. The Board members’ self appraisal process has been put on hold for this year to allow staff and Board members to focus on managing the more immediate issues of COVID-19.

Furthermore, from discussions with the Chair of the Audit Committee and the Chair of the Board, we can confirm that they receive adequate support and that this is available on request to ensure that they can perform their scrutiny and oversight roles effectively.

**2019/20 Conclusion:** Despite these changes, we are satisfied that the Board continue to have a strong leadership in place and with its partners, has a clear vision for what it wants to achieve for the people of Ayrshire. Board members and staff support the vision. The recommendation raised in 2018/19 to review the capacity of all Board members, their roles and responsibilities has been implemented.



# Governance and transparency (continued)

## Governance arrangements with Integrated Joint Boards (IJBs)

**2018/19 Update:** We reported that it was positive to note that the Board, along with its IJB and Council partners, were reviewing and updating the governance arrangements for the IJBs to take cognizance of the experience from early integration.

**2019/20 Update:** The Board and the three Ayrshire IJBs worked together with Scottish Government on a pilot project to review Directions. 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 was no consistency on how Directions were implemented. The purpose of this pilot project was to develop an exemplar set of directions to make commissioning more transparent.

Following this work, the Scottish Government published refreshed Directions in January 2020, which provide greater clarity on the legal mechanism of Directions and the relationship between the three bodies, the IJB, the Local Authority and the Health Board. It clarifies that Directions are obligatory rather than optional.

Improvements have also been made in communications between the Board and the IJBs, particularly with South with quarterly Three-Way Meeting Strategic Groups, which are held between the leaders of the IJB, the Board, and the Council, to discuss issues and how to improve integration. In addition, the October 2019 Board meeting approved an updated health and care governance framework for Integration Joint Boards.

**2019/20 Conclusion:** The Board has made good progress with improving the governance arrangement with the IJBs, which includes refreshing the Directions, and improving three way communication between leaders of the IJBs, the Board, and the Councils.

## Openness and transparency

**2018/19 Conclusion:** NHS Ayrshire and Arran has a good attitude to openness and transparency.

**2019/20 Update:** The Board continues to have a good attitude to openness and transparency, with all decision making transparent and information available to the public through the Board's website. During 2019/20, there has been significant engagement with specific stakeholder groups in relation to the 'Caring for Ayrshire' programme, discussed further on page 29. This engagement is expected to continue wider into communities as this programme develops.

**2019/20 Conclusion:** NHS Ayrshire and Arran continues to have a good attitude to openness and transparency.

### Deloitte view

The Board has strong leadership and governance structures in place. Regular training is provided to members which is tailored according to their individual needs. The recommendation that we raised in the 2018/19 audit report regarding reviewing the capacity of Board members has been implemented.

The Board continues to have strong governance and scrutiny arrangements as demonstrated by the continued improvements that are being made since last year to implement improvement actions in response to the outcomes from the self assessment surveys completed under the new "blueprint for good governance". Appropriate processes have been put in place to temporarily change the governance arrangements in response to COVID-19.

The Board has made good progress with improving integration, which includes refreshing the Directions, and improving three way communication between leaders of the IJBs, the Board, and the Councils.

# Value for money

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



## Areas considered

Our approach to the audit dimensions is risk focussed. While we have not identified any specific risks in our audit plan, we have continued to review the Board's performance against the annual operating plan standards, the Board's reporting and monitoring of these and the actions taken to improve the performance of the Board.

## Performance management

**2018/19 Conclusion:** The Board has a well established performance management framework in place to monitor performance against national standards.

**2019/20 Update:** The Board continues to have a well established performance management framework in place, which includes regular quarterly performance reporting to the Board and PGC.

The Cabinet Secretary has set priorities on waiting time improvement, mental health services investments, and in delivering the intent of the Integration of Health and Social Care. The Annual Operating Plan (AOP) was introduced in 2019/20 and represents how NHS Boards, alongside their partners, will deliver on these priorities both in the short term as well as the medium term to fit with the three year financial planning cycle.

The National Waiting Times Improvement Plan published in October 2018 set out the steps and timescales Boards will be expected to take to reduce the length of time people are waiting for key areas of healthcare. A key component of the AOP is therefore to produce a plan for delivery of this and to provide a local Waiting Times Improvement Plan.

The AOP for 2020/21 has been put on hold, including reporting on the standards, to allow full resources to be dedicated to the management of COVID-19.

**2019/20 Conclusion:** The Board continues to have well established performance reporting arrangements, but this is currently on hold due to the focus on the management of COVID-19.

# Value for money

## Performance data

**2018/19 Conclusion:** The Board's performance had declined in 2018/19 with 11 indicators reported as being below the acceptable limits.

**2019/20 Update:** Up to 31 December 2019, the Board was reporting a slight improvement on a few of the AOP indicators reported including improvements against the 31 day Cancer waiting times standard and the 62 day Cancer waiting times standard, which reported as green (99% versus national target of 95%) and amber (87.9% versus 95%), both showing improvements from 2018/19 when they were reporting 97.50% and 80.80% respectively.

However, there have been declines in other measures to below the acceptable limits in relation to the following four measures:

- Treatment Time Guarantee (TTG) (75.5% versus national target of 100%);
- 18 week Referral to Treatment (RTT) (82.0% versus national target of 90%);
- 12 week First Outpatient Appointment (82.7% versus national target of 95%); and
- 4 hour A&E (87% versus national target of 95%).

Improvement actions have been identified to address the poor performance. For example, in relation to "4 hour A&E" target, the Unscheduled Care operational plan includes the following areas of improvement:

- reducing emergency admissions by providing accessible community alternatives;
- understanding and improving the Emergency Department processes;
- reducing occupancy and length of stay by improving systems and processes within the acute hospital;
- identifying barriers to flow - and improving discharge rates across all sites - acute and community;
- reviewing and improving pathways to reduce delays and duplication; and
- reducing delays in discharge by providing appropriate community capacity.

As a result of the COVID-19, performance reporting has been put on hold to focus resources on dealing with the pandemic, with the AOP for 2020/21 currently paused. Performance analysis has been included in the annual report where information is available and note that while these indicate an "improvement" from the December position, including improvements to the 4 hour A&E performance, these are impacted by the COVID-19 response rather than underlying improvements to service.

In contrast, other measures of performance have declined, such as the TTG and RTT as a direct result of measures taken to cancel any non-urgent elective procedures.

# Value for money (continued)

## Performance data

**2019/20 Conclusion:** Prior to the COVID-19 pandemic, while actions have been identified to address area of poor performance, the impact is not yet evidenced in the performance data. Management should continue to focus on improving performance across the Board in relation to those measures that have consistently under performed compared to national targets. We do, however, recognise that resources are currently focussed on managing the impact of COVID-19.

## Best value

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. Arrangements include letters from each Director to the Chief Executive covering each area of governance to give assurance regarding best value delivery in each directorate, and which is then used as a basis for the Chief Executive's opinion on the status of governance arrangements during the year for the purposes of updating the governance statement in the annual report.

## Deloitte view – Value for money

There is a clear framework in place to ensure that the Board's performance is monitored and reported. The Board has a well established performance management framework in place to monitor performance against AOP national standards. The 2020/21 AOP has been put on hold while the NHS focuses on responding to the COVID-19 pandemic.

There has been a decline in performance in comparison with previous years and a number of areas remain below the national targets. Management should continue to focus on improving performance across the Board in relation to those measures that have consistently under performed compared to national targets. We do, however, recognise that resources are currently focussed on managing the impact of COVID-19. It is important that as the Board move to the next phase in responding to COVID-19 that it focuses on lessons learned and how some of the changes made can be sustained.

# Sector developments



# Sector developments

## Responding to COVID-19

As part of our “added value” to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector.

### An emerging legacy

#### How COVID-19 could change the public sector

While governments and public services continue to respond at scale and pace to the COVID-19 pandemic, its leaders have begun to consider how the crisis might permanently change their agencies – and seven legacies are emerging.

The COVID-19 pandemic has been uncharted territory for governments. Elected representatives, officials and public service leaders around the world are making profound decisions with no precedent to draw upon and little certainty around when the crisis will end. As French President Emmanuel Macron observed, this is a kinetic crisis – in constant motion with little time to make far-reaching decisions.

In the UK and across much of Europe, government responses have been radical and exhaustive. Health services have mobilised at scale, finance ministries have acted fast to support businesses, and the full spectrum of departments have made rapid adjustments to ensure public needs continue to be met.

While leaders across the public sector remain focused on the immediate COVID-19 threat, they are increasingly mindful of its longer-term implications – and for some, the crisis could be an inflection point for their agency. This paper explores the pandemic’s likely legacy on governments, public services and the debates that shape them.

### Seven emerging legacies:

1. Our view of resilience has been recast
2. Governments could be left with higher debt after a shock to the public finances
3. Debates around inequality and globalisation are renewed
4. Lines have blurred between organisations and sectors
5. The lockdown has accelerated collaborative technologies
6. Civil society has been rebooted and citizen behaviour may change
7. The legacy that still needs to be captured

Read the full article at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/an-emerging-legacy-how-corona-virus-could-change-the-public-sector.html>

# Sector developments (continued)

## Responding to COVID-19 (continued)

### COVID-19: Lockdown exit and recovery

Whilst many things remain uncertain in the current environment, it is increasingly clear that many organisations are beginning to plan for the easing of the lockdown.

Two documents have been developed to support you in your thinking:

- **Lockdown exit and recovery:**– Based on insight from Henry Nicholson, our Chief Strategy Officer and our Economic and Financial Advisory Team, this document provides an overview of economic forecasts to predictions around exit strategies, potential economic impact, plus key considerations to consider in relation to: Supply, Demand, Operations, People and Financing
- **Exit timelines:** This document provides an overview for each of the major European countries of their current status, key statistics and a reported or illustrative timeline (as relevant) for their exit strategy. It also includes some actions organisations are taking in the workplace to 'return to work' plus advice for management teams.

Copies of these documents can be accessed through the following link:

<https://www2.deloitte.com/uk/en/pages/financial-advisory/articles/covid19-uk-lockdown-exit-and-recovery.html>

### COVID-19: Impact on the workforce

It's likely that the way we work will be forever changed as a result of COVID-19. All of us are seeking answers to guide the way forward. That's why Deloitte's Global and UK Human Capital practice have produced a series of articles to inform business leaders on their path to respond, recover, and thrive in these uncertain times. These articles explore the impact of COVID-19 on the workforce and are aimed at supporting HR teams as they navigate their organisation's response to the pandemic.

HR leaders, in particular, have been at the centre of their organisation's rapid response to COVID-19, and have been playing a central role in keeping the workforce engaged, productive and resilient. Understandably, recent priorities have been focused almost exclusively on the respond phase. As progress is made against respond efforts, another reality is forming quickly. Now is the time for HR leaders to turn their attention toward recover to ensure their organisations are prepared to thrive.

The latest thinking from our UK Human Capital practice is "**COVID-19 CHRO Lens: Work, Workforce and Workplace Considerations**". This workbook provides a framework to enable leaders to plan for recovery. It sets out a series of key questions across the dimensions of work, workforce and workplace, enabling organisations to plan for multiple scenarios and time horizons, as they shift from crisis response to recovery.

The workbook can be found at the following link, along with links to other articles which we would encourage you to explore.

<https://www2.deloitte.com/uk/en/pages/human-capital/articles/covid-19-impact-on-the-workforce-insight-for-hr-teams.html>

# 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 (UK) 260 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.

### 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.

### Use of this report

This report has been prepared for the 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.

### 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 procedures performed in fulfilling our audit plan.

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



**Pat Kenny, CPFA**

**For and on behalf of Deloitte LLP**

Glasgow | 5 June 2020

# Audit adjustments

## Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report. The overall impact on the Statement of Comprehensive Income and Net Assets is Nil.

	Debit/ (Credit) Statement of Comprehensive Income £m	Debit/ (Credit) in Net Assets £m	Debit/ (Credit) prior year Taxpayer's Equity £m	Debit/ (Credit) in Income £m	If applicable, control deficiency identified
<b>Misstatements identified in current year</b>					
Trade and other Receivables – Prepayments [1]					
- factual error	-	(0.227)	-	-	Page 15
- extrapolated error		(0.568)			
Trade and other Payables – Accruals [1]					
- factual error	-	0.227	-	-	Page 15
- extrapolated error		0.568			
<b>Total</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	
<b>Misstatements identified in prior years</b>					
None noted to date.					

[1] As discussed on page 15, we identified a number of errors relating to how accruals and prepayments are accounted for. A factual error of £0.227m has been identified from our sample testing. The factual error is due to: (1) prepayments being made in error where the payment was made post year-end; and (2) due to the incorrect use of prepayments to correct accruals made in error (and vice versa). When extrapolated across the balance of the prepayments balance not tested, this could result in a further error of £0.568m. As this is not quantitatively material and doesn't impact on the results of the Board, no adjustment has been made.

# Action plan

## Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	<i>Accruals and prepayments</i>	We recommend that training be undertaken with management accounting staff to inform them of the difference between accruals and prepayments and how to appropriately account for these amounts in the ledger and financial statements (page 15).	Agree to refresh.	Assistant Director of Finance	September 2020	Medium
2	<i>FHS receivables</i>	We recommend that the process for accounting for cash advances to GP practices is revised to ensure they are correctly identified as receivables rather than being offset against accruals (page 15).	Agree to revise.	Assistant Director of Finance	September 2020	Low
3	<i>WTE staff numbers</i>	We recommend that the process for reporting on the whole time equivalent (WTE) staff numbers to the Board (as part of the monthly management accounts pack), and in the Remuneration and Staff Report should be formally documented to ensure consistency (page 15).	Agreed	Assistant Director of Finance	September 2020	Low
4	<i>Procurement fraud</i>	We recommend that staff training be updated to include training on procurement 'red flags' (page 24).	Will liaise with CFS and target training at staff who procure.	Director of Finance	February 2021	Low

# Action plan (continued)

## Follow-up 2018/19 action plan

We have followed up the recommendations made in our 2018/19 annual report in relation to the wider scope areas and are pleased to note that 3 of the total 5 recommendations made have been fully implemented. We will continue to monitor those partially implemented as part of our audit work.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<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.	Medium and longer term initiatives will continue to be developed through the Corporate Management Team.	Chief Executive	Immediate	High	<p><i>Partially implemented:</i></p> <p><b>Updated management response:</b> Corporate Management Team has continued to consider medium and long term reform as part of financial and service sustainability. The Board's strategy "Caring for Ayrshire" sets out a clear intent for new models of care. The plan to respond to COVID-19 has brought forward a number of changes to the way the services are delivered. This will set a new baseline and CMT will review what can be sustained in the coming months.</p> <p><b>Updated target date:</b> March 2021</p>
<i>Financial management – savings plans</i>	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.	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	<p><i>Partially implemented:</i></p> <p><b>Updated management response:</b> Budget discussions take place throughout the year to establish the Financial Control Schedule. Acute Services has been a key focus in looking to identify the savings necessary to meet the CRES target.</p> <p><b>Updated target date:</b> March 2021</p>

# Action plan (continued)

## Follow-up 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<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.	The impact analysis will be carried out during 2019/20.	Assistant Director of Finance	31 March 2020	Medium	<i>Fully implemented</i>  <b>Updated management response:</b> Initial preparatory work has been carried out, and a return was supplied to Scottish Government per their deadline of 10 January.
<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.	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>Fully implemented</i>  <b>Updated management response:</b> The Board Chair carries out an annual appraisal for all Non-Execs at which there is discussion of any areas for development or training needs. Training needs for Exec Board members are assessed through routine 1:1 with the Chief Executive. The Chair undertakes an annual review of Non-Exec roles and responsibilities with the HoCG and Board VC, to consider capacity, skills and committee requirements. This is usually in January/February each year following on from the appraisal process. Proposed changes are discussed with individuals and committee chairs and agreed by the NHS Board.

## Action plan (continued)

### Follow-up 2018/19 action plan (continued)

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Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<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.	The procedures will be reviewed and a programme of future reviews put in place.	Assistant Director of Finance	31 March 2020	Low	<i>Fully implemented</i>  <b>Updated management response:</b> The operating procedures are being reviewed and rationalised. Some have been updated, and a number are currently under review.

# Our other responsibilities explained

## Fraud responsibilities and representations



### 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 have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the entity or group.

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



### Audit work performed:

In our planning we identified the risk of fraud in relation to operating within the expenditure resource limit and management override of controls as a key audit risk for your organisation.

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

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

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

# 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:

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**Independence confirmation** We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Board and our objectivity is not compromised.

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**Fees** The audit fee for 2019/20, in line with the expected fee range provided by Audit Scotland, is £156,977, as analysed below:

	£
Auditor remuneration	133,247
Audit Scotland fixed charges:	
Pooled costs	15,770
Audit support costs	7,960
<b>Total fee</b>	<b>156,977</b>

No non-audit services fees have been charged for the period.

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**Non-audit services** In our opinion there are no inconsistencies between the FRC's Ethical Standard 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.

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**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.

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