



NHS Ayrshire and Arran

Report to the Audit and Risk Committee, the Board and the Auditor General for Scotland on the 2021/22 audit

Issued on 21 June for the meetings on 27 and 28 June 2022

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Key messages

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 and Risk Committee (“the Committee”) of NHS Ayrshire and Arran (“the Board”) for the year ending 31 March 2022 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2022.

This report summarises our findings and conclusions in relation to:

- The audit of the **Annual Report and Accounts**; 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.



Key messages (continued)

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

Conclusions from our testing

Based on our audit work completed to date, we expect to issue an unmodified audit opinion.

The performance report and accountability report comply with the statutory guidance and proper practice and are consistent with the Annual Report and Accounts and our knowledge of the Board,. We provided management with comments and suggested changes based on review of the first draft and an update has been received confirming compliance.

The auditable parts of the remuneration and staff report have been prepared in accordance with the relevant regulation. A number of changes were required following our audit of the Fair Pay disclosures. These changes have been made in the final draft.

A summary of our work on the significant risks is provided in the dashboard on page 10. The Board met its financial targets for 2021/22, achieving a small surplus of £510,000.

No material errors have been identified to date and there are no uncorrected misstatements. Five corrected misstatements in excess of our reporting threshold of £250,000 has been identified up to the date of this report which is included within the Appendix to this report. This has no impact on the final results of the Board.

Status of the Annual Report and Accounts audit

Outstanding matters to conclude the audit include:

- Finalisation of internal quality control procedures;
- Receipt of final Annual Report and Accounts;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2022.

Key messages (continued)

As set out in our audit plan, the Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. Our audit work has considered how the Board is addressing these and our conclusions are set out within this report, with the report structured in accordance with the four dimensions. Our responsibilities in relation to Best Value ('BV') have all been incorporated into this audit work.

Financial management

The Board continues to have effective budget setting and monitoring arrangements in place. This is supported by an experienced finance team and a robust internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error.

Financial sustainability

Given the unachieved savings from 2021/22, the Board's history of not achieving savings targets, and the significantly increased budget deficit position for 2022/23, the Board continues to have a significant risk of not achieving short term financial balance.

The Board has not prepared any financial forecasts beyond 2022/23 and is therefore unable to demonstrate that it is financially sustainable in the medium and longer term. The transformational change work that is required to redesign services has been impacted on the pandemic. It is critical that the Board assess the potential financial position over the medium to longer term, and develop detailed plans, with key actions and milestones to ensure that services are delivered in a financially sustainable way.

Governance and transparency

The Board has seen a number of changes to its leadership during the year, with further changes within the finance team leadership planned for 2022/23. The governance arrangements continue to be robust, with a strong Audit and Risk Committee and proportionate and well managed changes made to the governance arrangement as a result of the pandemic, whilst maintaining its standing Committees. The Board demonstrates a number areas of good practice.

The Board continues to be open and transparent and demonstrates a culture of continuous improvement, with the development of the Engagement Strategy. It has also implemented the National Whistleblowing Standards, with regular reporting to the Board, although is too early to conclude on any trends or patterns from this.

Value for money

The Board continues to have a clear and robust performance management framework in place which analyses data, tracks progress and identifies actions. Regular reporting on performance is provided to the Board, with a focus on continuous improvement and closely working with partners.

Best value - The Board has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development. However, as noted within the report, significant work is required to achieve medium to longer term financial sustainability.

Key messages (continued)

Next steps

An agreed Action Plan is included on pages 47 to 50 of this report, including a follow-up of progress against prior year actions.

Added value

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

We have also included our “sector developments” on pages 42 to 45 where we have shared Audit Scotland’s national reporting and our research and informed perspective and best practice from our work across the wider public sector that are specifically relevant to the NHS.

Managing transition to 2022/23 audits

2021/22 is the final year of the current audit appointments. We will minimise disruption to all parties, and maximise the transfer of knowledge of the Board, by working in partnership with Audit Scotland and the incoming auditors.

We would like to put on record our thanks to the Board, management and staff for the good working relationship over the period of our appointment.

Annual Report and Accounts Audit



Quality Indicators

Impact on the execution of our audit

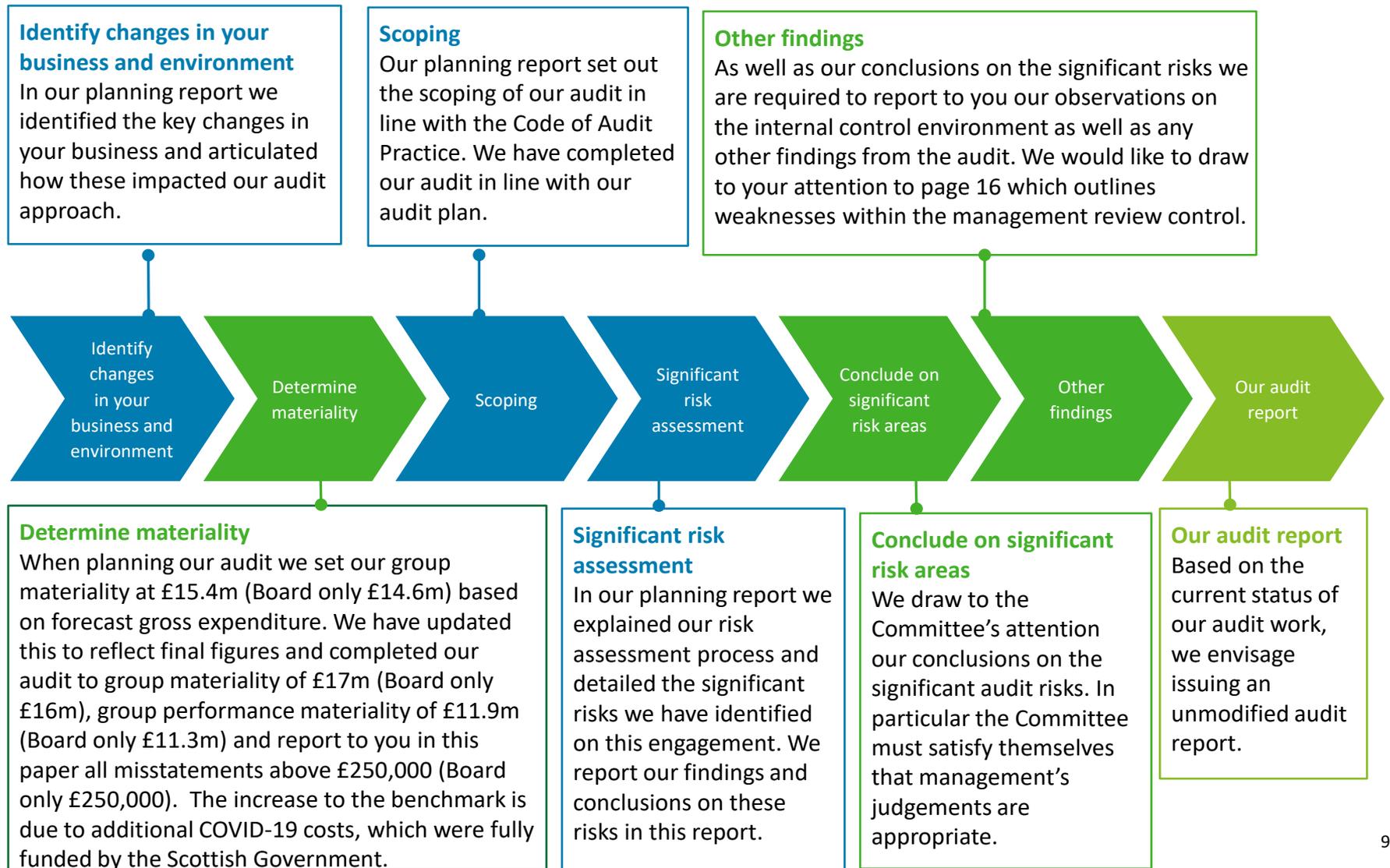
Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to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

Area	Grading			Reason
	FY22	FY21	FY20	
Timing of key accounting judgements				Documentation in relation to key areas of judgement in relation to property valuations and provisions was provided early in the audit process.
Adherence to deliverables timetable				The audit of the annual accounts progressed largely in line with the original timescale. The receipt of the Annual Accounts and notes were provided on 3 May 2022. The "Board only" IJB figures were provided on 25 May 2022, but the group figures were not provided until 10 June 2022.
Access to finance team and other key personnel				Deloitte and NHS Ayrshire and Arran have worked together to facilitate remote communication during the audit which has been successful.
Quality and accuracy of management accounting papers				On the whole documentation provided has been a good standard.
Quality of draft annual report and accounts				A full draft of the Annual Report and Accounts was received for audit on the 10 May 2022. Whilst generally compliant with the reporting requirements, a number of amendments were required. The first draft did not include the new reporting requirements within the Remuneration and Staff report. This is discussed further on page 20.
Response to control deficiencies identified				Some control deficiencies have been identified, which are discussed further on page 16. Management has responded positively to these and agreed to review.
Volume and magnitude of identified errors				We have not identified any material financial adjustments to date.

Lagging
 Developing
 Mature

Our Audit Explained

We tailor our audit to your business and your strategy



Significant Risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Operating within the expenditure resource limits			D+I	Satisfactory		Satisfactory	11
Management override of controls			D+I	Not satisfactory (see page 16)		Satisfactory	12

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

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

Significant Risks (continued)

Operating within the expenditure resource limits



Risk identified and key judgements

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

We therefore considered the fraud risk to be focused on how management operate within the expenditure resource limits set by the Scottish Government. There is a risk 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 the completeness of accruals and the existence of 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. 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 and challenge

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

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

Deloitte view

We have concluded that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers.

Based on our testing to date, we confirm that the Board has performed within the limits set by Scottish Government achieving a small surplus of £510,000 and therefore is in compliance with the financial targets in the year.

Significant Risks (continued)

Management override of controls



Risk identified.

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Report and Accounts and accounting records.



Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

- We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Report and Accounts. In designing and performing audit procedures for such tests, we have:
- Tested the design and implementation of controls over journal entry processing;
- 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;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

Accounting estimates and judgements.

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Report and Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias. A summary of the key estimates and judgements considered is provided on the next page; and
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Report and Accounts of the prior year.

Significant and unusual transactions

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

Deloitte view

We have not identified any instances of management override of controls from our testing to date. We have identified a deficiency with the control in place for reviewing journal entry testing. This is discussed further on page 16.

Significant Risks (continued)

Management override of controls (continued)

Key estimates and judgements The key estimates and judgments in the Annual Report and Accounts includes those which we have selected to be significant audit risks around expenditure recognition (see page 11). This is inherently the area in which management has the potential to use their judgement to influence the Annual Report and Accounts. As part of our work on this risk, we reviewed and challenge management’s key estimates and judgements including:

Estimate / judgement	Details of management’s position	Deloitte Challenge and conclusions
Private Finance initiatives (‘PFI’)	<p>The Board currently has two PFI projects: Ayrshire Maternity Unit and Woodland View.</p> <p>Each PFI liability is valued based on the value of the remaining lease payments under IAS 16 and IAS 17. The minimum lease rental is split between interest and principal using the actuarial method.</p> <p>East Ayrshire Community Hospital (EACH) was previously managed through a PFI contract. The Board purchased the company in April 2021, resulting in the asset being reclassified as a Board asset.</p>	<p>We obtained and assessed the initial PFI agreements in place and reconciled to the payment schedules for each model. We have conducted a retrospective review of the prior year liability to assess accuracy, and have challenged any changes made to the model. We have assessed the value of the underlying buildings through our Valuations work.</p> <p>We are satisfied that the PFI liability recognised in the accounts is in line with the models and there is no indication of management bias.</p> <p>We have tested the purchase of the Special Purpose Vehicle (SPV) that previously operated the EACH, which was fully funded by Scottish Government. We have challenged management’s accounting treatment and concluded that whilst the net book value has been appropriately disclosed, management had incorrectly accounted for this as an “addition” and a “disposal” within Property, Plant and Equipment (PPE). The only movement in the PPE asset should therefore be the revaluation gain as a result of the valuation performed at the year-end. The payment made for the purchase of the SPV should be allocated as in Investment in a Subsidiary, with the impairment posted against this investment.</p>

Significant Risks (continued)

Management override of controls (continued)

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Property valuations	<p>The Board is required to hold property assets within Property, Plant and Equipment at a modern equivalent use valuation. The valuations are, by nature, significant estimates based on specialist and management assumptions and which can be subject to material changes in value.</p> <p>The Board has had an independent valuation carried out at 31 March 2022 by the District Valuer Services to include valuation of 100% of all of the Board's land and buildings.</p> <p>The valuation method has not changed from the prior year and is in line with International Financial Reporting Standards, with a full revaluation being carried out.</p>	<p>We did not identify this as a significant risk in our Audit Plan as our property specialists, Real Asset Advisory, reviewed the methodology applied by the Board's valuer in previous years and concluded it was robust. We have confirmed that the valuer and the methodology applied has not changed in the year.</p> <p>We have engaged our property specialist and assessed the competency, capability and objectivity of the valuer. We have also tested the completeness and accuracy of the key inputs used by the valuer, specifically the Gross Internal Areas supplied by NHS Ayrshire and Arran.</p> <p>Our property specialists have performed an analytical review of all revaluations and identified those which were not in line with expectation. Explanations and supporting evidence was provided for each outlier.</p> <p>We have assessed the presentation of revaluation movements and impairments, taking into account revaluation reserves for individual assets, and the disclosures included in the annual report and accounts. With the exception of the treatment of the PFI asset discussed on page 13, no issues have been identified from this testing.</p>

Significant Risks (continued)

Management override of controls (continued)

Estimate judgement /	Details of management's position	Deloitte Challenge and conclusions
<p>Clinical Negligence and Other Risks Indemnity Scheme ('CNORIS') provision</p>	<p>NHS bodies in Scotland are responsible for meeting negligence costs up to a threshold of £25,000 per claim. Costs above this threshold are reimbursed from the CNORIS scheme by the Scottish Government.</p> <p>The provision is based on information provided to the Board by the Central Legal Office (CLO) based on the information on claims and historical experience. The Board provide 100% for Category three claims and 50% for all Category two claims. As at 31 March 2022, there were 83 current claims specific to NHS Ayrshire and Arran included in the provision.</p> <p>The Board also provides for its liability from participating in the scheme. This provision recognises NHS Ayrshire and Arran's respective share of the total liability of NHS Scotland as advised by the Scottish Government, based on information from NHS Boards and the CLO.</p>	<p>We have obtained independent confirmation directly from the CLO of all outstanding claims for NHS Ayrshire and Arran at 31 March 2022 and reconciled this to the amount recognise and challenged managements provision policy and concluded that it is reasonable. We have conducted a subsequent events review of the provision to ensure that it is complete as at 31 March 2022, with no issues arising..</p> <p>As part of the provision, NHS Ayrshire and Arran has two liabilities relating to claims that are paid over a period of time rather than as a one-off lump sum. The Board has not applied an inflationary uplift, or discounted these provisions to reflect the time value of money. Historically, this approach did not have a significant impact as inflation rates and discount rates were largely similar, however, with inflation now higher, there is a potential understatement of the liability of £6.996m, as well as an understatement of the debtor due from the CNORIS scheme. This therefore has no impact on the Board meeting its financial targets. Management has agreed to update this as discussed further on page 51.</p> <p>The provision for NHS Ayrshire and Arran's share of the national liability is calculated by the Scottish Government based on information from the CLO in relation to all Boards. We have obtained assurance from Audit Scotland on the methodology used in the preparation of these figures and the relevance and reliability of the information provided by the CLO. As a result of Audit Scotland's review, an error was identified in the initial data provided by the Scottish Government and as a result, an adjustment of £637,000 was required. Management has corrected this, as discussed further on page 51.</p>

Other Significant Findings

Internal control

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

Area	Observation	Priority
Monthly Journal Reviews	<p>Each month, senior accountants receive a listing of all journals posted by accountants in their division for review. The purpose of this is to follow up on unusual variances and discrepancies which should mitigate against management override.</p> <p>Based on walk through of this control from September 2021, there is no evidence that the reviewer carried out a detailed review as they did not include any commentary accompanying the journal listing to demonstrate a robust review.</p> <p>We therefore recommend that management review the adequacy of this control and either enhance the documentation of the review to clearly set out what has been reviewed or identify an alternative control to review journal entries to ensure there is sufficient segregation of duties.</p>	●
Management review of estimates provided by experts	<p>Management place reliance on information provided by experts for CNORIS provision and property valuation and there is a control in place for the outputs to be reviewed by senior officers within the finance team. While there is evidence to demonstrate that there is interaction between the expert and the finance team, there is no evidence retained to document that the final output used in the Annual Report and Accounts was reviewed.</p> <p>We therefore recommend that management maintain evidence of the output from that review, and sign off to demonstrate that management are satisfied that the estimates provided by experts is in line with their expectations.</p>	●

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

Low Priority

Medium Priority

High Priority

Other Significant Findings

Financial reporting findings

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

Qualitative aspects of your accounting practices:

NHS Ayrshire and Arran's Annual Report and Accounts have been prepared in accordance with the Government Financial Reporting Manual (the "FReM"). Following our audit work, we are satisfied that the accounting policies are appropriate.

Regulatory change

IFRS 16, Leases, comes into effect on 1 April 2022, therefore will be first implemented in financial year 2022/23. This will require adjustments to recognise on balance sheet arrangements currently treated as operating leases. We have considered the preparatory work carried out by management and the disclosures made in the 2021/22 Annual Report and Accounts and satisfied that the new standard has been appropriately considered.

Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation, the accounting treatment for the buy out of the PFI contract and the assessment and disclosure of significant judgements and estimates.

Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

We will obtain written representations from the Board on matters material to the Annual Report and Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter will be circulated separately.

Our Audit Report

Other matters relating to the form and content of our report

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



Our opinion on the Annual Report and Accounts

Our opinion on the Annual Report and Accounts is expected to be 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.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is more relevant to the assessment that the continued existence of a particular body.



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 Annual Accounts 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 Annual Report and Accounts 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 19.

Your Annual Report and Accounts

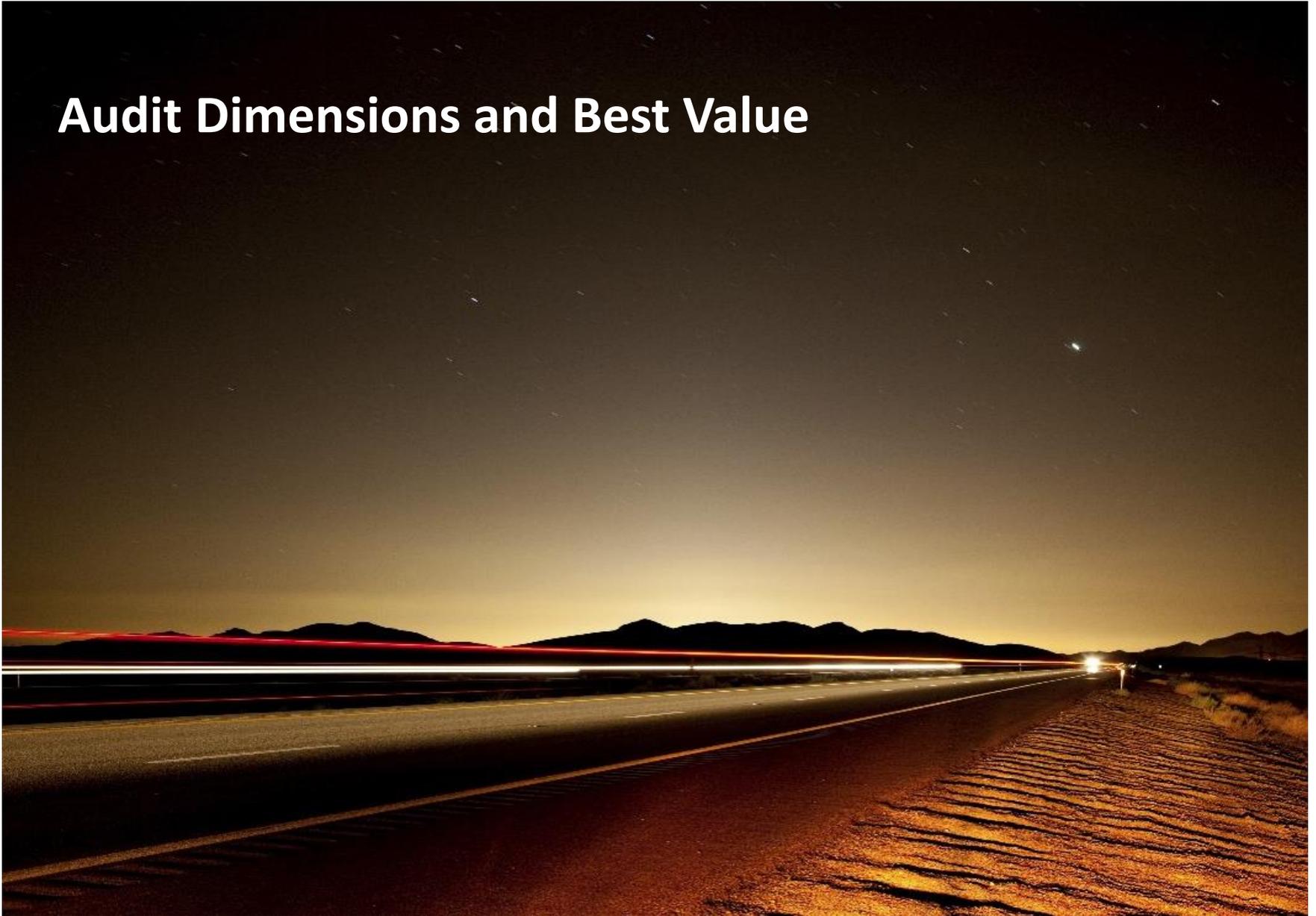
We are required to provide an opinion on the auditable parts of the Remuneration and Staff report, the Annual Governance Statement and whether the Performance Report is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines the Board's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by the Board.	<p>We have assessed whether the Performance Report has been prepared in accordance with the Accounts Direction. We have also read the Performance Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We provided management with comments and suggested changes which management have updated in the revised draft. This included additional disclosure on the future financial challenges faced by the Board.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	<p>We have assessed whether the information given in the Annual Governance Statement is consistent with the Annual Report and Accounts and has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the Accountability Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We provided management with comments and suggested changes which management have updated in the revised draft.</p>

Your Annual Report and Accounts (continued)

Requirement	Deloitte response
The Accountability Report (continued)	<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. A number of changes were required to the new Fair Pay Disclosure, as discussed further on page 53. Management have corrected these in the final draft of the Annual Report and Accounts.</p> <p>The pay ratio and other disclosures are required to be calculated including agency staff. Due to the availability of data on individuals working on an agency or bank basis, the Board needed to make assumptions and judgements in calculating the disclosures, and concluded that these not expected to have a significant impact on the values reported. This judgement has been appropriately disclosed.</p>

Audit Dimensions and Best Value



Financial management

Is financial management effective?



Are budget setting and monitoring processes operating effectively?



Is there sufficient financial capacity?



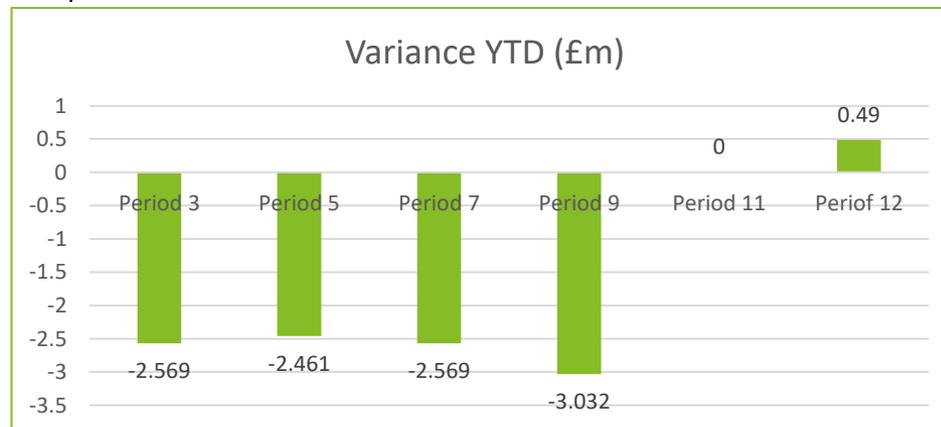
Financial Management

Significant risks identified in Audit Plan

In previous years we have concluded that the Board had effective financial management arrangements in place and a sufficiently qualified and experienced finance team. We therefore did not identify any significant risks in relation to financial management during our planning. We have continued to review the arrangements in place as summarised on the following pages.

Current year financial performance

The 2021/22 revenue budget was approved by the Board in May 2021, projecting a deficit of £12.1m. This was due to an underlying deficit of £13.2m from 2016/17 that has not yet been addressed. The budget has been updated throughout the year to include in year movements, and additional funding received from the Scottish Government to support the remobilisation of services. During the year, the Scottish Government confirmed that funding would be provided to all NHS Boards to allow a breakeven position, therefore while an overspend was reported in the earlier parts of the year, as illustrated below, a breakeven position was projected from period 11 following this confirmation. The Board has reported a small surplus of £490,000 at the end of the year. The Corporate Management Team and Board members regularly review progress against budget throughout the year, with quarterly reporting to the Board. From review of the reporting throughout the year, variances are clearly reported and explained.



Financial management (continued)

Current year financial performance (continued)

A Capital Investment Plan of £21.905m was also approved in May 2021. Additional funding was received during the year, including £12m for the purchase of East Ayrshire Community Hospital. The actual expenditure incurred at the year-end was £41.773m, which was in line with the revised funding received from the Scottish Government.

The approved revenue budget includes cash releasing efficiency savings (CRES) of £13.7m. The actual savings achieved were £9.7m, meaning a shortfall of £4m. The main areas of slippage were in Acute and medical agency costs, however, as noted on page 22, full funding has been received in 2021/22 to offset this.

As part of the response to the COVID-19 pandemic, the Board developed a mobilisation plan detailing the additional activities to support its response, alongside the estimated financial impact. Financial returns have continued to be submitted during 2021/22, which incorporated both NHS and Health and Social Care Partnership (HSCP) costs. The final COVID-19 costs reported to the Board amounted to £93.394m, of which £46.930m relates to the HSCP.

Finance capacity

The finance team has remained consistent throughout the year. Whilst COVID-19 has created additional work for the team, including the additional reporting requirements to the Scottish Government, this is being well managed. The Assistant Director of Finance (Governance and Shared Service) is due to retire in August 2022, however plans are actively in place to recruit a replacement, with an appropriate handover period.

Internal audit

We have assessed the internal audit function, including its nature, organisational status and activities performed. We have reviewed all internal audit reports published throughout 2021/22. The conclusions have helped inform our audit work, although no specific reliance has been placed on this work.

The 2021/22 Internal Audit Plan was approved by the Board in March 2021, with the Audit and Risk Committee delegated to flex the plan during the year considering pandemic circumstances. Regular updates have been provided to the Audit and Risk Committee, with the update to the May 2022 Committee confirming that the fieldwork is underway for the remaining three projects, and these will be presented in June along with the Annual Audit Opinion.

Financial management (continued)

Internal audit (continued)

Due to external audit appointment being extended by one-year as a result of the pandemic, the Board approved the extension of the internal audit appointment by a further year to May 2023. Once the external audit appointment for 2022/23 onwards is confirmed, the Board plan to take part in a joint process to appoint an internal auditor through a consortium with three other NHS Boards in the second half of 2022.

We have considered the work of internal audit as part of our audit work on the Annual Governance Statement as discussed further on page 19.

Standards of conduct for prevention and detection of fraud and error

We have assessed the Board's arrangements for the prevention and detection of fraud and irregularities. This has included specific considerations in response to the increased risk of fraud as a result of COVID-19. Overall, we found the Board's arrangements to be to be designed and implemented appropriately.

National Fraud Initiative (NFI)

All NHS Boards are participating in the most recent NFI exercise which commenced in 2020/21. We have continued to monitor the Board's participation and progress in the NFI during 2021/22 and submitted an assessment of the Board's participation to Audit Scotland in February 2022. The information submitted will be used by Audit Scotland in its next national NFI report which is due to be published in the summer of 2022. We concluded that the Board was fully engaged in the exercise.

In line with the Audit Scotland report published on the 2018/19 exercise, we would encourage the Audit and Risk Committee and staff leading the NFI work review the NFI self appraisal checklist for future exercises.

Deloitte view – financial management

The Board continues to have effective budget setting and monitoring arrangements in place. This is supported by an experienced finance team and a robust internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error.

Financial sustainability



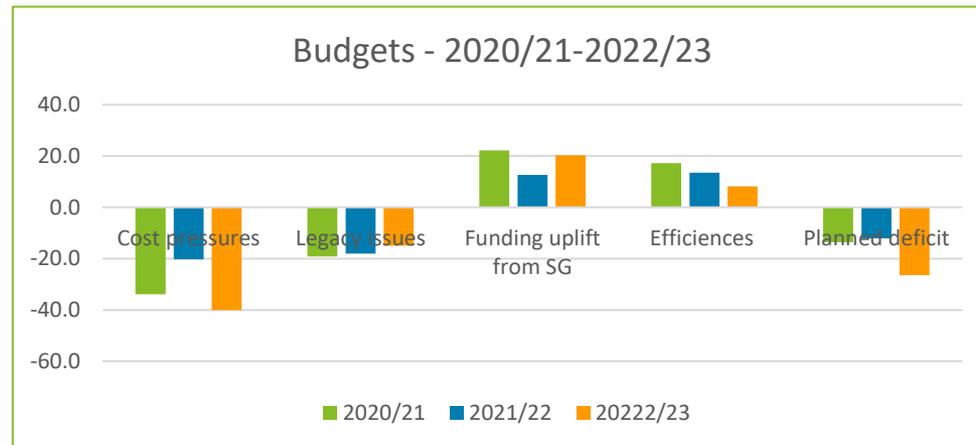
Significant risks identified in Audit Plan

There remains a significant risk that robust medium-to-long term planning arrangements are not in place to ensure that the Board can manage its finances sustainably and delivery services effectively. This risk pre-dates the pandemic, with action required being impacted by the continued need to respond to the pandemic. We have therefore considered the 2022/23 budget setting process and the implementation of the Remobilisation Plan and the implications for the medium to longer term planning arrangements.

2022/23 budget setting

The Board approved a deficit revenue budget of £26.4m on 28 March 2022. This is an increasingly worse position than the previous two years as illustrated below. While the funding uplift is greater than 2021/22 and legacy issues have reduced slightly, these are more than offset by increasing cost pressures and a reduced efficiency target. As discussed on page 23, the pandemic has impact on the ability of the Board to achieve its savings targets.

The budget was prepared in consultation with relevant groups, the Corporate Management Team and Board members via a workshop in February 2022.



Financial sustainability (continued)

2022/23 budget setting (continued)

While the Board has noted that further CRES opportunities may be brought forward to further mitigate the projected deficit, it acknowledges the scale of system-wide service restoration and recovery that is required throughout 2022/23 to ensure cost avoidance is maximised. As no further COVID-19 investment funding is expected for 2022/23 onwards, the Board's systems and services need time and support to transition to sustainable and new operating models, as captured in the ambitions for "Caring for Ayrshire", discussed further on page 28.

In setting its budget the Board has recognised that several risks exist including:

- Acute services have £3.6m of unachieved CRES from previous years. A sum of £1.6m has been included as a savings target for 2022/23 but is dependent on being able to close all the additional non-recurring funded beds opened in 2021/22, finding suitable recovery space for day surgery patients and being able to do capital works to facilitate consolidation of wards.
- There are risks associated with the costs associated with the investment in Office 365 not fully funded.
- The Board has assumed, in line with Scottish Government guidance, that additional COVID-19 costs would be covered in 2022/23, therefore costs relating to point of care testing, lab staff and additional staffing for acute wards has not been included in the cost pressures.

In addition to the revenue budget, the Board approved its Capital Investment Plan (CIP) for 2022/23 in March 2022. This is based on the five-year plan that has been regularly considered by the Infrastructure Programme Board Advisory Group and Infrastructure Programme Board. In addition to the core capital funding from the Scottish Government, additional earmarked funding has been awarded, as summarised below:

	£'m
Core Capital	8.720
Caring for Ayrshire activities and Whole System Estates Plan	4.011
National Secure Adolescent Inpatient Service	9.700
National Treatment Centre	12.000
Total CIP	34.431

The Caring for Ayrshire funding has been agreed to enable the recruitment of internal and external resources to take forward the Caring for Ayrshire Strategy discussed further on page 28.

The purchase and refurbishment of the National Treatment Centre is designed to support the Board in addressing the significant waiting lists that have increased as a result of the COVID-19 pandemic.

Financial sustainability (continued)

2022/23 budget setting (continued)

The non-earmarked funding has been prioritised by the Board as is currently not sufficient to meet the pipeline projects, which are estimated to be £15m. These projects will be developed further in line with the Caring for Ayrshire Strategy and considered for including in future CIPs and will be subject to additional funding requests from Scottish Government where appropriate.

Medium-to-long term financial planning

Under normal circumstances, the Scottish Government require NHS Boards to demonstrate financial balance over a medium-term three-year period, via submission of a three-year financial plan. This requirement was put on hold in 2021/22 due to the impact of COVID-19, and the Scottish Government has confirmed that it is only expecting a one-year plan for 2022/23. While some 3-year figures were included in the submission to the Scottish Government, the majority were based on 2022/23 with no update to cost pressures so is not a true reflection of the projected position.

Due to not being able to achieve financial balance in previous years or demonstrate a 3-year projected breakeven position, the Board was placed on the NHS Board Performance Escalation Framework for monitoring. This position will continue until the Board returns to financial balance, following which plans to repay the 2019/20 brokerage amount of £14.7m will need to resume.

Whilst there is no Scottish Government requirement for a three-year financial plan, it is important that the Board continues to look to the future, particularly with regards to how it can transform service delivery to identify long-lasting recurring savings for future year financial sustainability. A key element of this is a need to develop a medium to longer term financial outlook so that the Board has a clear view of the financial challenges that it faces.

Transformational change and remobilisation

The Board's Transformational Change Improvement Plan ("TCIP") 2017-20 was approved by the Board in June 2017. As part of the development of this plan, a new Vision, Purpose Values and Objectives for the organisation were approved. The objectives were revised during 2021/22, with the updated objectives approved by the Board in May 2021, with the vision, purpose and values remaining consistent.



Financial sustainability (continued)

Transformational change and remobilisation (continued)

As reported in our 2020/21 audit report, the Board and the three Integration Joint Board's launched its "Caring for Ayrshire" programme in February 2020, which is a ten-year vision for health and social care provision. Progress with this has been significantly impacted by the pandemic.

As discussed further on page 23, the Board, in collaboration with its partners, has prepared a Remobilisation Plan (RMP4) which was submitted to the Scottish Government to demonstrate how it will continue to safeguard robust COVID-19 resilience and support for health and social care, whilst working on how paused services across the whole system can be safely and incrementally resumed.

The RMP4 sits alongside the "Caring for Ayrshire" 10-year strategic ambition. It also closely aligns with the newly published NHS Recovery Plan and offers opportunities regarding the proposed National Care Service to ensure right care in the right place at the right time by the right person.

During 2021/22, to complement the "Caring for Ayrshire" ambition, the Board bought out the PFI funded East Ayrshire Community Hospital and is now in Board ownership to give increased flexibility for future use.

In taking forward the need for transformational change, the Programme Management Office (PMO) developed and presented a draft Delivery Plan for 2022/23 to CMT in February. Directors have highlighted eight areas of priority that will be taken forward into 2022/23, which have been categorised into four themes as illustrated below and these will be monitored by the PMO. The PMO is working with each Director and their teams to develop the scope and milestones for each of the priority programmes.

Our People

- Right sizing the workforce

Our Communities

- Climate Change and Sustainability Strategy
- Prevention and Public Health

Restoring Services

- Right sizing the Bed Footprint
- Estate rationalisation
- Distribution working

Investing in Digital

- M365 implementation – MS Teams
- Electronic Patient Record and Records Management "Bringing it Together"

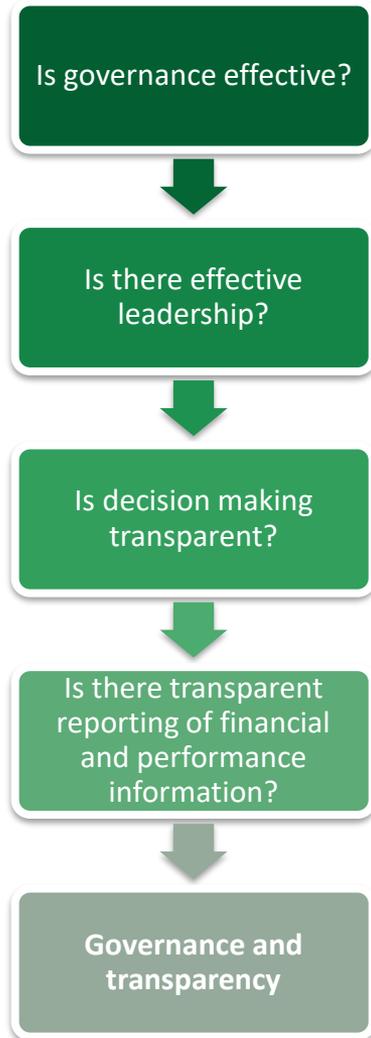
Financial sustainability (continued)

Deloitte view – Financial sustainability

Given the unachieved savings of £3.6m carried forward from 2021/22, the Board's history of not achieving savings targets, and the significantly increased budget deficit position for 2022/23, the Board continues to have a significant risk of not achieving short term financial balance. The Board remains on the NHS Board Performance Escalation Framework for monitoring. Whilst the Scottish Government has provided funding over the last two years to allow a breakeven position, this is not expected in 2022/23.

The requirements for a three-year financial plan have been put on hold due to the ongoing pressures of dealing with COVID-19. The Board has not prepared any financial forecasts beyond 2022/23 and is therefore unable to demonstrate that it is financially sustainable in the medium and longer term. The transformational change work that is required to redesign services has been impacted on the pandemic. It is critical that the Board assess the potential financial position over the medium to longer term, and develop detailed plans, with key actions and milestones to ensure that services are delivered in a financially sustainable way.

Governance and transparency



Significant risks identified in Audit Plan

In previous years we have concluded that the Board has strong leadership in place with robust governance and scrutiny arrangements. As a result of changes in leadership during 2021/22 and a revision to the governance arrangements in response to the ongoing challenges associated with the pandemic, we identified an increased risk around the effectiveness of the governance and leadership arrangements. We have therefore reviewed the work of the Board and its Committees, as well as the transition to the new Chief Executive, as summarised on the following pages.

Leadership

There have been some key changes to the leadership of NHS Ayrshire and Arran during the year, in particular:

- The Chief Executive left in June 2021 after nine years in the role, with the Deputy Chief Executive/ Nurse Director taking on the role of Interim Chief Executive from that date. Following an external recruitment process, a permanent replacement was appointed in November 2021 and Claire Burden took up the post from mid January 2022. As noted in the Board’s press release:

“Claire has more than 17 years management experience in NHS England, as well as a commitment to influence and lead the reform of health and social care provision for the benefit of the population”.

- After returning to her substantive post in January 2022, the Nurse Director retired in March 2022, with a new Nurse Director appointed from April 2022.
- As noted on page 23, the Depute Director of Finance (Governance and Shared Service) is due to retire in August 2022.
- Given the timing of the changes noted above, it is too early to comment on how the transition has been implemented, although no specific areas of concern have been noted from our audit work.

Governance and transparency (continued)

Leadership (continued)

Following a change to the Non-Executive Members of the Board during the year, the Board Chair, Vice Chair and Head of Corporate Governance considered the skills and experience across the NHS Board and agreed some changes to committee responsibilities and membership of IJBs. These changes were approved by the Board in November 2021.

Governance and scrutiny arrangements

We have reviewed meetings attendance from the past year and confirm that there has been adequate attendance. In addition, from attendance at meetings we can confirm that there is sufficient scrutiny and challenge exercised by members during the meetings.

As a result of COVID-19 and associated pressures across the whole health and care system, at its meeting in November 2021 the Board agreed a flexible and slimmed down approach to its governance arrangements, whilst agreeing the importance of maintaining the Board's standing committees. This included delaying items that were not statutory or mandated and also supporting giving verbal reports to minimise the time spent on detailed papers.

The Audit and Risk Committee continues to be a key element of the governance arrangements in place. While the meeting scheduled for January 2022 was cancelled due to the pressures noted above, all agenda items were deferred and considered by the Committee in March 2022 thereby ensuring sufficient scrutiny.

In line with good practice, the Committee carried out an annual self assessment of its effectiveness at its meeting in March 2022 and was submitted to the Board as part of its Annual Report and Accounts. This concluded that the Committee is operating effectively and in line with the key elements of best practice.

The Audit and Risk Committee provide oversight and scrutiny of the risk management activity. An updated Strategic Risk Register was endorsed by the Committee in November 2021, with updates provided on the work being done to manage the strategic risks.

In line with good practice the Board Governance Committees' Terms of Reference are reviewed on annual basis, and were last updated and approved by the Board in March 2022.

Following the publication of the Blueprint for Good Governance by the Scottish Government in February 2019, the Board had developed a local Corporate Governance Improvement Plan. Delivery against this has been monitored by the Integrated Governance Committee. In April 2021, the Committee confirmed it was content with the progress against the previous year plans, with actions carried forward into a 2021/22 plan.

Governance and transparency (continued)

Whistleblowing standards

The National Whistleblowing Standards and Once for Scotland whistleblowing policy (the Standards) were introduced on 1 April 2021. Quarterly reporting has been provided to the Board throughout the year setting out the organisational activity in relation to whistleblowing concerns raised throughout the year.

The latest report in March concluded that it is currently not possible to evidence any trends or patterns in reporting given the first year of the policy, but will be monitored over the coming years. The Whistleblowing Oversight Group continued to meet to provide oversight, recognising that this is a learning process and that process may required to be changed or developed as they learn from both the concerns raised and feedback from the current processes.

A non-executive Director was appointed to the Board in February 2020 with the role of whistleblowing champion.

Openness and transparency

All Board agendas and minutes are publicly available through its website, along with minutes of all governance committee. Members of the public are able to watch Board meetings live via Microsoft Teams, thereby continues to demonstrate openness and transparency of decision making and performance information (which is considered further on page 34).

The Board approved an Engagement Strategy in May 2021. This recognised that in response to the pandemic, the Board has had to rapidly reconfigure services and provide care in new and different ways. To support this, and in line with the strategic direction of Caring For Ayrshire, it recognises it must engage with local people in the planning of local health and care services. The Strategy sets out effective engagement principles and practice to help ensure a consistent and co-ordinated approach is taken to informing, engagement and participation.

Deloitte view – Governance and transparency

The Board has seen a number of changes to its leadership during the year, with further changes within the finance team leadership planned for 2022/23. The governance arrangements continue to be robust, with a strong Audit and Risk Committee and proportionate and well managed changes made to the governance arrangement as a result of the pandemic, whilst maintaining its standing Committees. The Board demonstrates a number areas of good practice.

The Board continues to be open and transparent and demonstrates a culture of continuous improvement, with the development of the Engagement Strategy. It has also implemented the National Whistleblowing Standards, with regular reporting to the Board, although is too early to conclude on any trends or patterns from this.

Value for money



Significant risks identified in Audit Plan

In previous years we have concluded that the Board had well established performance management arrangements in place. Whilst the Board's performance was improving in some areas in 2020/21, prioritisation of COVID-19 continued to have an impact on waiting times. Given the ongoing pressures across the health and care system, there remains a risk that performance reporting has not been timely, reliable, balanced and transparent. We have therefore reviewed the performance reports presented at the Board to assess the extent of openness and transparency during the year, as summarised on the following pages.

Performance management framework

During 2019/20, the Board had moved to reporting against some of the aims and trajectories outlined in its Annual Operating Plan, however, from 2020/21, the focus moved to Remobilisation and understanding the corresponding impact of COVID-19 across the whole system.

Through its Remobilisation Plans, the Board outlined how it would safely prioritise the resumption of some paused services, whilst also maintaining COVID-19 capacity and resilience. The Remobilisation Plan 3 (RMP3) highlighted the key priorities and actions for 2021/22, and this was approved by the Scottish Government in early April 2021. A mid-year update was provided to the Scottish Government in September 2021, known as RMP4, and reported on progress to date and revised trajectories for the remainder of the year.

Regular detailed reporting has been provided to the Board throughout the year to provide an update on progress against Remobilisation Plan measures, along with analysis, trends and benchmarking against a range of national and local performance measures.

Value for money (continued)

Performance data

The quarterly reporting to the Board includes performance data on the following key topics:

- COVID-19;
- Planned Care Waiting Times;
- Diagnostics;
- Cancer;
- Mental Health;
- Unscheduled Care; and
- Delayed Discharge/Transfers of Care.

In summary, the necessary reductions in outpatient and elective appointments during the pandemic has had a direct impact on key compliance targets and waiting lists. Diagnostic services have also been impacted by social distancing requirements and reduced patient throughput due to national infection control protocols. While some progress had started to be made, this was further impacted by the Omicron variant and the need to cancel all outpatient appointments in January 2022, with the exception of the urgent cancer suspected pathway.

As discussed on page 26, the Board has purchased and plans for a National Treatment Centre, funded from the capital programme, is intended to help address the waiting lists.

The Board has highlighted that more and more patients are reaching crisis point and accessing unscheduled care. The three HSCPs continue to experience significant demand for Care at Home, which has been increasingly challenging by various workforce issues leading to delayed transfers of care.

As part of the quarterly reporting, the Board has identified clear improvement actions to address the areas where performance is behind target.

The Board continues to perform well in its cancer treatments, in comparison with the whole of Scotland:

- 83.3% of patients with suspicion of cancer started treatment within 62 days of initial referral (compared to 83.1% across Scotland), but below target of 95%.
- 95.7% of patients with a cancer diagnosis started treatment within 31 days following decision to treat (compared to 96.7% across Scotland), which is above the 95% target.

Performance is also good in Children and Adolescent Mental Health Services, with 99.5% of children and young people starting treatment within 18 weeks of initial referral, compared to a 78.6% average and above the 90% target.

Value for money (continued)

Performance data (continued)

The number of delayed discharge has increased, following the significant reduction at the outset of the pandemic where additional community bed capacity and adaption of other services enabling patients to be transferred to a more suitable setting. At the end of December 2021, a total of 104 delayed discharges were reported, the most significant being in South Ayrshire.

Performance against the national target of zero delays over 2 weeks over the last 12 months has improved in North Ayrshire, but worsened in South Ayrshire, with East continuing to meet the target. as summarised below:

	January 2021	January 2022
North Ayrshire	6	4
East Ayrshire	0	0
South Ayrshire	10	20

NHS Ayrshire and Arran and the three HSCPs are part of a national pathfinder programme in relation to Discharge without Delay.

Deloitte view – Value for money

The Board continues to have a clear and robust performance management framework in place which analyses data, tracks progress and identifies actions. Regular reporting on performance is provided to the Board, with a focus on continuous improvement and closely working with partners.

Best value

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

The duty of Best Value, as set out in the SPFM

- To make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and in making those arrangements and securing that balance.
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirement and to contribute to the achievement of sustainable development.

The SPFM sets out nine characteristics of Best Value which public bodies are expected to demonstrate. The refreshed guidance issued by the Scottish Government in 2011 focused on 5 generic themes and 2 cross-cutting themes, which now define the expectations placed on Accountable Officers by the duty of Best Value.

Five themes:

1. Vision and Leadership
2. Effective Partnerships
3. Governance and Accountability
4. Use of Resources
5. Performance Management

Cross-cutting themes:

1. Equality
2. Sustainability

The Board has a number of arrangements in place to secure best value. This is evidenced through the Remobilisation Plan and the Quarterly Performance Reporting.

As noted elsewhere within this report, the Board has an established governance framework and strong leadership, albeit a number of changes have been noted in 2021/22. There is also strong partnership working with the HSCPs. This transformation programme through the Caring for Ayrshire vision is still in the early stages and has been significantly impacted as the Board has focussed on responding to pandemic. Similarly, there is a no medium or longer term financial outlook meaning the Board is unable to demonstrate it is financially sustainable. The Board recognises that it must deliver services within the financial resources available and, as noted elsewhere in this report, significant work is required to achieve this.

Deloitte view – Best Value

The Board has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development. However, as noted within the report, significant work is required to achieve medium to longer term financial sustainability.

Emerging issues

Climate change

Background

In our 2020/21 report, we set out a high-level assessment of the work that the Board has done in relation to preparing for the impact of climate change against our baseline expectations. This concluded that climate change is clearly on the Board's agenda. A new Climate Change and Sustainability Strategy was approved by the Board in January 2022 to provide a framework for the NHS Ayrshire and Arran to maximise its contribution to mitigating and adapting to the effects of global climate emergency and for the development of integrating sustainability into its everyday actions as an organisation.

In March 2022, Audit Scotland published a report [Addressing climate change in Scotland | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/reports/addressing-climate-change-in-scotland) drawing together the key themes identified across a range of published recommendations for Scotland and set out a high-level summary of the key improvements that need to be made across the public sector if Scotland is to reach its climate change ambitions of a just transition to net zero and adapting to improve resilience to the effects of the global warming we are already experiencing. We have summarised each of these key themes below, along with the suggested actions. We recommend that the Board carry out a self assessment against each of these points and develop an action plan to help focus on where further work is required.

Key themes

Suggested actions

Leadership – public bodies should make responding to climate change a core value and key outcome.

Public bodies can lead the way through developing procurement framework and contracts with economic, social and environmental requirements and with developing and maintaining standards and regulations.

Governance – climate change plans need to have robust governance arrangements to ensure a clear approach to delivery which allows collaboration and integration and can address and resolve any conflicts between partners, priorities and policies. It also needs to support fast-paced changes to plans, technologies and policies.

Good governance ensures accountability and transparency. It requires:

- Monitoring, evaluating, reporting and verifying plans with clear timeframes;
- Feedback mechanisms to review how things work as they are being implemented;
- Processes for how projects will be upscaled and alternatives proposed where projects are not delivering what is expected; and
- Effective scrutiny, oversight and challenge by elected members and non-executive board members.

Emerging issues (continued)

Climate change (continued)

Key themes	Suggested actions
<p>Community empowerment to develop local solutions – actions to address climate change could potentially have an unequal impact on some people and communities. Climate change should become a priority issue that public bodies and their partners engage with local communities on.</p>	<p>Incorporating climate resilience and net zero targets into existing local plans and initiatives, such as city and regional deals and participatory budgeting, will make it easier for public bodies to work with communities and support faster progress,</p>
<p>Behavioural change – clearer information on the environmental impact of people’s choices is needed for all of us to make informed decisions, particularly around sustainable diet, waste and travel.</p>	<p>There is a need for clear plans to influence societal change and help people adapt to climate change and smooth transition to net zero.. Greener options need to be attractive in terms of quality and affordability.</p> <p>Public bodies should make efforts to sustain some of the changes in behaviours beneficial to emission reduction that emerged in the COVID-19 lockdowns, such as remote working, replacing business travel with videoconferencing and online collaboration, and broader lifestyle choices including more walking and cycling.</p>
<p>Alignment of policy and spend – the type of leadership outlined on the previous page, would support the alignment of all policy and funding decisions. However, the challenge is significant.</p>	<p>Policy alignment – all policies should be reviewed individually and holistically to identify conflicts or incoherence with climate change ambitions and be amended as required. The complex landscape, and sheer number of strategies and plans that will play a part in delivering net zero and reducing the impacts of climate change makes this challenge harder at all levels of public sector.</p> <p>Alignment of spend – budgets and spend (both capital and revenue) should align with climate change ambitions. Public bodies will also need to ensure all future funding and investment decisions are based on their contribution to climate change ambitions and an inclusive, net zero carbon economy.</p>

Emerging issues (continued)

Climate change (continued)

Key themes	Suggested actions
<p>Robust planning for net zero, mitigation and adaption – robust cross-sector plans are essential, but experts recognise the challenge is colossal.</p>	<p>As urgent action is required, climate change plans need innovative thinking to address the inherent tensions between doing things thoroughly and doing things quickly. Lessons could be learnt from the public sector’s response to the COVID-19 pandemic. Climate change planning needs to happen collaboratively, with a range of private and public sector bodies, third sector organisations, and communities, as well as simultaneously in different geographical areas. Climate experts should also be involved in planning.</p> <p>Plans should provide clarity in delivery and implementation with sufficient detail and clear timelines.</p>

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

Results of our work on key audit judgements and our observations on the quality of your Annual Report and Accounts.

Our internal control observations

Other insights we have identified from our audit.

The scope of our work

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

We described the scope of our work in our audit plan.

Use of this report

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

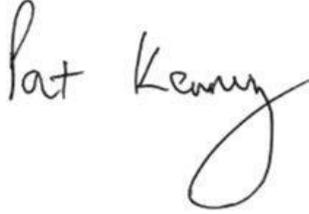
What we don't report

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

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

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

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



Pat Kenny, CPFA
For and on behalf of Deloitte LLP
Glasgow | 21 June 2022

Sector developments



NHS in Scotland 2021

Background and overview

The Auditor General for Scotland published his NHS in Scotland 2021 overview report in February 2022. This concluded that the Scottish Government must focus on transforming health and social care services to address the growing cost of the NHS and its recovery from COVID-19.

Key messages

- The NHS in Scotland is operating on an emergency footing and remains under severe pressure.
 - NHS and social care workforce planning has never been more important.
 - The NHS's ability to plan for recovery from COVID-19 remains hindered by a lack of robust and reliable data across several areas.
 - The NHS was not financially sustainable before the pandemic and responding to COVID-19 has increased those pressures.
-



NHS in Scotland (continued)

2021 (continued)

Recommendations (relevant to NHS boards)

The report recommends that the Scottish Government and NHS Boards should:

- work with partners in the social care sector to develop a long-term, sustainable solution for reducing delayed discharges from hospital;
- publish data on performance against the clinical prioritisation categories, to enable transparency about how NHS boards are managing their waiting lists;
- work with patients on an ongoing basis to inform the priorities for service delivery, and be clear on how services are developed around patients' needs;
- take a cohesive approach to tackling health inequalities by working collaboratively with partners across the public sector and third sector, and be transparent on how it will do this;
- improve the availability, quality and use of workforce data to ensure workforce planning is based on accurate projections of need;
- monitor and manage risks around the impact of additional work outlined in the NHS recovery plan on the NHS workforce, to make sure recovery does not negatively affect staff wellbeing;
- communicate widely with the public on changes to how services are delivered so that people are aware of how best to access services, and monitor the effectiveness of that communication;
- prioritise the prevention and early intervention agenda as part of the recovery and redesign of NHS services, to enable the NHS to be sustainable into the future; and
- improve the availability, quality and use of data on primary, community and social care so that service planning is based on accurate measures of existing provision and demand.

Next steps

The Board should consider each of the above recommendations and incorporate into plans where not already considered. The full report is available through the following link: [NHS in Scotland 2021 \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/nhs-in-scotland-2021)

The future of public health report series

Building a fairer and sustainable system for the UK

Background and overview

The **Deloitte Centre for Health Solutions** has produced a **series of six reports** on the crucial role of public health and the actions needed to optimise the link between health and productivity to drive economic recovery and positive societal impact.

Public health challenges are complex requiring cross functional targeted, approaches to tackle them, alongside a deep understanding of the needs of defined populations. COVID-19 has shown the UK to be an unequal society and has exposed a crisis in public health services, including inadequate funding, variations in workforce capability and capacity and a need for clarity over roles, responsibilities and accountabilities.

The pandemic has raised awareness of public health's role in health protection, ill health prevention as well as health promotion and prolonging healthy life years for all. As well as promoting and prolonging healthy live years for all, it has also demonstrated the potential of public health to use community assets and tackle local health issues effectively.

Despite unequivocal evidence that prevention is more cost effective than treatment, funding cuts and a lack of focus on prevention hinder progress in reducing health inequalities and addressing the impact of social determinants on the physical and mental health of the population.

The full reports are available here [The future of public health | Deloitte UK](#), with some key highlights summarised on the following pages.

The future of public health report series (continued)

Building a fairer and sustainable system for the UK (continued)

Title	What the report explores
Overview – Narrowing the gap: establishing a fairer and more sustainable future public health	An executive overview of the key findings from the series, examining the current challenges and future requirements for a resilient public health system in the UK.
Identifying the gap: Understanding the drivers of inequality in public health	Evaluating the pre-existing and current challenges and solutions to tackling the ‘wicked problems’ affecting public health, including the impact of COVID-19.
Bridging the gap: Protecting the nation from public health threats	Examining the health protection policies and approaches in the UK, as well as the opportunities brought on by health reform and the creation of the new UK Health Security Agency.
Negating the gap: Preventing ill health and promoting healthy behaviours	Exploring how investment in prevention and health promotion can help increase healthy life years and reduce health inequalities.
Removing the gap: Galvanising community assets to improve health outcomes for all	Demonstrating the importance of asset-based, place-based solutions to improve public health, as well as of creating sustainable and systemic change to empower individuals and communities.
The role of employers in reducing the UK’s public health gap: Improving the health and productivity of employees.	Exploring how organisations can build a more resilient and productive workforce by supporting the health and wellbeing needs of their employees.

Appendices



Action Plan

The following recommendations have arisen from our 2021/22 audit work:

Recommendation	Management Response	Priority	Responsible Person	Target Date
<p>1. National Fraud Initiative In line with the Audit Scotland report published on the 2018/19 exercise, we would encourage the FARC and staff leading the NFI work review the NFI self appraisal checklist for future exercises.</p>	<p>The self-appraisal checklist will be used as part of the planning for the next NFI exercise, and reported to the Audit and Risk Committee.</p>	Low	<p>Assistant Director of Finance (Governance and Shared Services)</p>	31 December 2022
<p>2. Journal entry monthly review Management should review the adequacy of the control in place to review journal entries on a monthly basis. This is a need to either enhance the documentation of the review to clearly set out what has been reviewed or identify an alternative control to review journal entries to ensure there is sufficient segregation of duties.</p>	<p>The senior management team within the Finance Department will discuss and review the process for reviewing journals.</p>	Medium	<p>Assistant Directors of Finance (Governance and Shared Services, Operational Services)</p>	30 September 2022
<p>3, Management review of estimates Management should maintain evidence of the output from the review of data provided by experts, and sign off to demonstrate that management are satisfied that the estimates provided by experts is in line with their expectations.</p>	<p>Estimates provided will be reviewed, and signed off as appropriate.</p>	Medium	<p>Assistant Director of Finance (Governance and Shared Services)</p>	31 March 2023

Action Plan (continued)

We have followed up the recommendations made in our previous years audits. We are pleased to note that two recommendations have been fully implemented and three partially implemented and one not yet implemented, with revised target dates of March 2023.

Recommendation	Management Response	Priority	Management update 2021/22
<p>1.1 Journal entries</p> <p>Our journal testing was satisfactory and we are satisfied that the controls in place to perform a retrospective review of all manual journals has been designed and implemented throughout the year. However, from our testing, individual members of the finance team did not always fully understand the business rationale of the journal posted or the impact that this had on the annual accounts. There therefore remains a risk that errors could be made. We therefore recommend that further training is provided to those staff responsible for posting of journal entries.</p>	<p>Management agrees with this recommendation. Deloitte will provide some examples of the journals in question and we will agree measures to improve the understanding of those posting the journals or, if posting on another's behalf, including their initials as a reference point.</p> <p>Responsible Person: Assistant Director of Finance</p> <p>Target Date: March 2022</p>	Low	<p>Training was provided to staff during the year.</p> <p>Fully implemented</p>
<p>1.2. Adherence to deliverables timetable</p> <p>The agreed audit timetable required the fully consolidated group accounts to be provided by 24 May 2021. The full group accounts have not yet been provided at the date of this report. Whilst we understand that this delay has been due to finalising the IJBs results, improvements are required in future years to ensure that a clear timetable is agreed between the NHS and IJB's to ensure that the agreed audit timetable is met.</p>	<p>Management agree with the recommendation. There are limited improvements we can make as the timetable is driven by the councils rather than health, but we will endeavour to make any improvements possible locally.</p> <p>Responsible Person: Assistant Director of Finance</p> <p>Target Date: March 2022</p>	Medium	<p>While an agreed timetable was put in place, as noted on page 8, the full consolidated accounts were provided after the agreed date. Further improvements are required, in partnership with the IJBs</p> <p>Partially implemented</p> <p>Revised Target date: 31 March 2023</p>

Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p>1.3 Procurement fraud We recommend that staff training be updated to include training on procurement 'red flags'.</p>	<p>The Board is in the process of setting up a pilot project to work closely with Counter Fraud Service, and this training will be addressed as part of that project.</p> <p>Responsible Person: Director of Finance</p> <p>Target Date: February 2021 (revised to March 2022)</p>	Low	Fully implemented
<p>2.1 Financial sustainability – transformational change The Board should continue to prioritise the development of detailed programmes, incorporating the more medium to longer term initiatives, with clear action plans, milestones and the associated capacity and resources to deliver.</p>	<p>Corporate Management Team has continued to consider medium and long-term reform as part of financial and service sustainability. The Board's strategy "Caring for Ayrshire" sets out a clear intent for new models of care. The plan to respond to COVID-19 has brought forward a number of changes to the way the services are delivered. This will set a new baseline and CMT will remain focused on moving forward set areas of immediate priority.</p> <p>Responsible Person: Chief Executive</p> <p>Target Date: March 2022</p>	High	<p>Directors have been aligned to work collaboratively on themed transformation programmes to develop a 3 to 5 year plan through which the recurring deficit will be closed over time. The themes of workforce, community engagement, appropriate restoration of service and digital enablement will support a focused approach. Progress against this will be monitored through the Performance Governance Committee of the Board.</p> <p>Partially implemented Revised Target date: 31 March 2023</p>

Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p>2.1 Financial management – savings plans</p> <p>It is imperative when approving budgets at the start of the year that clear plans are in place for the savings required to ensure that there is sufficient lead in time to implement the changes required.</p>	<p>Budget discussions take place throughout the year to establish the Financial Control Schedule. Acute Services has been a key focus in looking to identify the savings necessary to meet the CRES target. The unprecedented pressures due to the high number of COVID-19 positive patients in hospital over winter did not allow such a focus on CRES plans for 2021/22, therefore the budget for 2021/22 was deferred to the May 2021 Board to allow further opportunity to identify CRES.</p> <p>Responsible Person: Chief Executive</p> <p>Target Date: March 2022</p>	High	<p>75% of the 2022/23 targeted savings are fully developed and will implement from 1 April 2022, with collaborative programmes of work established to realise the remaining 25% of savings during the year.</p> <p>These savings are in addition to the cost avoidance plans that are required in year also, notably closing beds opened in response to COVID.</p> <p>Partially implemented</p> <p>Revised Target date: 31 March 2023</p>

Audit Adjustments

Corrected misstatements

The following misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

		Debit/(credit) SOCNE £	Debit/(credit) in net assets £	If applicable, control deficiency identified
Participation in CNORIS Provision	[1]		637,000	N/A
Expenditure		(637,000)		N/A
Provisions	[2]		(6,996,000)	N/A
CNORIS Receivable			6,996,000	N/A
PPE– Addition	[3]	-	(12,000,000)	N/A
Investment in subsidiaries – Addition			12,000,000	
PPE – Impairment			14,100,000	
SOCNE/ Revaluation Reserve		(2,100,000)	(12,000,000)	
Investment in subsidiaries – Impairment		12,000,000	(12,000,000)	
Property, Plant and Equipment (PPE) – Addition	[4]		(250,000)	
Accruals			250,000	
Operating expenses	[5]	6,409,431		
Other Income		(6,409,431)		
Total		(8,663,000)	8,663,000	

Audit Adjustments (continued)

Corrected misstatements (continued)

[1] The Participation in CNORIS provision in the first draft of the Annual Report and Accounts contained an error of £637,000. This was due to an error made by the Scottish Government and an adjustment was made to the final allocation to the Board to compensate for this. This has been corrected in the updated Annual Report and Accounts.

[2] When calculating the provision for lifetime clinical and medical negligence cases, the Board has not accounted for the impact of time value of money or inflation. In the past, the difference between inflating and discounting has been clearly trivial. However, the impact to 2021/22 highlights a difference of £2,815,828. Under IAS 37, the entity should consider the impact of time value of money if the impact is material. As part of the CNORIS scheme, this additional provision would be offset by additional funding so overall nil impact on the outturn for the Board.

[3] As a result of the buy-out of the Special Purpose Vehicle (SPV) in relation to the PFI contract, the Board has incorrectly accounted for this as an “impairment” of the PFI asset and an “addition” of a new asset, where the substance of the transaction is that the asset continues to be held on the Board’s balance sheet. The only movement in the PPE asset should therefore be the revaluation gain as a result of the valuation performed at the year-end. The payment made for the purchase of the SPV should be allocated as in Investment in a Subsidiary, with the impairment posted against this investment.

[4] The Board purchased three newly build townhouses in Kilmarmock for medical students. The missives for one of these, at a cost of £250,000 did not conclude until 1 April 2022 and therefore should not have been accrued into 2021/22.

[5] A late adjustment was required as a result of information supplied by the Scottish Government in respect of testing kits donated by the UK Government. The deemed costs of these are offset by donated income and therefore have a nil impact on the results of the Board.

Audit Adjustments (continued)

Disclosures

Disclosure misstatements

The following disclosure misstatements have been identified up to the date of this report which management have corrected as required by ISAs (UK).

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
<p><i>Remuneration Report – Fair Pay Disclosure</i></p> <p>This is a new requirement for 2021/22 and requires Boards to disclose pay information for the 25th, median and 75th percentile. From our testing we identified errors in the percentage change in the highest paid director, the average staff costs percentage change.</p> <p>This was raised with management and corrected with no issues.</p>	<p>FReM (sections 6.5.19 – 6.5.24).</p>	<p>The misstatement was qualitatively material given that the disclosure did not comply with section 6.5.19 – 6.5.24 of the FReM.</p>
<p><i>Remuneration Report – Higher Paid Disclosure</i></p> <p>From our testing we identified errors in the higher paid employees. This was raised with management and corrected with no issues.</p>	<p>FReM - 6.5.28</p>	<p>Qualitatively material – Important for the users’ understanding of payroll costs.</p>
<p><i>Consolidated SOCNE and SoFP</i></p> <p>From our testing of the consolidation of the IJBs, errors were identified in the amount consolidated in the SoFP. As Joint Ventures, the NHS should consolidate 50% of the results of the respective IJBs.</p> <p>This was raise with management and corrected with no issues.</p>	<p>IFRS 10 – Consolidated financial Statements</p>	<p>The misstatement was qualitatively material given that the disclosure did not comply with IFRS 10.</p>

Audit Adjustments (continued)

Disclosures

Other disclosure recommendations

Although the omission of the following disclosures does not materially impact the Annual Report and Accounts, we are drawing the omitted disclosures to your attention because we believe it would improve the Annual Report Accounts to include them or because you could be subject to challenge from regulators or other stakeholders as to why they were not included.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Remuneration Report – Fair Pay Disclosure	The pay ratio and other disclosures are required to be calculated including agency staff. Due to the availability of data on individuals working on an agency or bank basis, the Board needed to make assumptions and judgements in calculating the disclosures, and concluded that these not expected to have a significant impact on the values reported. This judgement has been appropriately disclosed.	Qualitatively material

Our Other Responsibilities Explained

Fraud responsibilities and representations



Responsibilities:

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



Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the group.

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



Audit work performed:

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

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

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

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

Independence and Fees

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

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

Fees The audit fee for 2021/22, in line with the expected fee range provided by Audit Scotland, is £167,691, as analysed below:

	£
Auditor remuneration	143,861
Audit Scotland fixed charges:	
Pooled costs	16,550
Audit support costs	7,280
Total fee	167,691

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

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

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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