



NHS Ayrshire & Arran  
Report to the Audit Committee and Board and the Auditor General for  
Scotland on the 2017/18 audit

Issued on 12 June for the meetings on 15 and 25 June 2018

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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 for the 2017/18 audit. The scope of our audit was set out within our planning report presented to the Audit Committee in February 2018.

This report summarises our findings and conclusions in relation to:

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



# Introduction (continued)

## The key messages in this report – financial statements audit

I would like to draw your attention to the key messages of this paper in relation to the audit of the financial statements:

### Conclusions from our testing

- The significant risks, as identified in our audit plan, relate to:
  - achievement of expenditure resource limits; and
  - management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 12. The Board met its financial targets for 2017/18, however this was only after receiving additional brokerage of £23.0m from the Scottish Government. The Board is responsible for repaying this brokerage to the Scottish Government in future periods, however a repayment plan is yet to be agreed.
- We have identified one corrected misstatement – see page 46. No uncorrected misstatements or material disclosures deficiencies have been identified based on audit work completed to date.
- The performance report and accountability report are yet to be finalised subject to our reviews. Both reports should comply with the statutory guidance and proper practice and be consistent with the financial statements and our knowledge of the Board. Based on reviews performed to date there is scope to reduce the level of detail disclosed by the Board to ensure the main messages are not lost, in accordance with the series of best practice notes published by Audit Scotland. The use of infographics, charts and graphs could assist with this.
- The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.
- Based on our audit work completed to date we expect to issue an unmodified audit opinion.

### Insights

- We have utilised Spotlight, **Deloitte's** patented analytics tool, to perform analytics on the journal entries posted in the year to profile the journal population which has helped us identify journals of audit interest, such as journals posted on non-business days or journals with key words. No issues were noted from testing performed.
- We have raised a number of recommendations for improvement which have been identified throughout the course of the audit and are detailed on pages 47 and 48.

# Introduction (continued)

## The key messages in this report – financial statements audit (continued)

I would like to draw your attention to the key messages of this paper in relation to the audit of the financial statements:

### Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
    - Finalisation of our internal quality control procedures;
    - **finalisation** of management representation letter; **and**
    - **subsequent events review.**
-

# Introduction (continued)

## The key messages in this report – audit dimensions

The following four pages set out the key messages of this paper in relation to the four audit dimensions:

### Financial sustainability

NHS Ayrshire & Arran continues to face an extremely challenging financial position. The Board met its financial targets in 2017/18 however this was only achieved after brokerage of £23.0m **was received from the Scottish Government. This is the first time in the Board's history** that brokerage has been required. The Board is required to repay any brokerage received from the Scottish Government and a repayment plan is yet to be agreed.

The Board is yet to approve an annual budget for 2018/19 however a draft budget submitted to the Performance Governance Committee on 4 June 2018 identified a funding gap of £22.4m for the year and requires savings of £26.1m to be achieved. Meeting this budget will be a significant challenge based on 2017/18 performance without major transformational change. Given the short term pressures, the Board has not considered a detailed budget beyond 2018/19, although has submitted a draft three-year plan to the Scottish Government as noted below.

**Various transformation programmes are ongoing as part of the Board's Transformation Change Improvement Plan 2017-20 (TCIP).** This plan was subject to an external review performed during the year. One key finding raised in the review was that the current transformation plans in place are not substantial enough to achieve long term financial sustainability, and that plans for greater medium to long term transformational change are required. Management has since evaluated the findings and recommendations made within the review. Achieving financial balance in the medium term through the work of the TCIP remains extremely challenging.

Given the level of changes required, the Board also needs to consider the supporting infrastructure required to deliver on the TCIP, as discussed further on page 26.

<p><b>2017/18 final outturn position</b> reported an underspend against core RRL of £0.2m (0.02%). Brokerage from the Scottish Government of £23.0m was required in order to achieve this position. Non-core RRL, CRL and cash flow targets for the year were met.</p>	<p>A final <b>budget for 2018/19</b> is yet to be approved by the Board. The most recent draft budget includes a forecasted overspend of £22.4m with savings of £26.1m to be achieved in the year. Meeting this budget will be a significant challenge for the Board on the basis of 2017/18 performance against budget.</p>	<p>The Board achieved <b>£24.8m of savings during 2017/18</b>, including non-recurring savings of £10.2m. While the current draft of the 2018/19 budget projects a funding gap of £22.4m in addition to £26.1m of required savings, the external review of the TCIP forecasted £38.5m of underlying overspend for 2018/19 due to the reliance on non-recurrent savings.</p>	<p>A draft <b>three-year financial plan</b> submitted to Scottish Government shows a further projected funding gap of £13.0m in 2019/20 before achieving a balanced budget in 2020/21. Based on these ambitious financial plans, a further £35.4m in brokerage would be required from Scottish Government over the next two years in addition to the £23.0m required in 2017/18.</p>
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# Introduction (continued)

## The key messages in this report – audit dimensions (continued)

### Financial management

Performance against budget for 2017/18 indicates a potential weakness in the budgeting and forecasting processes in place. As discussed at page 6, brokerage required from Scottish Government was significantly greater than budgeted and actual savings fell considerably short of budgeted targets. Whilst there is clear evidence that senior management was transparent regarding actual and forecasted financial performance throughout the year, and the Board provided sufficient scrutiny and challenge to senior management regarding performance, action should be taken by management in an effort to prevent such deviations from plans in future periods.

We have found the short term budgets in place to be in line with the strategic priorities of the Board. However, we have also found there is a lack of focus on detailed medium to long term budgeting, largely as a result of significant short term financial challenges faced and an uncertainty in Scottish Government funding available in future periods. This is in line with the finding raised within the external review of the TCIP that future cost pressures and projected savings as a result of transformational change had not been articulated by the Board at a detailed level. Management has since taken action to address this finding by performing detailed cost-benefit analyses of transformational programmes going forward.

From our review of internal audit reports issued in the year and following our testing performed throughout the audit we are satisfied that the Board has adequate financial capacity and systems of internal control in place.

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

# Introduction (continued)

## The key messages in this report – audit dimensions (continued)

### Governance and transparency

**We have found the Board's governance framework and arrangements to be appropriate and supportive of effective governance and accountability.** The relationship between board members and management is open and transparent and there is evidence of effective challenge from board meetings.

The Board is open and transparent in its decision making and has actively engaged various stakeholders. There are plans in place to expand upon the current engagement strategy with staff and service users, particularly in the lead up to significant changes being made to service delivery as part of the transformation portfolio.

NHS Ayrshire and Arran and the three Ayrshire Councils have well established partnerships, strengthened by the three Ayrshire Integration **Joint Board's (IJB's)**. **As is the case across Scotland, the Board along with the IJBs and Council partners should continue to** work to resolve funding issues around shifting the balance of care between hospitals and communities.

As well as managing short and medium term financial pressures, including demographic pressures and significant cost inflation, a focus for the IJBs and its constituent partners should be to set clear standards for the management and funding of overspend for services commissioned by the IJBs which can be consistently applied and are in line with the Integration Schemes in place.

All constituent partners should also ensure that their roles and responsibilities, as well as that of their IJBs, are well defined as integration across Ayrshire & Arran increases. In particular, the responsibilities and transparency of each IJB in their roles as lead partnerships in designated areas of health and social care should be reviewed to ensure they are standardised and effective.

# Introduction (continued)

## The key messages in this report – audit dimensions (continued)

### Value for Money

The Board has a number of committees in place, in particular the Performance Governance Committee, that provide the Board with assurance that value for money is being achieved whilst overall performance is effectively monitored, managed and improved.

The Board has a well-established performance management framework in place. There are a number of effective performance management systems which are being utilised by management to identify areas of low performance and target areas as part of the transformation portfolio, as well as being used to report on performance in line with the national performance framework.

Performance in the year has declined since 2016/17. March 2018 data shows that 50% (2016/17 – 33%) of LDP performance indicators (12 of 24) are 'red', meaning they fall below acceptable standards. **Waiting times for treatment** is a particular area of weakness based on performance against the LDP standards. We have seen evidence that management is making efforts to address this as part of the transformation portfolio.

Healthcare Improvement Scotland (HIS) conducted a review of the maternity unit at the University Hospital Crosshouse which was published publicly in June 2017. This review was in response to a number of complaints lodged by service users regarding failures in services provided and the subsequent reviews of those failures by management. HIS reported eight key recommendations for the Board to **act upon. A public update was published by HIS in May 2018 stating that the Board's work to address these recommendations was** ongoing however significant progress had been achieved. The Board should ensure that identified areas of poor performance have been addressed and complaints are responded to appropriately.

LDP standards previously constituted the national performance framework applied by Scottish Government. However, this has been replaced by the Annual Operational Plan going forward, and the Board has approved an Annual Operational Plan for 2018/19.

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Pat Kenny  
Audit Director

# Our audit explained

## Area dimensions

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

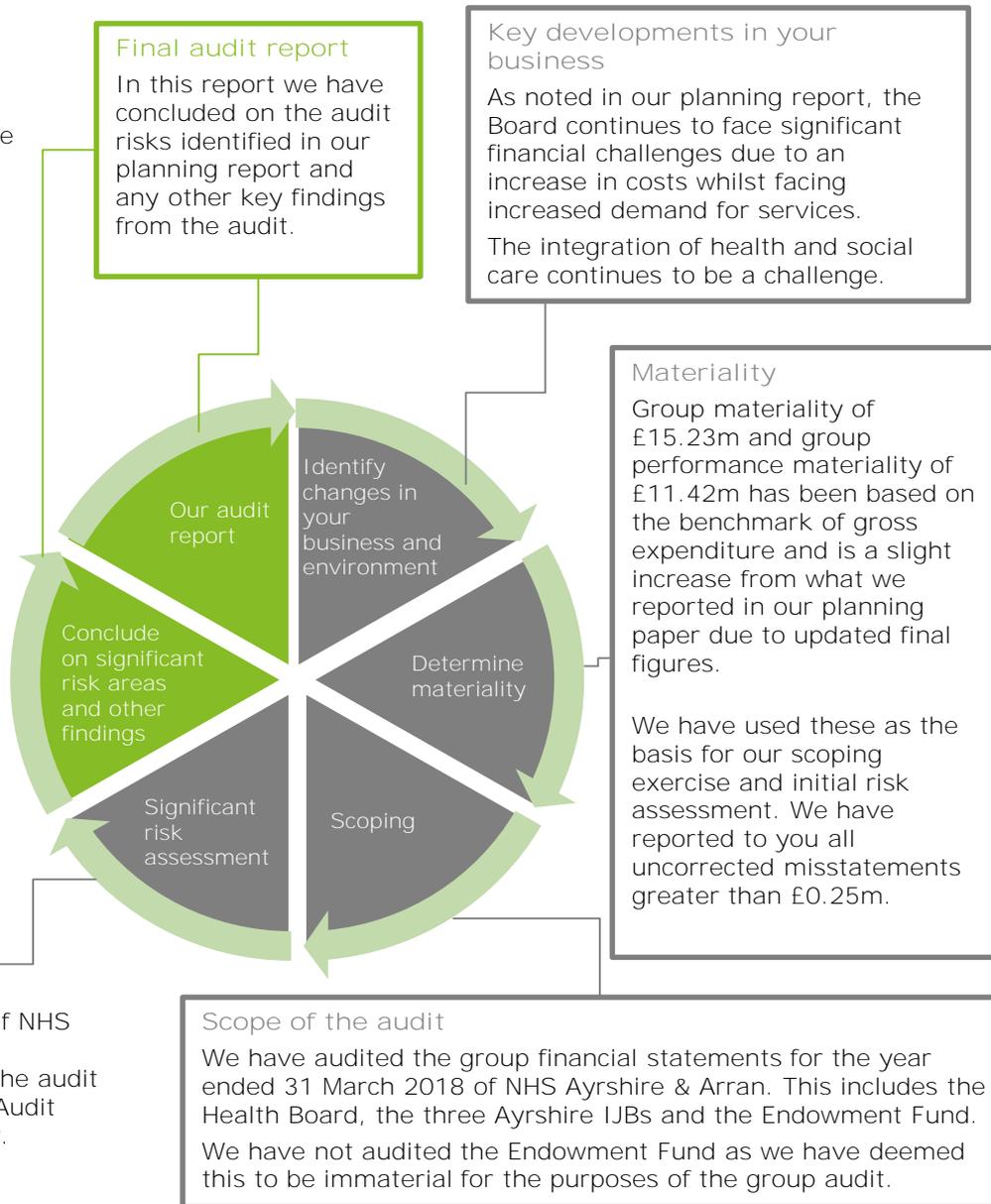
- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

## Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 12 provides a summary of our risk assessment of your significant risks.

## Quality and Independence

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



## Timeline 2017/18



# Financial statements audit



# Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with <b>Deloitte's</b> expectations	Comments	Page no.
Achievement of expenditure resource limit			D+I	Satisfactory		Satisfactory based on work performed to date	13
Management override of controls			D+I	Satisfactory		Satisfactory	14

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

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

# Significant risks (continued)

## Risk 1 – Achievement of expenditure resource limits

### Risk identified

There is a key financial duty for NHS Ayrshire & Arran to comply with the Revenue Resource Limit set by the Scottish Government.

The risk is 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 is therefore pinpointed to accruals and prepayments made by management at the year end and invoices processed around the year end as this is the area where there is scope to manipulate the final results.



### Key judgements and our challenge of them

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

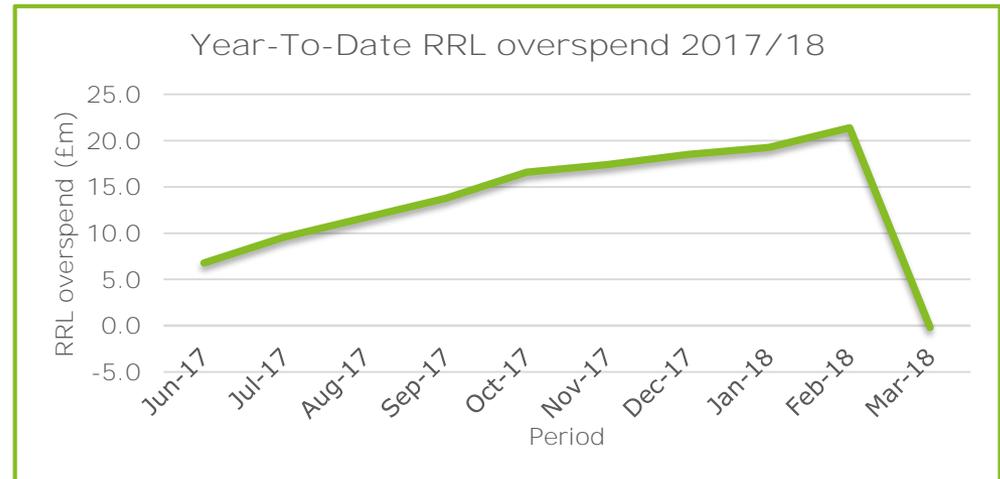


### Deloitte response

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

- Obtaining independent confirmation of the resource limits allocated to NHS Ayrshire & Arran by the Scottish Government;
- Evaluating the design and implementation of controls around monthly monitoring of financial performance;
- Performing focused testing of accruals made at the year end; and
- Performing focused cut-off testing of invoices received and paid post year end.

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



### Deloitte view

We have concluded through the performance of our year end procedures that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers.

We confirm that NHS Ayrshire & Arran has performed within the limits set by the Scottish Government Health and Social Care Directorate (SGHSCD) and therefore is in compliance with the financial targets in the year.

Brokerage of £23.0m was required from Scottish Government in order to meet financial limits. The graph above shows the impact of brokerage received – without this brokerage a deficit of £22.8m would have been reported by the Board. The brokerage was agreed upon in March 2018 and we are satisfied this has been accounted for appropriately and that the Board has therefore met its expenditure resource limit.

# Significant risks (continued)

## Risk 2 - Management override of controls



### Risk identified

In accordance with ISA 240 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. This is a presumed risk that cannot be rebutted by the auditor.

The key judgments in the financial statements includes those which we have selected to be significant audit risks around achievement of expenditure resource limits. This is inherently an area in which management has the potential to use their judgement to influence the financial statements.

### Deloitte view

- We have not identified any significant bias in the key judgements made by management.
- We have not identified any instances of management override of controls in relation to the specific transactions tested in work performed to date.

### 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 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 made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

We have performed design and implementation testing of the controls in place for journal approval. We have used Spotlight data analytics to test a sample of journals, based upon identification of items of potential audit interest. No issues have been noted based on testing performed.

### Accounting estimates

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

# Other significant findings

## Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

### Qualitative aspects of your accounting practices:

We found NHS Ayrshire & Arran's accounting practices to be in line with requirements per accounting standards and industry practice.

Brokerage of £23.0m was received from the Scottish Government in the year. Reviews of the annual accounts are ongoing however management has agreed to ensure appropriate disclosure is made in relation to the brokerage received.

Areas of management judgement, including the recognition of accruals and the revaluation of land and buildings in the year, were appropriate and in line with our expectations.

### Significant matters discussed with management:

The Board received £23.0m in brokerage from the Scottish Government in the year, which contributed towards year end surplus of £0.2m. This has been considered from an accounting practice standpoint as above, and also considered in depth as part of our work around audit dimensions, particularly in relation to financial sustainability.

The group financial statements include the Endowment Fund. As explained on page 10 we have not audited the Endowment Fund as it is not material for group purposes. However, in response to communications received by the Board from Scottish Government during the year, we have discussed with management and performed the following procedures:

- Viewed correspondence from the Chairman of NHS Ayrshire & Arran to Director-General Health & Social Care and Chief Executive of NHS Scotland providing assurance that the **Board's endowment funds have been awarded appropriately** and in line with guidance published for NHS boards, and that no funds have been awarded retrospectively.
- Confirmed that the external auditor of the Endowment Fund has been requested to consider the matters above as part of their audit.
- Viewed the draft audit report produced by the auditor of the Endowment Fund to confirm there were no issues regarding inappropriate allocation or retrospective awards of endowment funds.

### Other matters relevant to financial reporting:

In our judgement there were no other matters relevant to the financial reporting process that require additional disclosure.

We will obtain written representations from the Board on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.



# Other significant findings (continued)

## Insights delivered

### Service user engagement

One of the key responsibilities of the Board – and an area of focus for Audit Scotland (see 'Openness and transparency' on page 41) – is engagement with service users and the wider public. In order to gain a snapshot into the Board's effectiveness in engaging with the public, we have performed a data analysis of NHS Ayrshire & Arran's communications through the social media platform Twitter:

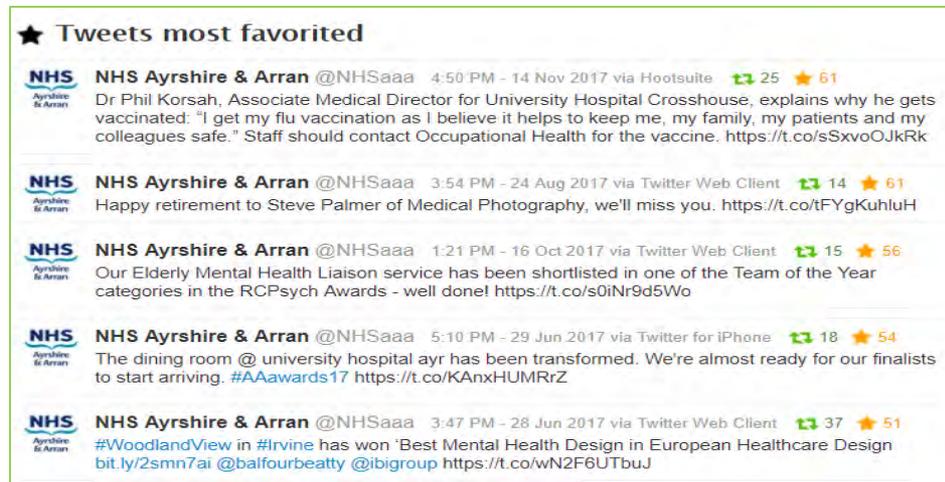


This analysis shows the 'tweets' and 'hashtags' posted by NHS Ayrshire & Arran's Twitter account that have been most effective in engaging with Twitter users.

Key areas of interest to the public based on this analysis are:

- Information regarding seasonal viruses and vaccinations.
- Appropriate pathways for service users based on their condition.
- The 'Caring for Ayrshire' health and social care engagement programme.
- Periodic insights into hospital and staff activity.

The Board should seek to utilise outlets including social media platforms to engage with public and service users, especially during a time of transformation to service delivery. Such platforms can offer useful data on the interests of service users and the most effective way to engage their interest and input.



# 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. The revisions to ISA (UK) 700 have changed the form and content of audit report, including how different sections are presented.



### 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.



### Emphasis of matter and other matter paragraphs

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

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



### Other reporting responsibilities

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

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

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



# Your annual report

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

	Requirement	Deloitte response
The Performance Report	The report outlines NHS <b>Ayrshire &amp; Arran's</b> performance, both financial and non-financial. It also sets out the key risks and uncertainty as set out in the Local Delivery Plan (LDP).	<p>We have assessed whether the performance report has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the performance report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. There is, however, scope to reduce the level of historical detail disclosed to ensure the main messages in relation to the current year are not lost.</p> <p>A finding has been raised within our action plan (see page 48) as a result of the quality of the first draft of the performance report submitted to us for review which was not fully compliant with the Government Financial Reporting Manual (FRoM). Audit Scotland has issued a series of best practice guides which are discussed further on page 19 and we would recommend management consider for 2018/19 annual report.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FRoM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	<p>Our reviews of the draft of the governance statement to be included in the annual report are ongoing. We will review the governance statement to assess its consistency with the financial statements and whether it has been prepared in accordance with the accounts direction.</p> <p>We have read the accountability report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We have also audited the auditable parts of the remuneration and staff report and confirmed that it has been prepared in accordance with the accounts direction.</p>
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	<p>We have confirmed that whilst the Board is yet to approve an annual budget for 2018/19, a draft budget that was submitted to the Performance Governance Committee on 4 June 2018 identified a funding gap of £22.4m for the year and requires savings of £26.1m to be achieved. We have concluded that although it is challenging (as discussed further on page 22) the plan is sufficiently robust to demonstrate that NHS Ayrshire &amp; Arran will be a going concern for 12 months from signing the accounts.</p> <p>While brokerage was required in 2017/18 to achieve financial balance and there is uncertainty around the achievement of savings to balance future year budgets, the Scottish Government has committed to ongoing funding of the Board. Accordingly, the accounts have been prepared on the going concern basis. These facts have been appropriately disclosed within the Performance Report.</p>

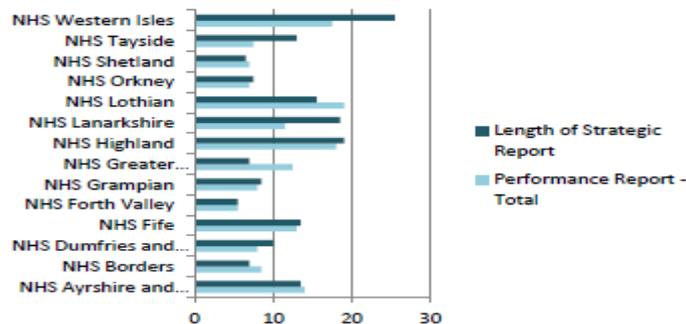
# Your annual report (continued)

Audit Scotland has issued a series of Good Practice notes to highlight where annual reports can be improved. We have provided below some extracts which should be considered by NHS Ayrshire & Arran in drafting future annual reports.

## Length of performance reports

Boards need to strike a balance between completeness and conciseness in the level and type of information provided. There are risks that boards are either overly brief and do not fully meet the FReM's minimum requirements or they include too much unnecessary information leading to the main messages being lost.

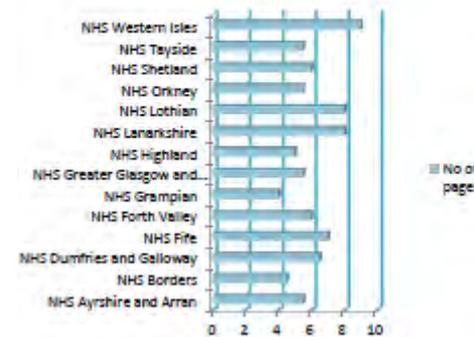
The NHS Ayrshire & Arran Performance and Accountability Report (excluding the Governance Statement and Remuneration Report) is 20 pages in the 2017/18 annual report. This is longer than most other NHS boards analysed in the chart below. The Board may wish to consider scope for reduction, particularly in relation to the level of information given regarding prior years. **However, given the Board's financial performance a longer than average report would be expected.**



## Length of governance statement

**Audit Scotland's good practice note in 2015 reported that there was more that could be done to improve the presentation of information and reduce clutter in governance statements.** A review of the length of 2014/15 governance statements highlights the variation in the length of the disclosures.

### Length of 2014/15 Governance statements



The NHS Ayrshire & Arran governance statement is six pages. Based on the above analysis is generally in line with the average across other NHS boards. The Board should ensure a balance is found between the level and type of information provided.

Key messages from good practice note issued in 2017.

### Giving the reader enough information

- Ensuring balance between the overview and analysis sections
- Providing sufficient information
- Disclosure of PPP/PFI

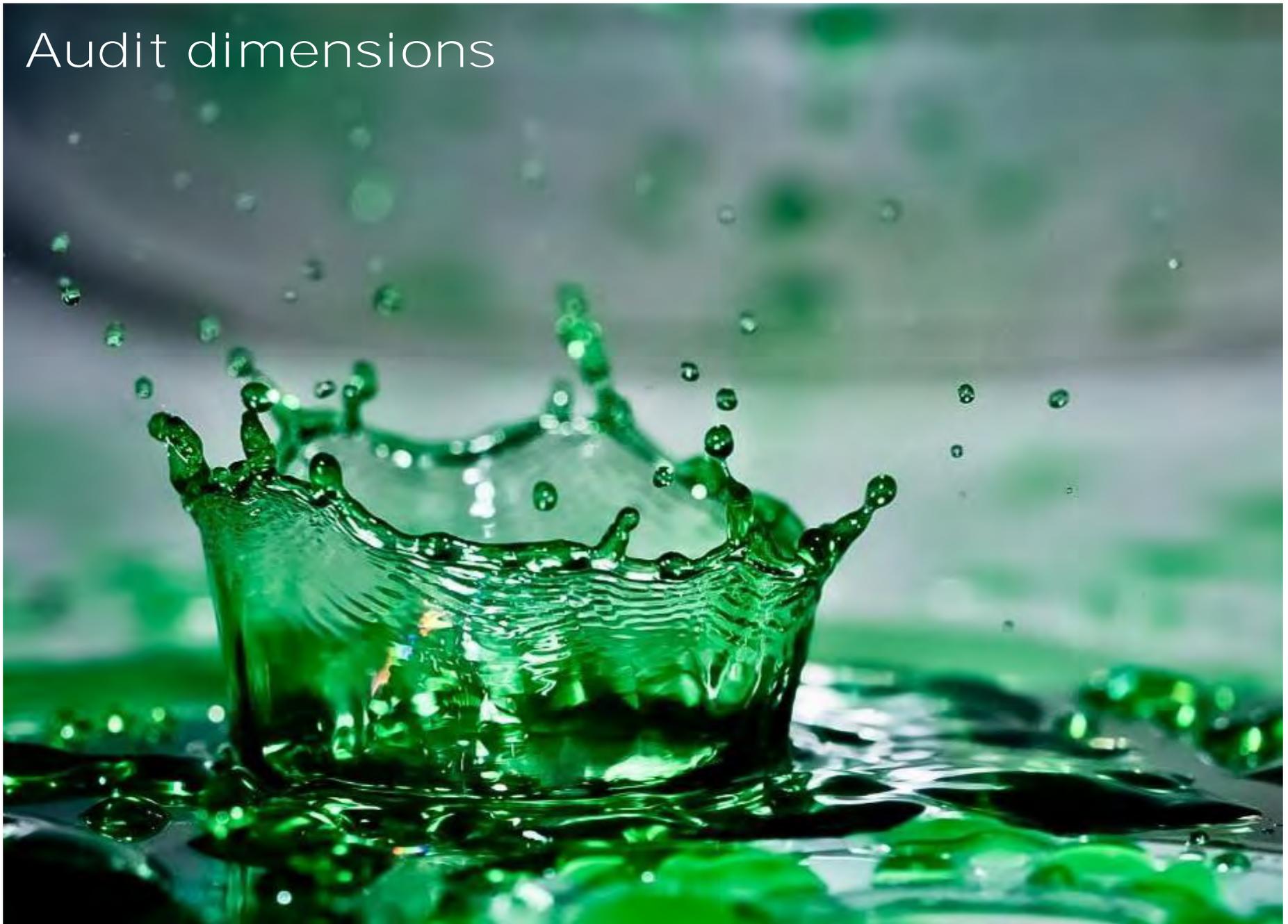
### Making clear disclosures

- Using overly technical information
- Clear explanation of financial performance
- Disclosure of brokerage

### Telling a consistent story

- Providing a consistent narrative on the non financial indicators
- Making disclosures specific to the board
- Providing a high level balanced picture of performance

# Audit dimensions



# Audit dimensions

## Overview

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



### Best Value (BV)

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

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

### Specific risks (SR)

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

- SR 1 – EU Withdrawal
- SR 2 – New Financial Powers
- SR 3 – Ending public sector pay cap
- SR 4 – Cyber security risk
- SR 5 – Openness and transparency

# Audit dimensions (continued)

## Financial sustainability

### Audit dimension

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

#### Areas considered



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

#### Deloitte response



From our work in 2016/17 we made various recommendations to the Board around the development of detailed savings plans, review of strategic risk management processes and review of the transformation change delivery infrastructure. This year we have assessed progress in relation to these recommendations. We have also reviewed progress achieved in relation to transformational change and workforce planning, taking into account the external review of the transformation plan performed during the year to inform our assessment.

#### Deloitte view

NHS Ayrshire & Arran continues to face an extremely challenging financial position. The Board met its financial targets in 2017/18 however this was only achieved after brokerage of £23.0m **was received from the Scottish Government. This is the first time in the Board's history that** brokerage has been required. The Board is required to repay any brokerage received from the Scottish Government, and a repayment plan is yet to be agreed.

The Board is yet to approve an annual budget for 2018/19 however a draft budget submitted to the Performance Governance Committee on 4 June 2018 identified a funding gap of £22.4m for the year, requiring savings of £26.1m to be achieved. Meeting this budget will be a significant challenge based on 2017/18 performance without major transformational change. A draft three-year financial plan submitted to Scottish Government shows a further projected funding gap of £13.0m in 2019/20 before achieving a balanced budget in 2020/21. Based on these ambitious financial plans, a further £35.4m in brokerage would be required from Scottish Government over the next two years in addition to the £23.0m required in 2017/18. However, there is a likelihood that more brokerage than forecasted will be required over the next two years and beyond based on recent performance versus budget.

**Various transformation programmes are ongoing as part of the Board's Transformation Change Improvement Plan 2017-20 (TCIP).** This plan was subject to an external review performed during the year. One key finding raised in the review was that the current transformation plans in place are not substantial enough to achieve long term financial sustainability, and that plans for greater medium to long term transformational change are required. Management has since evaluated the findings and recommendations made within the review. Achieving financial balance in the medium term through the work of the TCIP remains extremely challenging.

Given the level of changes required, the Board also need to consider the supporting infrastructure required to deliver on the TCIP, as discussed further on page 26.

# Audit dimensions (continued)

## Financial sustainability (continued)

### Short term financial position

For **2017/18**, the Board approved a budget reflecting a projected overspend of £13.2m. The final position for 2017/18 was a £0.2m underspend following receipt of £23.0m brokerage from Scottish Government. Brokerage is a short term form of financing available to health boards on the basis of assurance from the board that it can be repaid over an agreed upon period. The 2017/18 budget also included cash-releasing efficiency savings (CRES) of £24.8m, of which £20.0m was achieved, and the remaining £4.8m was achieved through productivity savings.

The key factors which have resulted in the **Board's** requirement for £23.0m in brokerage from Scottish Government in the year were:

- Forecasted overspend per the 2017/18 Board-approved annual budget (£13.2m).
- The use of unfunded beds (c.£7.0m).
- Unachieved cash releasing efficiency savings (CRES) (c.£6.6m).

For **2018/19**, the budget is yet to be approved by the Board, however the most recent draft reflects a £22.4m projected overspend in the year with savings of £26.1m to be achieved. Key areas of targeted budget savings are as follows:

- Closing unfunded beds (£4.0m).
- Workforce costs (incl. agency staff) (c.£3.0m).
- GP prescribing (c.£2.7m).

On the assumption that this budget could be achieved, the Board would need to request a further £22.4m in brokerage from Scottish Government in 2018/19.

In setting its budget the Board has recognised that a number of risks exist, such as demand and demographic changes, and financial challenges of £70m have been identified for 2018/19. NHS Ayrshire & Arran has inpatient admission rates which are approximately 30% higher than the Scottish average per head of population. The Ayrshire & Arran region has an ageing population and areas of relatively high deprivation. This has impacted on inpatient admission rates and also increased demand for elective care. The key areas of focus for the Board in the short to medium term are the reduction in the use of unfunded beds and agency staff, given the cost pressures noted.

In 2017/18 the Board forecasted £13.2m in overspend and £24.8m in CRES. Actual overspend for the year was £22.8m (172% of budget) and actual CRES achieved was £20.0m (81% of budget). On this basis there is a likelihood that additional brokerage will be required to that forecasted per the short to medium financial plans in place.

The budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018. Final pay awards are yet to be confirmed by Scottish Government, however assurances have been given to all health boards that additional funding will be provided to cover the cost of any pay award increases above a 1% increase. The longer term funding impact has still to be addressed.

# Audit dimensions (continued)

## Financial sustainability (continued)

### Medium to long term financial sustainability

The Board has achieved significant savings over the last five years, however due to increasing demand for services and the continuing restraint in relation to funding settlements, the focus of the Board has shifted from efficiencies alone and towards transformational change. There is an understanding throughout the Board, and as highlighted by the external review of the TCIP, that identifying efficiencies alone will not facilitate a balanced budget. Real transformational change to service delivery in the medium to long term is required in order to meet the needs of citizens as cost increases continue to outpace funding increases.

The graph below shows the in-year savings achieved over the last five financial years. Whilst it shows significant progress, savings achieved are likely to tail off sharply going forward unless significant transformational change can be achieved:



A draft three-year financial plan submitted to Scottish Government shows a further £13.0m projected overspend in 2019/20 before a balanced budget is achieved in 2020/21. On this basis the Board would require a further £35.4m in brokerage from the Scottish Government over the next two years in order to meet its expenditure resource limits. These are ambitious targets set by the Board based on recent performance.

The external review of the TCIP performed during the year concluded that the current scale of transformational change planned is not adequate for the Board to achieve long term financial sustainability. It also found that the funding gap in a 'do nothing' scenario could reach 16% of annual funding available by 2020/21.

As part of our assessment of the **Board's** approach to financial sustainability we have found a lack of focus given by the Board to detailed medium to long term planning. This is in line with a similar finding raised within the external review of the transformation portfolio that there is a lack of effective analysis of future cost pressures and planned benefits linked to the transformation portfolio. See page 29 for more detail.

# Audit dimensions (continued)

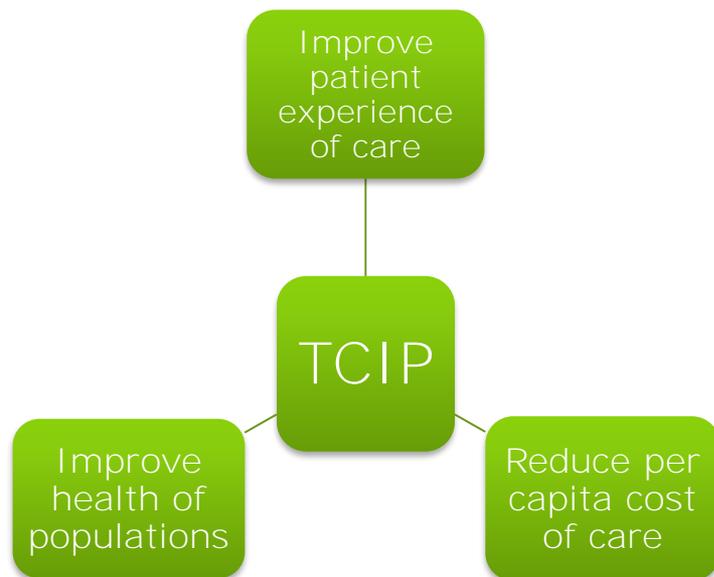
## Financial sustainability (continued)

### Transformational Change Improvement Plan (2017-20) (TCIP)

The Board has a portfolio of transformation programmes planned and underway as part of its TCIP. The key aims of the plan are:

- To improve the patient experience of care (including quality and satisfaction);
- To improve the health of populations; and
- To reduce the per capita cost of health care.

The **Board's transformation plans are a fundamental part of efforts** to address long term financial sustainability challenges and achieve a balanced budget.



The TCIP was subject to an external review during the year to assess the strengths and weaknesses of the **Board's transformation plans**.

Key findings and recommendations made were as follows:

- **The funding gap in a 'do nothing' scenario could reach 16% of annual funding available by 2020/21;**
- There is an urgent need to improve the pace of change, coordination and operational grip through the transformation programmes;
- There is an urgent need to measure the planned financial benefits of each transformation programme and to perform robust cost-benefit analyses of any plans going forward;
- Current transformation plans are unlikely to close the financial gap and greater long term transformation plans are required; and
- The governance structures and capacity in place are not adequate to achieve successful scrutiny and delivery of the transformation programmes.

# Audit dimensions (continued)

## Financial sustainability (continued)

### Transformational Change Improvement Plan (2017-20) (TCIP) (continued)

The Board has since evaluated the findings and recommendations raised and implemented various changes. Key changes made include the following:

- A Workforce Scrutiny Group has been established to constructively challenge recruitment processes in place;
- Transformation decision making is now linked to stronger financial reporting processes;
- A cultural change programme is underway to achieve the buy-in of staff and ensure their shared responsibility for the success of the transformation programmes;
- The pace of closing unfunded beds and shifting demand towards underutilised community sites has increased; and
- IT solutions implemented to reduce GP referrals and outpatient follow-ups.

Through our work we have raised findings similar to those identified within this external review, particularly in relation to the robustness of medium to long term financial planning processes and the need to review the transformational change delivery infrastructure in place.

Given the level of change required, the Board also needs to consider the supporting infrastructure required to deliver the TCIP such as:

- Its change management approach;
- Tools and templates to assess whether intended benefits of change have been achieved; and
- Whether it requires external specialist support for any aspects of its Plan.

The Board should determine the extent of transformation required in order to achieve long term financial sustainability and targeted improvements in performance. Any change management programme in place cannot be fully effective until the ultimate aims of the plan have been determined. We have raised a recommendation around this as part of our action plan – see page 49.

#### Best Practice examples

In our 2016/17 annual report, we provided the Board with some case study data where Deloitte has been involved in cost reduction work with a number of NHS bodies in England. We recommended that the Board reviews these case studies and considers them as opportunities for improvement going forward as potential areas for cost reduction.

From our experience, public sector bodies that have successfully delivered and sustained transformational change have tended to focus on the six key requirements, which is discussed further on page 37. The overarching aspect throughout a transformation programme is having strong leadership that believes in and can drive transformational change.

We have also provided some real life examples of work done in other health bodies to demonstrate how some of these six key requirements can be applied in practice, as discussed on page 38.

# Audit dimensions (continued)

## Financial sustainability (continued)

### Workforce strategy and plan

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

The Board continues to face difficulties in filling medical vacancies in some specialities which has contributed to a staff agency and locum spend of £11.2m in the year (2016/17 - £13.5m). These costs account for 2.7% of total staff costs in 2017/18 (2016/17 - 3.4%).

Agency costs have risen sharply in recent periods as costs more than doubled in the two year period between 2014/15 (£6.2m) and 2016/17 (£13.5m). However, we have seen a significant decrease of 20.5% in agency costs from 2016/17, as shown below.



As with all NHS Boards, NHS Ayrshire & Arran has challenging savings targets to meet moving forward to continue to be financially sustainable. One key action taken by the Board during the year was to establish the Workforce Scrutiny Group (WSG). **The WSG is intended to improve the Board's 'operational grip' as well as achieve cost reductions and productivity gains through workforce planning.** Key responsibilities of the WSG are:

- To scrutinise vacancy positions and ensure control over resultant workforce costs;
- To challenge agency spend as well as progress from Medical and Nursing Deliver Groups in resolving reliance on agency staff; and
- To challenge absence costs and achieve a reduction in absences across the Board.

# Audit dimensions (continued)

## Financial management

### Audit dimension

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

### Areas considered



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

### Deloitte response



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

We have evaluated the key financial systems and internal control as part of our financial statements audit work and considered the work of internal audit.

We have considered the capacity and skills within the senior management of the finance team.

**We have reviewed the Board's arrangements for the prevention and detection of fraud and irregularities.**

### Deloitte view

Performance against budget for 2017/18 indicates a potential weakness in the budgeting and forecasting processes in place. As discussed as part of our financial sustainability assessment, brokerage required from Scottish Government was significantly greater than budgeted and actual savings fell considerably short of budgeted targets. Whilst there is clear evidence that senior management was transparent regarding actual and forecasted financial performance throughout the year, and the Board provided sufficient scrutiny and challenge to senior management regarding performance, action should be taken by management in an effort to prevent such deviations from plans in future periods.

We have found the short term budgets in place to be in line with the strategic priorities of the Board. However, we have also found there is a lack of focus on detailed medium to long term budgeting, largely as a result of significant short term financial challenges faced and an uncertainty in Scottish Government funding available in future periods. This is in line with the finding raised within the external review of the TCIP that future cost pressures and projected savings as a result of transformational change had not been articulated by the Board at a detailed level. Management has since taken action to address this finding by performing detailed cost-benefit analyses of transformational programmes going forward.

From our testing performed throughout the audit and following our review of internal audit reports issued in the year we are satisfied that the Board has adequate financial capacity and systems of internal control in place.

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

# Audit dimensions (continued)

## Financial management (continued)

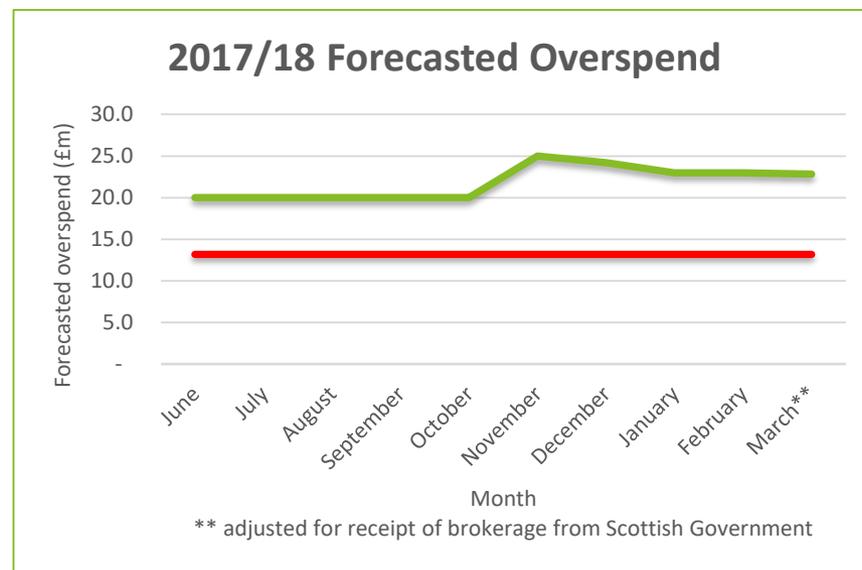
### Budgetary control systems

No issues have been noted with the capacity of the finance function responsible for maintaining the budgetary control systems in place throughout the year. Senior management is able to effectively monitor actual and budgeted performance and report to the Board accordingly.

It should be noted that North Ayrshire IJB recently appointed a full time S95 officer in view of the significance of the role. The Board should monitor the capacity of management, especially given the financial challenges faced, with regards to the East and South Ayrshire IJBs.

The 2017/18 Board approved annual budget forecasted £13.2m in overspend in the year, and in March 2018 the Board requested £23.0m in brokerage from Scottish Government in order to achieve its financial targets. The graph on this page shows the forecasted overspend in each period of the year from June onwards against the £13.2m forecasted overspend per the annual budget. This shows that forecasted overspend was increased to £20.0m just three months into the financial year, and that actual overspend in the year (adjusted for brokerage) was £22.8m. The £9.6m difference between budgeted and actual overspend suggests there were weaknesses in the budgeting processes in place when the 2017/18 budget was approved. Management should address any potential weaknesses in the budgeting process going forward.

We have found that a lack of attention has been given to detailed medium to long term financial planning by the Board. Whilst it is clear that medium to long term transformation planning is ongoing, the Board should ensure that longer term budgeting processes are in place which effectively capture cost pressures faced in the medium to long term.



# Audit dimensions (continued)

## Financial management (continued)

### Systems of internal financial control

**We have evaluated the Board's key financial systems and** internal control to determine whether they are adequate to prevent misstatements in the annual accounts. 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.

No material weaknesses have been identified from our audit work performed.

### Internal Audit

We have completed an assessment of the independence and competence of the internal audit department and reviewed their work and findings with no significant issues noted.

The internal audit function continued to be provided by PwC during 2017/18. It aims to provide assurance over the adequacy, efficiency and effectiveness of the local governance, risk management and internal control framework. The audit plan was agreed by the Audit Committee at the start of the year, and regular progress reports have been provided to the Committee throughout the year. The internal audit function for 2018/19 will be provided by Grant Thornton.

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

### *Fraud and irregularity*

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

In accordance with Audit Scotland planning guidance, we are required to monitor the **Board's** participation and progress in the National Fraud Initiative (NFI) during 2016/17 and 2017/18. An NFI audit questionnaire was completed and submitted to Audit Scotland on 28 February 2018, which concluded that the Board was fully engaged in the exercise.

# Audit dimensions (continued)

## Governance and transparency

### Audit dimension

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

### Areas considered



- Governance arrangements.
- Scrutiny, challenge and transparency on decision making and financial and performance reports.
- Quality and timeliness of financial and performance reporting
- **Accountable officers' duty to secure Best Value**

### Deloitte response



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

We have also reviewed the governance arrangements in relation to the IJB.

### Deloitte view

We **have found the Board's governance framework and arrangements to be** appropriate and supportive of effective governance and accountability. The relationship between board members and management is open and transparent and there is evidence of effective challenge from board meetings.

The Board is open and transparent in its decision making and has actively engaged various stakeholders. There are plans in place to expand upon the current engagement strategy with staff and service users, particularly in the lead up to significant changes being made to service delivery as part of the transformation portfolio.

NHS Ayrshire and Arran and the three Ayrshire Councils have well established partnerships, strengthened by the three Ayrshire **Integration Joint Board's (IJB's)**. **As is the case across Scotland, the Board along with the IJBs and Council partners should** continue to work to resolve funding issues around shifting the balance of care between hospitals and communities.

As well as managing short and medium term financial pressures, including demographic pressures and significant cost inflation, the constituent partners should look to set clear standards for the management and funding of overspend for services commissioned by the IJBs which can be consistently applied and are in line with the Integration Schemes in place.

All constituent partners should also ensure that their roles and responsibilities, as well as that of their IJBs, are well defined as integration across Ayrshire & Arran increases. In particular, the responsibilities and transparency of each IJB in their roles as lead partnerships in designated areas of health and social care should be reviewed to ensure they are standardised and effective.

# Audit dimensions (continued)

## Governance and transparency (continued)

### Governance arrangements

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

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

**We have concluded that overall the board's arrangements are otherwise appropriate and adequate in supporting effective governance and accountability.**

We noted from our interviews with a sample of Board members that the workload of Non-Executive Directors (NEDs) is increasing, including their roles as IJB members. It was also noted that some of the current NEDs are coming to the end of their appointment. The Board therefore needs to ensure that it has sufficient capacity and experience in place.

We also noted that whilst all NEDs are given a formal inductions, the ongoing training programmes available could be more robust to ensure NEDs are receiving the required level of support.

### Risk management

A developed and integrated approach to risk management is a key feature of a robust system of internal control. The **corporate risk register is linked to NHS Ayrshire & Arran's** corporate objectives, and the Board receives regular updates from management on any changes and challenges to its corporate risks and objectives.

Whilst acknowledging the Board faces ongoing challenges and significant risk, we have concluded that risk management arrangements are satisfactory and appropriate.

# Audit dimensions (continued)

## Governance and transparency (continued)

### Health and social care integration

NHS Ayrshire & Arran and the three Ayrshire Councils have well established partnerships, strengthened by the three Ayrshire Integration **Joint Board's (IJB's) which were established in April 2015 ahead of most other areas in Scotland. The IJB's worked quickly to agree their plans and formalise their Integration Schemes, which reflect both national and local commitments.**

For 2017/18, each IJB performance against budget has been summarised in the table below:

	Over/(Under) Spend 2017/18 (£m)		
	East Ayrshire IJB	North Ayrshire IJB	South Ayrshire IJB
Council managed budget	-	2.6	(0.2)
NHS managed budget	-	-	(0.7)
IJB Total	-	2.6	(0.9)

North Ayrshire IJB is the only IJB which has recorded an overspend in the year. A £2.6m overspend in relation to Council-commissioned services has been incurred for 2017/18 – this follows a £3.2m overspend on Council-commission services in 2016/17. This results in the IJB carrying forward a payable of £5.8m owed to North Ayrshire Council as at the end of 2017/18.

# Audit dimensions (continued)

## Governance and transparency (continued)

### Health and social care integration (continued)

The 2018/19 budgets for all three IJBs have yet to be approved as a result of delays in NHS Ayrshire & Arran approving their 2018/19 annual budget.

Each partnership recognises that increasing demand, less money and the need to make savings means that it needs to think and work differently.

- The East Ayrshire IJB approved a medium term financial plan (2017/18-2021/22) for the partnership in November 2017. The plan identified an indicative budget gap of around £38.0m to 2021/22, with around £21.0m of this gap needing to be delivered by radically transforming how services are provided.
- The North Ayrshire IJB approved a medium term financial plan (2017/18-2019/20) for the partnership in March 2017. The plan identified an indicative budget gap of around £39.2m to 2019/20, with around £23.9m of this gap needing to be delivered by radically transforming how services are provided.
- The South Ayrshire IJB is yet to approve a medium term financial plan. In our 2016/17 report to the IJB we recommended that a plan was developed, and we understand this is being progressed. We will follow up as part of our 2017/18 audit of the IJB.

As integration between the Board and its Council partners increases, all constituent parties should take steps to ensure that overspends are managed effectively and consistently as well as in line with the Integration Schemes. Additionally, as integration increases between the three IJBs, steps should be taken to ensure each IJB is clear regarding its responsibilities for funding and providing lead partnership services, and standards of transparency should be established.

Each of the Ayrshire IJBs have made significant progress to date but recognise that challenging areas remain. In common with other IJBs across Scotland, they have not managed to resolve **issues around the 'set aside budget'**. Scottish Government guidance recommends that the NHS Board set aside a budget for large hospital services that are used by the associated IJB population. The three Ayrshire IJBs were early adopters of integrated care. However, there is no evidence that the NHS set aside budget is integrated into the IJBs budgets.

The IJBs are looking at ways to provide more care in the community rather than the acute setting, such as hospitals. However, there is increased demand from both community and hospital care. As a result, pressure on acute hospitals remains high and local health partners do not believe they are in a position to safely reduce these services. This issue applies across Scotland, and the NHS and its partners have been proactive in attempting to resolve it. Significant challenges remain, however, in delivering the full benefits of integration.

# Audit dimensions (continued)

## Value for money

### Audit dimension

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

### Areas considered



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

### Deloitte response



From our 2016/17 audit work we concluded that the Board had a well established performance management framework in place with performance regularly considered by management, and the Board.

During 2017/18 we have reviewed how the Board is addressing areas where targets are not being met, and also assessed the impact of moving to the Pentana Performance Management system in achieving Local Delivery Plan targets.

### Deloitte view

The Board has a number of committees in place, in particular the Performance Governance Committee, that provide the Board with assurance that value for money is being achieved whilst overall performance is effectively monitored, managed and improved.

The Board has a well-established performance management framework in place. There are a number of effective performance management systems which are being utilised by management to identify areas of low performance and target areas as part of the transformation portfolio, as well as being used to report on performance in line with the national performance framework.

Performance in the year has declined since 2016/17. March 2018 data shows that 50% (2016/17 – 33%) of LDP performance indicators (12 of 24) **are 'red', meaning they fall below acceptable standards.** Waiting times for treatment is a particular area of weakness based on performance against the LDP standards. We have seen evidence that management is making efforts to address this as part of the transformation portfolio.

Healthcare Improvement Scotland (HIS) conducted a review of the maternity unit at the University Hospital Crosshouse which was published publicly in June 2017. This review was in response to a number of complaints lodged by families regarding failures in services provided and the subsequent reviews of those failures by management. HIS reported eight key recommendations for the Board to act upon. A public update was **published by HIS in May 2018 stating that the Board's work to address these recommendations was ongoing however significant progress had been achieved.** The Board should ensure that identified areas of poor performance have been addressed and complaints are responded to appropriately.

LDP standards previously constituted the national performance framework applied by Scottish Government. However, this has been replaced by the Annual Operational Plan going forward, and the Board has approved an Annual Operational Plan for 2018/19.

# Audit dimensions (continued)

## Value for money (continued)

### Overview of performance targets in 2017/18

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

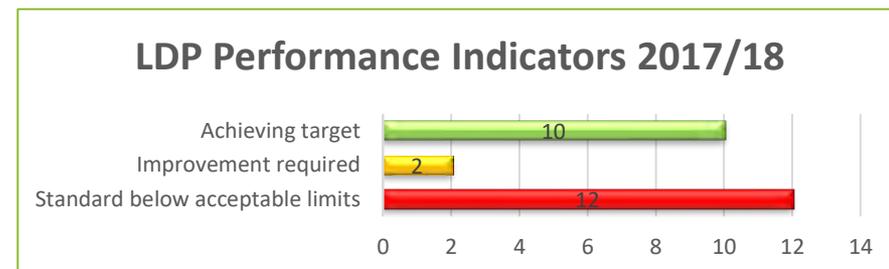
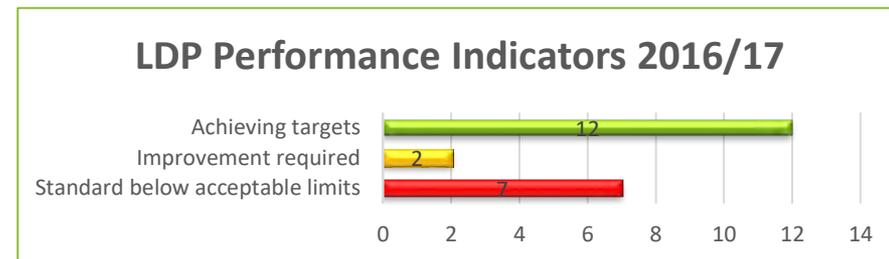
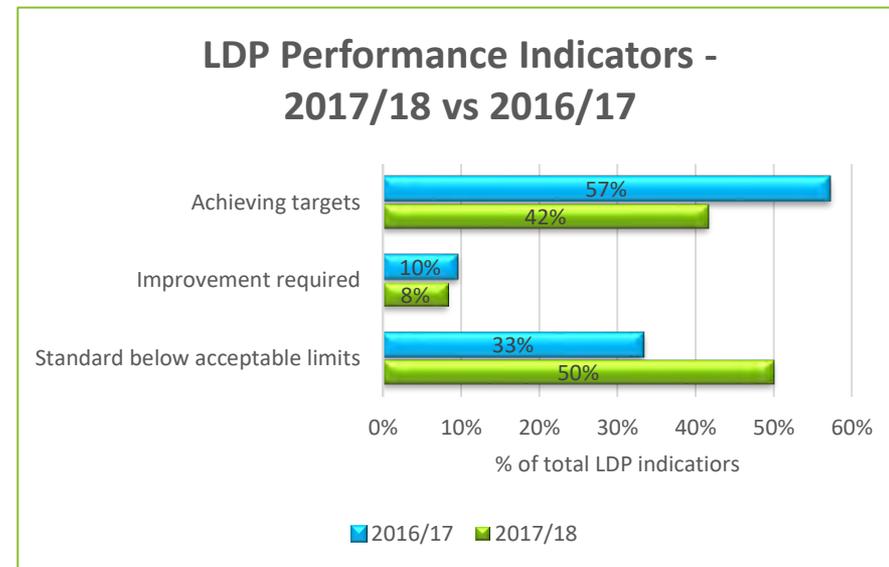
Overall, in 2017/18 performance declined based on prior year. The **percentage of indicators which were 'red' and therefore are below acceptable standards increased to 50% from 33%.**

The Board recognises that there are significant performance issues that need to be addressed. We have seen evidence of plans in place as part of the transformation portfolio and the 2018/19 Annual Operational Plan, which include:

- o Further developing the Infant, Children's and Young People's programme.
- o Implementing a strategic framework to prevent drug related deaths through the Alcohol and Drug Partnerships.
- o Implementing a multi-agency tobacco strategy involving all three Ayrshire HSCPs and acute health.

There is a clear understanding from senior management that the focus of transformational change cannot be solely on achieving financial efficiencies, and that the nature and extent of services must change fundamentally in order to improve standards of care in line with national reporting standards and within the means of the annual budget.

A number of demand management programmes have been piloted in order to move demand away from acute care. These have been successful on a small scale but that success is yet to be translated on a larger and more meaningful scale. Current focus is on admissions data in order to determine underlying factors driving demand and how this can be addressed. Key factors are age and deprivation in the Ayrshire & Arran area.



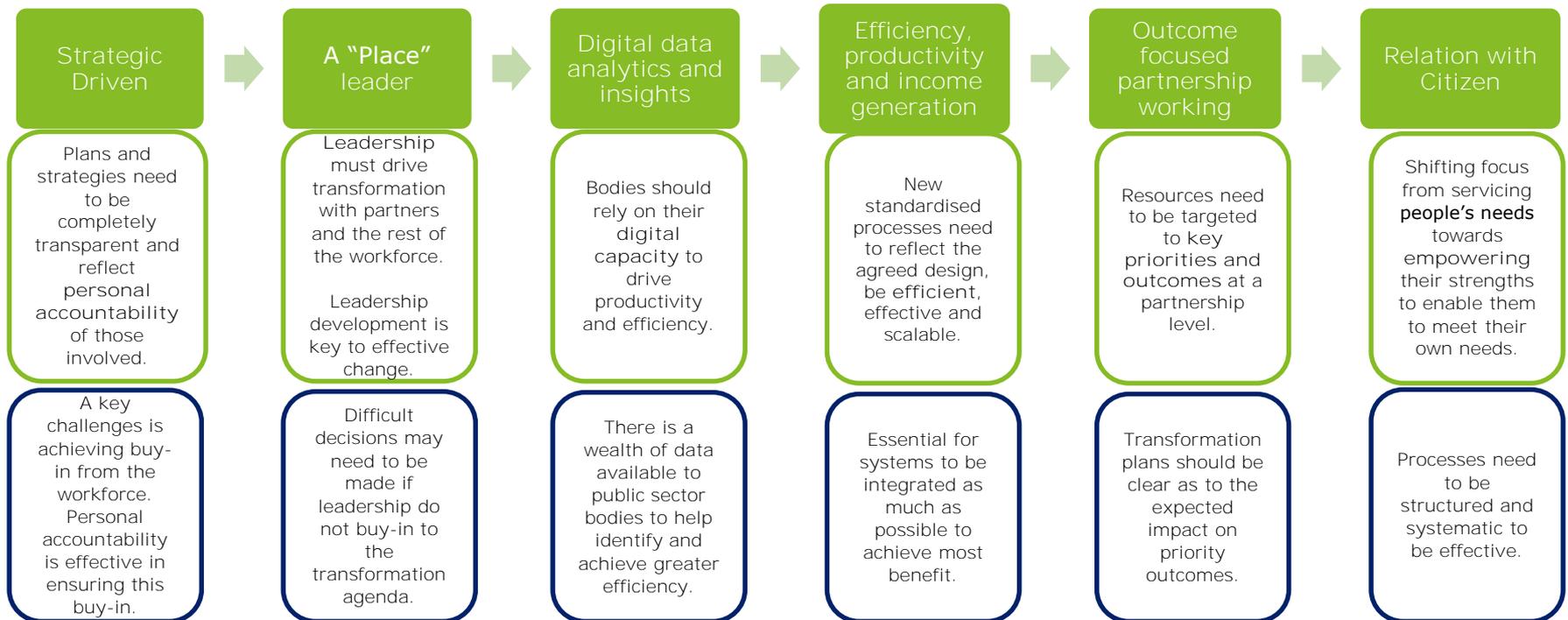
# Audit dimensions (continued)

## Sharing best practice

In our 2016/17 annual report, we provided the Board with some case study data where Deloitte has been involved in cost reduction work with a number of NHS bodies in England. We recommended that the Board reviews these case studies and considers them as opportunities for improvement going forward as potential areas for cost reduction.

During 2017/18, we have had some further discussion with the North Ayrshire Council Executive Director (Finance and Corporate Support) and the Head of Finance for the North Ayrshire Health and Social Care Partnership to share areas of best practice around transformation and integration from our work in England.

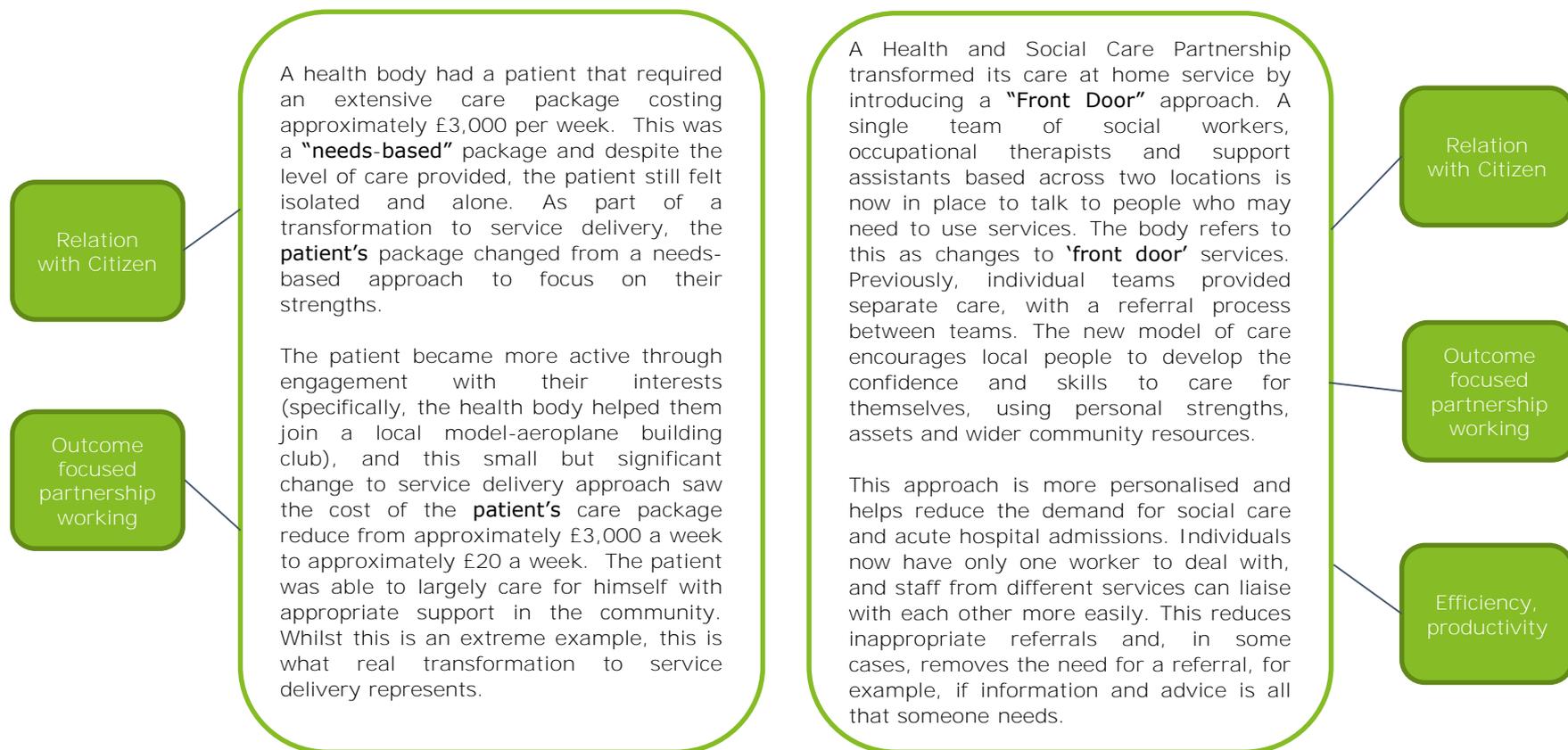
From our experience, public sector bodies that have successfully delivered and sustained transformational change tend to focus on the following six key requirements. The overarching aspect throughout a transformation programme is having strong leadership that believes in and can drive transformational change.



# Audit dimensions (continued)

## Sharing best practice (continued)

Below are some real life examples of work done in other health bodies to demonstrate how some of these six key requirements can be applied in practice.



# Audit dimensions (continued)

## Sharing best practice (continued)

Strategic Driven - shift in culture.

Monetary incentives can help achieve a shift in culture. Currently there are incentives and systems in place that result in money being funnelled towards hospitals. Investment in early detection and prevention requires a change. One example of such change took place in Spain in 1999 (known as the [Alzira Model](#)). This focused on a shift towards long-term capitated budgets which incentivised the health care system to keep people out of hospital and to deliver effective services as cost-efficiently as possible. Reimbursement was only received by the healthcare system that provides the care to the patient, therefore the provider is incentivised to maintain and drive up the quality of care to encourage patient loyalty.

Benefits which were evidenced from this model included a 27% decrease in cost per capita, 34% reduction in hospital readmissions within 3 days, 54% reduction in average A&E waiting times, average length of stay reduced by 20%, 91% patient satisfaction and 93% staff satisfaction. Below is a case study explaining the outcome of one aspect of this model which could be adapted for Scotland.

A Health and Social Care Partnership invested in its digital capacity to collect and process data so it can better predict chronic health issues occurring amongst patients. This investment has allowed the partnership to reduce its acute care costs as less expensive and more effective health care can be provided upfront to address potential chronic health risks predicted by the data.

A police force, in partnership with its local health body, used data to reduce acquisitive crime rates. Data identified a pattern of acquisitive crime peaking on the weekends, and the police force determined that this was largely driven by the fact that methadone prescriptions in the area were issued every Friday. The health body therefore led a programme to stagger the prescriptions throughout the week, leading the acquisitive crime rates levelling out and becoming more manageable.

Digital data analytics and insights

### Case study: Demand management

Numerous hospitals have taken steps to reduce referrals to hospitals following primary care consultations. Hospital de la Ribera recently attached a consultant physician to each health centre, working with the same patients as the GP. This is designed to implement clinical guidelines with the local GPs, resolve medical problems in the health centre, and reduce the number of inappropriate hospital referrals. Further innovations include enlarging health centres with on-site X-ray services, accident and emergency departments and medical specialist outpatient clinics. Hospital de Manises is integrating medical care pathways with the aim of streamlining the management of health problems, from primary prevention through to palliative care and including acute care, rehabilitation, secondary prevention and chronic care.

# Audit dimensions (continued)

## Specific risks

In accordance with our Audit Plan, we have considered the specific risks identified by Audit Scotland as part of our audit as follows:

Risk identified	Response
EU Withdrawal	<p>The UK is expected to leave the European Union (EU) on 29 March 2019, followed by a transition period to the end of 2020. There are still a lot of uncertainties surrounding the terms of the withdrawal agreement but the outcome will inevitably have significant implications for devolved governments in Scotland and for Scottish public sector bodies.</p> <p>Given the scale of the potential implications and possible timescales for implementing changes, it is critical that public sector bodies are working to understand, assess and prepare for the impact on their organisation. This is likely to include consideration of three areas:</p> <p>Workforce: the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.</p> <p>Funding: the extent to which potential changes to funding flows including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.</p> <p>Regulation: the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activity of the organisation.</p> <p>The Board does not have any detailed plans in place to address the potential implications of EU withdrawal. Potential financial implications are being monitored however any impact would occur indirectly through reduced funding from <b>Scottish Government. The Board is taking part in a national exercise with the Scottish Government’s health workforce</b> directorate to assess the potential impact on the workforce.</p>
New financial powers	<p><b>The Scottish Parliament’s new financial</b> and social security powers and responsibilities from the 2012 and 2016 Scotland Acts are fundamentally changing the Scottish public financials. The Scottish Government will publish its medium term financial strategy in 2018 in response to recommendations in the Budget Process Review Group final report, and has made a number of other commitments to improve financial management and help Parliamentary scrutiny of decisions.</p> <p>As a result of this, there is an expectation that public bodies will be seen before subject committees of the Parliament more often. NHS Boards should therefore use this as an opportunity to make comment within their annual reports beyond the compliance requirements to clearly articulate their achievements against outcomes and future plans.</p>
Ending public sector pay cap	<p>As discussed on page 23, the 2018/19 budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018. It has been agreed by Scottish Government that any additional costs of the pay increase in excess of 1% will be met by central funding.</p>

# Audit dimensions (continued)

## Specific risks (continued)

Risk identified	Response
Cyber security risk	<p>NHS Ayrshire &amp; Arran has a structured approach to cyber security which follows the NHS Scotland Guideline as well as Scotland's cyber resilience strategy.</p> <p>The Board has a CIRO (Cyber Information Risk Officer) and a CISO (Cyber Information Security Officer) in place. However, the Board should continue to assess the risk that its IT department does not have the sufficient skills and capacity to deal with increased threat and imminent additional Scottish Government requirements. The Board should continue to review this risk, and cyber security risks should be given due prominence in the corporate risk register.</p> <p>The Board commissioned an external review of its cyber security during the year. Whilst the review concluded that the Board is generally in line with its peers, and ahead in some areas, there are weaknesses in relation to network testing, controls around data loss, and user management that should be addressed. The Board should use this report to inform its risks and areas of focus going forward.</p> <p>Senior management and board members should ensure that they remain engaged with cyber security risks going forward, especially given the increasing frequency and severity of cyber attacks in every industry including public sector.</p>
Openness and transparency	<p>From our audit work, we are satisfied that NHS Ayrshire &amp; Arran is appropriately open and transparent in its operations and decision making. As the Board progresses with significant change to service delivery through its transformation portfolio, management should ensure that engagement with service users and staff in particular increases proportionally in order gain their input and maintain transparency.</p>

Technical update



# Technical Update

## New accounting standards for 2018/19 and 2019/20

IFRS 9, Financial instruments and IFRS 15, Revenue from contracts with customers, have been adopted for the 2018/19 Government Financial reporting manual (FReM). These new standards are not expected to have a significant impact on NHS Boards.

The effective date of IFRS 16 Leases is 1 January 2019, therefore will apply to NHS Boards from 2019/20, subject to both EU and HM Treasury adoption.

IFRS 16 removes the existing classifications of operating and finance leases under IAS 17 *Leases* for lessees.

It requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability **representing the lessee's obligation to make lease payments for the asset.**

Healthcare Financial Management Association (HMFA) published its updated briefing in February 2018 on the application of IFRS 16. It notes that it is widely expected that the application of this standard will be time consuming for lessees so NHS bodies cannot postpone work until HM Treasury and then the Department of Health and Social Care (DHSC) produce their guidance. Therefore, the briefing sets out the practical steps NHS bodies should be taking now as well as highlighting the issues that will need to be considered when applying the standard for the first time.

### Potential impact on the Board

IFRS 9 is expected to have relatively limited impact on most NHS Boards but will at least affect the process of assessing impairment of debtors and other financial assets. As part of the process of adoption, the Board will need to consider the impact on policies, processes, systems and people.

The Board has relatively low operating lease commitments (with commitments at 31 March 2018 of £0.2m), mitigating the effect of the change and will have a relatively small impact. Nonetheless, the Board should review the HMFA briefing on the application of IFRS 16 in preparation for its introduction.

# Appendices



# Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

## What we report

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

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

## What we don't report

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

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

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

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

## The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

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



Pat Kenny  
for and on behalf of Deloitte LLP  
Glasgow  
12 June 2018

# Audit adjustments

## Summary of corrected and uncorrected misstatements and disclosure deficiencies

### Corrected misstatements

	Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year retained earnings £m	Debit/ (credit) in revenue £m
<b>Misstatements identified in current year</b>				
Trade and other receivables	[1]	7.4		
Trade and other payables	[1]	(7.4)		
Total		-		

[1] Cash advances paid to GP practices for April and May 2018 expenses were incorrectly offset against accruals. This adjustment moves these cash advances from accruals to prepayments.

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

### Uncorrected misstatements

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

### Disclosure misstatements

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

# Action plan

## Follow up of 2016/17 recommendations

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Fixed asset register	Going forward, all assets should have an individual unique identifier, with no batch assets being kept on the register. Further, the owner of each asset should be identified to ensure the relevant department takes ownership of the asset.	Management to look at tidying up fixed asset register.	Derek Lindsay (Director of Finance)	March 2018	High	All new assets going forward are attributed with sufficiently detailed information within the fixed asset register allowing them to be identified and located effectively. Point now closed.
Agency staff costs	Board reviews strategic risk management processes to assess if this issue could have been more proactively managed in previous years	Management to monitor agency staff costs closely	Derek Lindsay (Director of Finance)	Ongoing	High	This issue is now being proactively managed. Management has prioritised the issue of agency staff costs in the short term – this has been largely addressed through the establishment of the Workforce Scrutiny Group. Point now closed.
Valuation of property assets	Level of challenge from management surrounding the assumptions used by the DVS in their valuation report could be improved.	Management to discuss with DVS before next valuation process.	Derek Lindsay (Director of Finance)	March 2018	Medium	We have viewed correspondence between management and the DVS evidencing a greater degree of challenge towards DVS assumptions used as part of the 2017/18 revaluation process. Point now closed.
Audit work papers	Going forward it will be beneficial for the notes to the accounts be backed up by Business Objects XI (BOXI) produced working papers.	Agreed to implement for 2017/18 audit.	Derek Lindsay (Director of Finance)	March 2018	Low	BOXI produced working papers were available as required. Point now closed.

# Action plan

## Follow up of 2016/17 recommendations

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Fixed asset disposals	An annual process whereby finance reconciles the finance fixed asset register to the detailed asset registers held by each department.	Management to implement for 2017/18 audit.	Derek Lindsay (Director of Finance)	March 2018	Medium	This process took place for the first time in 2017/18 and is planned to take place on an annual basis going forward. Point now closed.
Transformational change	Board reviews its transformational change delivery infrastructure including programme management, benefits realisation tools and templates.	PwC have been commissioned to do work over June and July 2017.	Derek Lindsay (Director of Finance)	Ongoing	Medium	Similar findings around the governance of the transformational plan as part of their external review performed in the year, and we have raised this finding again as part of our current year recommendations for improvement.
National Fraud Initiative	Plans are put in place within the Board to address all recommended matches from NFI exercise.	Work is ongoing to address the recommended matches	Derek Lindsay (Director of Finance)	December 2017	Low	All matches for 2016/17 now addressed. 2017/18 matches addressed by 28 February 2018. No further issues. Point now closed.

# Action plan

## Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Medium to long term financial planning	Medium to long term financial plans (i.e. 3-5 year plans) should be produced and updated at least annually. These plans should be presented by management to a governance committee of the Board for challenge.	3 or 5 year financial plans were submitted to Scottish Government for the last 5 years, however in 2018/19 they asked for a one year financial plan because a Scottish Government medium term financial strategy is to be published in the summer. The Board will prepare a medium term financial plan informed by this.	Derek Lindsay (Director of Finance)	December 2018	High
Accuracy of annual budget	Budgeting processes should be reviewed in light of the significant variance in actual vs budgeted performance in 2017/18. Processes in place should be sufficiently robust to effectively capture all expenditure in the forthcoming period, especially as brokerage was required in 2017/18 and is likely to be required in the short to medium term future.	The budget for 2017/18 was for a £13.2 million deficit and identified as a risk that no financial provision has been made for additional unscheduled beds. These increased during the year and cost about £7 million. The 2018/19 revenue plan has been developed with our Improvement Director and fully takes account of legacy issues and seeks to recognise risks and opportunities	Derek Lindsay (Director of Finance)	July 2018	High
Review of transformational change delivery infrastructure	The Board should review its transformational change delivery infrastructure in place. The Board should determine the extent of transformation required to achieve financial sustainability and improve performance. A change management strategy should be articulated, understanding the barriers to achieving the desired transformation and the processes and roles required to achieve its aims.	The matters will be kept under review by Transformation Leadership Group chaired by the Board vice-chair.	Kirstin Dickson (Director of Transformation and Sustainability)	September 2018	High

# Action plan

## Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Capacity and development of NEDs	The capacity and development of NEDs (non-executive directors) should be continuously reviewed by the Board. In particular, capacity of NEDs should be closely monitored as their responsibilities for both the Board and the IJBs increase, and training programmes in place should be monitored to ensure effective challenge and governance from those in post.	The Chairman conducts an annual appraisal with each non executive Director and both workload and development needs are formally identified at this time. Additionally non executive Directors may be nominated or self nominate, through the Corporate Business Manager, for regional and national development events. As an example many non executive Directors have attended a series of Quality Improvement Workshops.	Dr. Martin Cheyne (Chairman)	Ongoing	Medium
Journal entry reviews	In the absence of journal entry approvals, monthly listings of manual journal entries posted should be reviewed by the relevant line managers for discrepancy and challenged where appropriate.	A report has been devised that will be forwarded to the appropriate senior manager on a monthly basis, to facilitate the management review of journal entries. The report will be signed off by the senior managers to confirm that the journals have been reviewed.	Bob Brown (Assistant Director of Finance)	July 2018	Low
Financial statements compliance with FReM	Compliance of management commentary within the financial statements with Government Financial Reporting Manual (FReM) requirements should be assessed through use of FReM checklists and good practice notes available.	2017/18 was the first time that NHS Ayrshire and Arran has required to disclose in the management commentary brokerage from Scottish Government. Reference to national checklists will be useful for such new situations.	Derek Lindsay (Director of Finance)	June 2019	Low

# Fraud responsibilities and representations

## Responsibilities explained



### Responsibilities:

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



### Required representations:

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

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



### Audit work performed:

In our planning we identified the achievement of expenditure resource limits and management override of controls as key audit risks for your organisation.

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

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

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

### Concerns:

No concerns have been identified regarding fraud.



# Independence and fees

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

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**Independence confirmation** We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.

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**Fees** The audit fee for 2017/18, in line with the fee range provided by Audit Scotland, is £168,088 as broken down below:

	£
Auditor remuneration	140,648
Audit Scotland fixed charges:	
Pooled costs	19,360
Audit support costs	8,080
<b>Total proposed fee</b>	<b>168,088</b>

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

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**Non-audit services** **In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy.** We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

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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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# Events and publications

## Our publications and insights to support the Board

### Publications

The State of the State 2017-18  
*Citizens, government and business*

**This year's report finds the UK government amid the complex challenge of leaving the EU. Inevitably, this early phase of EU exit is taking place under intense media scrutiny and passionate political debate. But while EU exit issues may dominate headlines, the public services face more local challenges as they address rising demand, budget restraint and renewed levels of concern about social inequality.**

The State of the State 2017-18 explores government through three lenses – the citizen lens, the public sector lens and the business lens.

Download a copy of our publication here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/state-of-the-state.html>



### Sharing our informed perspective

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

Recent publications relevant to the local authorities are shared opposite:

Perspectives: Do you have a digital mindset?

*Accelerating health and care integration*

Digital technology is helping to transform the way citizens interact with service providers across all other service industries. The time is now ripe for changing the relationship between health and social care commissioners and providers and service users.

Read the full blog here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/do-you-have-a-digital-mindset.html>

Article: Public sector transformation  
*Five lessons from the private sector*

An analysis of private sector global companies, including high-tech start-ups, manufacturers, banks, retailers and insurance firms, reveal five valuable lessons for the public sector.

Read the full article here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-transformation.html>



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