

NHS Ayrshire and Arran

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Board of NHS Ayrshire and Arran and the Auditor General for Scotland
June 2023

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Key messages

2022/23 annual report and accounts

1. Audit opinions on the annual report and accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.
2. However, a number of adjustments have been made in the audited accounts to reflect our audit findings. In particular a number of issues were reported in how assets were accounted for. The board now needs to make improvements in this area for 2023/24.

Financial management and sustainability

3. NHS Ayrshire and Arran has effective financial management arrangements in place for reporting on its financial position.
4. The board reported that it met all its financial targets for 2022/23 and operated within its Revenue Resource Limit (RRL). However there is a revenue deficit of £24.9 million and this was only achieved using £25.4 million of additional financial support from the Scottish Government.
5. The Board is on level 3 of the Scottish Government's escalation framework due to its financial position. The medium-term financial plan indicates the Board's cost base is not sustainable in the future, projected funding and estimated efficiencies will not cover the costs. The projected underlying deficit budget for 2023/24 is £50.3 million. Further Scottish Government financial support will be needed, and radical changes made in how services are delivered. Additional financial support received from Scottish Government will need to be repaid.
6. Priority service change programmes for 2022/2023 were unsuccessful. Slow progress is being made against agreed transformational / financial efficiency plans.
7. £24.9 million of the IJB's reserves relating to Covid-19 funding carried forward from previous years was repaid to the Scottish Government through a

reduction to the board's RRL in 2022/23. An equal reduction was made in the funding provided by the board to the IJBs.

Vision, leadership and governance

8. The Annual Delivery Plan sits alongside the board's 10-year strategic ambition, Caring for Ayrshire, which sets out their whole system health and care redesign and reform ambition.
9. While the board and its partners share a central vision, the number of deliverables is confusing. It is not clear how the individual deliverables and milestones contribute to the achievement of the organisational priorities.
10. The governance arrangements operating throughout the year have been effective overall, however Internal Audit identified a number of improvement recommendations which are being actioned and IT systems need to improve.
11. An IT Health Check identified 14 essential tactical activities that need to be addressed as a matter of urgency.
12. Improvements are needed in Cyber security arrangements.
13. The Board conducts its business in an open and transparent manner.

Use of resources to improve outcomes

14. Covid-19 has impacted significantly upon the board's activity and waiting times for services. Service performance against national waiting time standards is reported as being behind target.
15. The board is finding it difficult to recruit clinical staff and relies on temporary staff to fill gaps, at a high cost to the board. Expenditure on agency and other directly engaged staff was £18.7 million in 2022/23.
16. Delayed discharges have prevented the removal of additional beds needed to reduce costs.
17. A formal review should be undertaken to demonstrate how NHS Ayrshire and Arran is achieving Best Value.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of NHS Ayrshire and Arran (the board). The scope of the audit was set out in an Annual Audit Plan presented to the 15 March 2023 meeting of the Audit and Risk Committee. This annual audit report comprises:

- significant matters arising from the audit of NHS Ayrshire and Arran’s annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to the board of NHS Ayrshire and Arran and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. I, Fiona Mitchell-Knight FCA, have been appointed by the Auditor General as auditor of NHS Ayrshire and Arran for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new Code of Audit Practice which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank board members, audit and risk committee members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance. We look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. NHS Ayrshire and Arran has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report

and accounts that are in accordance with the accounts direction from the Scottish Ministers.

6. The board is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

7. The responsibilities of the independent appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

8. Weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of NHS Ayrshire and Arran from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation. It also includes actions from prior years and progress against these.

Auditor Independence

10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £208,680, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

11. We add value to NHS Ayrshire and Arran through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability
- sharing intelligence and good practice.

1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

A number of adjustments have been made in the audited accounts to reflect our audit findings. Changes have been made to the untaken holiday liability, for assets no longer in use, for equipment not received prior to the year-end and to correct other accounting errors.

Unadjusted errors remain in the accounts for costs accounted for in the wrong year and for the inclusion of staff lottery funds totalling £3.1 million.

A number of issues were reported in how assets were accounted for. The board now needs to make improvements in this area for 2023/24.

Audit opinions on the annual report and accounts are unmodified

12. The board approved the annual report and accounts for NHS Ayrshire and Arran and its group for the year ended 31 March 2023 on 27 June 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report was prepared in accordance with the financial reporting framework

- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Overall materiality was assessed on receipt of the unaudited annual report and accounts as £22.7 million

13. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

14. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values for NHS Ayrshire & Arran and its group

Materiality level	Amount – Board & Group
Overall materiality	£22.7 million
Performance materiality	£13.6 million
Reporting threshold	£220 thousand

Source: Audit Scotland

15. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

16. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60% of overall materiality, reflecting the nature and extent of prior year misstatements.

17. It is our responsibility to request that all misstatements are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

18. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the board including our view about the qualitative aspects of the board's accounting practices.

19. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

20. The significant findings and key audit matters are summarised in [Exhibit 2](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Transfer of costs between years</p> <p>In February 2023, the board ordered IT equipment with a value of £2.699 million. The items were delivered into storage off-site during March 2023 where they remain. The board will not be invoiced until the items start to be released for use. The full amount has been included within Trade Payables and recorded as an asset addition. The decision to purchase was made following slippage in the capital programme (£1.5 million) and an additional allocation from SG (£1.2 million).</p> <p>In February 2023 the board also ordered medical equipment with a value of £0.608 million that was not delivered by 31 March and remained with the supplier. In support of the invoice, the board provided a vesting certificate confirming that the equipment remained with the supplier but would be clearly marked as belonging to the board.</p> <p>Whilst the board has purchased both sets of equipment, it remains with the suppliers and the board does not have access to the economic benefits (and is not exposed to most of the risks). We would expect expenditure, and non-current assets, to be recognised when they are delivered to the board and not before this.</p> <p>We have concluded that, in our opinion, these items should not be reflected in the 2022/23 accounts and inclusion in the accruals is contrary to proper accounting practice.</p>	<p>The board has decided not to adjust the 2022/23 accounts in relation to the IT equipment. As a result, we conclude that Trade Payables and asset additions are both overstated by £2.699 million. We have included this as an unadjusted error in the accounts at paragraph 26 and have made a recommendation in respect of the accounting treatment for recognising a liability prior to the receipt of goods.</p> <p>The board has agreed to adjust the 2022/23 accounts in relation to the medical equipment. As a result, both Trade and other payables and Core Capital Expenditure have decreased by £0.608 million.</p> <p>Recommendation 1 (refer Appendix 1, action plan)</p>
<p>2. Health and Social Care Integration</p> <p>The three integration joint boards (IJB) activities have been reflected in the board's accounts. £546.127 million has been included in the board's other health care expenditure relating to the board's payments to the IJB. Income of £496.843 million for services commissioned by the IJB has also been included.</p>	<p>For information only.</p>

Issue	Resolution
<p>The IJBs have been consolidated into the group accounts as joint ventures. £28.831 million has been shown in financial assets, representing the board's share of the IJBs cumulative financial outturns to 31 March 2023.</p> <p>The IJB figures are based on the unaudited accounts for each IJB and the deadline for these accounts to be audited is 30 September 2023. We do not anticipate any material changes to the draft figures used in consolidation.</p>	
<p>3. Accounting Entry Errors</p> <p>Manual accounting entries, through journals, are completed by the finance team at the year-end to accurately allocate income and expenditure to the correct financial year.</p> <p>Our audit procedures identified the following accounting entry errors made through inaccurate journals postings:</p> <ul style="list-style-type: none"> • A duplicate accrual of £0.414 million. Expenditure was overstated by the same amount. • Two over-accruals of £0.368 million which had been inaccurately processed as prepayments. <p>As reported in previous Annual Audit Reports, there is no journal authorisation control in place. Members of the finance team can therefore post journals to the financial ledger without secondary authorisation and errors are not identified.</p>	<p>Management have agreed to correct these misstatements in the audited annual report and accounts.</p> <p>In respect of the duplicate accrual, Core Revenue Expenditure has decreased by £0.414 million.</p> <p>The prepayment errors had no impact on the board's expenditure, or outturn. Trade and other payables have however decreased by £0.368 million and trade and other receivables decreased by the same amount.</p> <p>We recommend that the board introduce journal authorisation controls to mitigate the risk of accounting entry errors, and misstatements, in the annual report and accounts.</p> <p>Recommendation 2 (refer Appendix 1, action plan)</p>
<p>4. Untaken Holiday Liability</p> <p>The board is required to calculate the estimated cost of untaken annual leave at 31 March 2023 that can be carried forward and used during 2023/24. Our review of the board's approach to the calculation of the untaken holiday liability identified that it was not fully in accordance with the relevant guidance.</p>	<p>The board has agreed to adjust the 2022/23 accounts. Core Revenue Expenditure has increased by £0.241 million.</p> <p>Medical staff annual leave is not generally recorded on the board's payroll system. The board have therefore assumed that all staff have carried forward the maximum value of 5 days untaken annual leave at the year-</p>

Issue	Resolution
<p>The methodology adopted did not include pension contributions or the 2023/24 agreed pay award. Some medical staff were also double counted.</p> <p>The untaken holiday liability included in the board's 2022/23 unaudited annual report and accounts was £6.029 million. As a result of our comments, officers accepted that the accrual needed to be restated to comply with the relevant guidance. The revised approach identified that the board's untaken holiday liability should be £6.270 million.</p> <p>The board has accepted, even after revision, that there are some deficiencies with the annual leave data for medical staff that it will aim to address.</p>	<p>end. This is based on very limited information.</p> <p>The untaken holiday liability for medical staff has not been adjusted. While we are satisfied this has not resulted in a material misstatement, we recommend that the board review their approach to the calculation of this liability.</p> <p>Recommendation 3 (refer Appendix 1, action plan)</p>
<p>5. Staff Lottery</p> <p>The board operates a staff lottery for employees. At the 31 March 2023, the staff lottery had a total balance of £0.396 million.</p> <p>These funds were included in the board's cash and cash equivalents balance in the 2022/23 unaudited annual report and accounts.</p> <p>As the staff lottery funds are held on behalf of employees, and do not belong to the board, we recommended that the funds were not accounted for in the board's primary financial statements and were disclosed as a third party asset.</p>	<p>The board has decided not to adjust the 2022/23 accounts. As a result, we conclude that Trade and other Payables and Cash and Cash Equivalents are both overstated by £0.396 million. We have included this as an unadjusted error in the accounts at paragraph 26.</p> <p>This had no impact on the board's reported outturn.</p>
<p>6. Assets no longer in use</p> <p>We identified that the board had 276 assets with a gross value of £50.712 million that had been fully depreciated, but remained on the board's fixed asset register. This is made up of primarily plant and machinery assets, such as electro medical equipment.</p> <p>At least annually, the board should obtain assurance that the assets in the fixed asset register and included in the board's annual report and accounts, remain in use.</p> <p>Our testing also identified that plant and machinery assets with a gross value of £7.994 million remained on the asset register, but were no longer in use.</p>	<p>The board have agreed to amend the 2022/23 annual report and accounts.</p> <p>The gross value of assets, and accumulated depreciation, have decreased by £7.994 million following disposal of these assets. This has not impacted the board's Statement of Financial Position or year-end outturn.</p> <p>Management is aware there are deficiencies in communication between departments that has resulted in Finance not being made aware of historic disposals where assets are scrapped. We recommend that the board reviews its processes over asset</p>

Issue	Resolution
	<p>disposals and obtains evidence at least annually to confirm that assets on the asset register remain in operation.</p> <p>Recommendation 4 (refer Appendix 1, action plan)</p>
<p>7. Fixed Assets</p> <p>The board uses the Real Asset Management (RAM) system for fixed asset accounting.</p> <p>We identified that the information recorded in the system was inadequate for preparation of the accounts and for providing an adequate audit trail. Several manual adjustments were required by the Fixed Asset Manager to populate and provide evidence for the fixed asset disclosures in the accounts. This included:</p> <ul style="list-style-type: none"> • Inadequate descriptions of assets in the asset register. Reconciling disposals, impairments and asset revaluations to the asset register caused significant challenges. • Asset revaluation reserve adjustments were inaccurately calculated. Significant manual adjustments were required. • Unable to accurately record asset transfers from asset under construction to the operational class of asset. Manual adjustments were required. 	<p>Through detailed and time-consuming discussions with finance staff, we have obtained sufficient and appropriate audit evidence in this area.</p> <p>The board should review its arrangements for fixed asset accounting.</p> <p>Recommendation 5 (refer Appendix 1, action plan)</p>

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

21. Our Annual Audit Plan presented to the Audit and Risk Committee on 15 March 2023 included the significant audit risks we had identified in the board from our planning work.

22. We have obtained audit assurances over the identified significant risk of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the one significant risk of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Identified significant risk of material misstatement in the annual report and accounts

Audit risk	Audit Response	
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>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.</p> <p>Tested journals throughout the year with a focus on year-end entries and significant risk areas.</p> <p>Assessed the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</p> <p>Assessed any changes to the methods used to prepare accounting estimates compared to the prior year.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Tested substantively income and expenditure transactions around the year-end to confirm they were accounted for in the correct financial year.</p>	<p>Results:</p> <p>We made inquiries of staff.</p> <p>We undertook detailed control and substantive testing of journal entries, accruals and invoices.</p> <p>Our journal testing included a data analytics review to identify key risk factors.</p> <p>We reviewed related party relationships and disclosures. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>We tested substantively income and expenditure transactions around the year-end. Our testing of accruals and prepayments identified expenditure that was not recognised in the correct financial year.</p> <p>Conclusion: We identified two instances where accruals were used to transfer £3.3 million between years contrary to proper accounting practice. This is reported in Exhibit 2.</p>

Audit risk	Audit Response
	Carried out focussed testing of accounting accruals and prepayments.

23. We also identified “areas of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- Estimations and judgements – valuation of land and buildings:**
This is an area of audit focus, given the significant degree of subjectivity in the valuation of this category of assets. The value of land and buildings subject to specialist revaluations was £392.5 million at 31 March 2022. A full revaluation was conducted at 31 March 2023. We reviewed the arrangements in place to satisfy the board that the annual revaluation process is complete and is free from material misstatement. We are satisfied there are no material misstatements in the valuation of land and buildings. Issues with accounting for assets are included in [Exhibit 2](#).
- Repayment of Covid-19 funding from the Ayrshire Integration Joint Boards to the Scottish Government:** In January 2023 the Scottish Government announced its intention to recover unspent IJB Covid-19 funding, held in IJBs’ earmarked reserves. The return of this funding was completed via the Board with the level of Covid-19 funding of £23.998m recovered. As part of our audit, we considered the accounting treatment and disclosures for these repayments. The amounts were reported appropriately in the accounts.

24. In addition, the eFinancials systems upgrade from version 5 to version 6 impacted on some elements of the finance function, the main issue being the instability of DbCapture, the optical character recognition tool used by the NHS to scan/read invoices for payment. As part of our audit, we assessed the impact of the upgrade on the system’s controls and payment processes. We also reviewed and considered the implications of the NHS Ayrshire & Arran NSI 2022/23 service auditor report references to the upgrade.

25. We make reference at [paragraph 102](#) to eFin Disaster Recovery arrangements. There are no matters which we need to bring to your attention.

There were two non-material misstatements identified within the financial statements

26. We identified two misstatements which were not corrected by management in the audited accounts. We considered the size, nature and circumstances

leading to all uncorrected misstatements, individually and in aggregate, and concluded that these were not material. Further details of the uncorrected misstatements are included in [Appendix 2](#).

There were delays in preparing the unaudited annual report and accounts

27. The unaudited annual report and accounts were received on 16 May 2023, which was later than the agreed date of 9 May 2023. At that time both the annual report and accounts and supplementary working papers package were incomplete. There were arithmetical and consistency issues and omitted transactions, balances and disclosures.

28. These outstanding items were provided to external audit during May. The initial delay was primarily due to late changes required to the standard template and complexities in accounting for leases in accordance with *IFRS 16 Leases*, a newly implemented accounting standard.

Some progress was made on prior year recommendations

29. The board has made some progress in implementing the prior year audit recommendations identified by Deloitte, the board's previous external auditor. One of the seven prior year recommendations has been implemented, with three in progress, and three outstanding. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Main judgements

NHS Ayrshire and Arran has effective financial management arrangements in place for reporting on its financial position.

Although the board reported that it met all its financial targets for 2022/23 and operated within its Revenue Resource Limit (RRL), this was achieved using £25.4 million of additional financial support from the Scottish Government.

The revenue position for the year ended 31 March 2023 was a £24.9 million deficit.

£24.9 million of the IJB's reserves relating to Covid-19 funding carried forward from previous years were repaid to the Scottish Government through a reduction to the board's RRL in 2022/23. An equal reduction was made in the funding provided by the board to the IJBs.

Although NHS Ayrshire and Arran operated within its Revenue Resource Limit (RRL) of £965.1 million, this was achieved using £25.4 million of additional financial support from the Scottish Government

30. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within.

31. With effect from 2019/20, the Scottish Government introduced a new approach to financial planning and target setting. This removed the requirement for boards to achieve financial balance annually and instead boards were required to achieve a breakeven position over a rolling three-year period. NHS boards can exercise annual flexibility within 1 per cent of their revenue resource limit. However, the Scottish Government paused the normal financial planning

arrangements under the Scottish Government's Health and Social Care Medium Term Financial Framework due to the pandemic. The requirement for boards to develop three-year financial plans was reintroduced from 2022/23.

32. As illustrated in [Exhibit 4](#), the board reported that it operated within all limits during 2022/23. However, the underspend against Core RRL was achieved as a result of the board receiving additional non-recurring financial support of £25.4 million from the Scottish Government in March 2023. In a letter dated 9 May 2023, the Director of Health Finance and Governance at the Scottish Government confirmed that an appropriate repayment profile for the additional financial support would be agreed in due course following the board's return to financial balance.

Exhibit 4 Performance against resource limits in 2022/23

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	965.10	964.70	0.44
Non-core revenue resource limit	30.85	30.85	0
Total revenue resource limit	995.95	995.51	0.44
Core capital resource limit	30.18	30.18	0
Non-core capital resource limit	0.20	0.20	0
Total capital resource limit	30.38	30.38	0
Cash requirement	1,143.45	1,143.45	0

Source: NHS Ayrshire and Arran Annual Report and Accounts 2022/23

The revenue position for the year ended 31 March 2023 was a £24.9 million deficit

33. The Revenue Plan for the 2022/2023 financial year was a deficit of £26.4 million. The final position was a deficit of £24.9 million. The budget for 2022/2023 was approved at the Board meeting on 28 March 2022.

34. The Financial Management Report for the year ending 31 March 2023 was presented to the Board meeting of 23 May 2023 by the Director of Finance. The report highlights the most significant areas of financial pressure as:

- The budget for Acute Services was overspent by £18.7 million. Main contributing factors were an overspend on medical pay of £3.8 million and an overspend on nursing pay budgets of £6.1 million mainly due to £10.6 million of nursing agency spend.
- Additional funding of £3.7 million was received from Scottish Government in February 2023 bringing the New Medicines Fund budget to £14.6 million. However total spend was £19.1 million resulting in a £4.5 million overspend.
- Reserves (budgets not issued to directorates) were £6.0 million overcommitted.

35. The above overspends were offset by an underspend of £3.3 million on Corporate Services budgets of £37.6 million.

£24.9 million of the IJB's reserves relating to Covid-19 funding carried forward from previous years was repaid to the Scottish Government through a reduction to the board's RRL in 2022/23. An equal reduction was made in the funding provided by the board to the IJBs

36. The three integration joint boards (IJB) activities have been reflected in the board's accounts. £546.127 million (including resource transfer) has been included in the board's other health care expenditure relating to the board's payments to the IJB. Income of £496.843 million for services commissioned by the IJB has also been included.

37. The IJBs have been consolidated into the group accounts as joint ventures. £28.831 million has been shown in financial assets, representing the board's share of the IJBs cumulative financial outturns to 31 March 2023.

38. Primary Care Prescribing is delegated to IJBs, however under and overspends fall to the Board. In 2022/2023 the Board funded £7.3 million to IJBs to cover overspends on Primary Care Prescribing.

39. As a consequence of IJBs continuing to hold significant reserve balances relating to COVID 19 funding, the Scottish Government announced its intention in January 2023 to recover unspent IJB Covid-19 funding, held in IJBs' earmarked reserves. The return of this funding was completed via the Board and resulted in recovery of £24.9 million. We are satisfied that appropriate accounting treatment and disclosures have been made for these repayments.

Set aside budgets are to move to a model reflecting more on actual activity levels from 2023/24

40. The funding for large hospital services is referred to as the ‘set aside’ budget – it is excluded from the payment to the Integration Joint Boards but is ‘set aside’ for direction by the IJBs through the Strategic Plan. Legislation requires that the method for determining the amount to be set aside should be included in the Integration Scheme.

41. In most areas, set aside budgets are not being directed by IJBs, meaning that opportunities to use resources to prioritise prevention and deliver care in a community setting are not fully utilised. Work is currently underway by NHS Ayrshire and Arran and the three IJBs to set out what large hospital services will be commissioned by the IJBs.

42. Alongside this, Ayrshire Finance Leads are developing a set aside model to determine the cost of large hospital services which are being used by each of the IJBs. This will be based on actual activity and actual costs being incurred by the Health Board. NHS Ayrshire and Arran were able to calculate 2022/23 Set Aside with local activity data for 2022/23. However, whilst a proposed pricing methodology using budgetary information has been developed, Ayrshire Finance Leads agreed to use historic pricing for consistency with prior year’s annual accounts as detailed in [Exhibit 5](#) below. From 2023/24, the new model will be used to better reflect actual activity levels.

Exhibit 5: Comparison of National Resource Allocation Committee (NRAC) set aside allocation and historical allocation basis

	2022/23 NRAC Share %	2022/23 NRAC Share £	2022/23 Spend £	2022/23 Variance £
East	31.90%	28,543,045	26,555,104	1,987,941
North	36.80%	32,917,081	32,267,475	649,606
South	31.30%	27,988,464	30,626,010	(2,637,546)
Total	100.00%	89,448,590	89,448,590	0

Source: NHS Ayrshire and Arran

Budget processes were appropriate but a deficit budget was reported

43. In March 2022, the Board set a deficit budget of £26.4 million for 2022/2023. This assumed full funding of Covid costs by Scottish Government.

44. The board's code of Corporate Governance requires that the Director of Finance provides the Board with financial reports at regular intervals showing:

- NHS Ayrshire & Arran's overall performance against its notified Revenue Resource limit on the basis of income and expenditure for the period under review including a forecast of the expected position at 31 March.
- Any other financial reports required by the Board in the performance of its functions.

45. We observed that the Board receive regular and accurate financial information on its performance against budgets. We concluded that the body has appropriate budget setting and monitoring arrangements.

2022/23 Capital Resource Limit (CRL)

46. Capital expenditure was £30.4 million in line with the Capital Resource Limit. However spend was lower than planned on ITU and the National Treatment Centre. £1.5 million of slippage was reprioritised to digital infrastructure in February 2023.

£6.5 million of efficiency savings were achieved, against planned efficiencies of £8.2 million

47. The Cash Releasing Efficiency Savings (CRES) programme for 2022/2023 beds (£600k) and travel (£300k) where none of the planned savings were achieved.

Internal financial controls are operating effectively, but with one identified weakness relating to the board's decision not to check journals that have been processed

48. As part of our audit, we develop an understanding of the board's control environment in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that NHS Ayrshire and Arran has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is fully substantive in nature.

49. In their 2021/22 Report on the Audit, the previous auditors highlighted one internal control finding which related to review of journal entries to ensure sufficient segregation of duties. Management have previously accepted the risks associated with the authorisation of journals. Our own sample testing also identified that journals were not subject to second officer checks.

50. We revised our audit procedures due to the weaknesses in authorisation of journals but concluded that there were no material errors in the financial statements.

51. No other material weaknesses or areas of concern were identified from this work which would have caused us to alter the planned approach as documented in our 2022/23 Annual Audit Plan.

52. In our Plan we highlighted that an issue had arisen following the January 2023 e-Financials systems upgrade from version 5 to version 6 which had yet to be fully rectified. The system is hosted by NHS Ayrshire and Arran. The upgrade had impacted on some elements of the finance function, the main issue being the instability of DbCapture, the optical character recognition tool used by the NHS to scan/read invoices for payment.

53. In response, we assessed the impact of the upgrade on the system's controls and payment processes. We also reviewed and considered the implications of the NHS Ayrshire and Arran NSI 2022/23 service auditor report references to the upgrade. There were no weaknesses identified from our work in this area. Invoice processing backlogs arising from the upgrade were cleared before the accounts were produced.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Main Judgements

54. In our 2022/23 Annual Audit Plan we identified a wider scope audit risk relating to the board's financial sustainability. Our audit findings from the work done on this area are recorded below.

The response to Covid-19 and a range of emerging financial pressures have exacerbated the financial position of the NHS in Scotland

55. As highlighted in Audit Scotland's [NHS in Scotland 2022](#) report, the financial position is concerning across the health sector. Despite growth in health funding a range of financial pressures are presenting a significant challenge for all health boards. These include:

- inflation;
- recurring pay pressures;
- ongoing Covid-19 related costs;
- rising energy costs and;
- a growing capital maintenance backlog.

The medium-term financial plan indicates the board's cost base is not sustainable in the future; funding and efficiency savings will not cover the estimated costs

56. NHS Ayrshire and Arran has returned to medium-term financial planning and prepared a three-year financial plan covering the period 2023/24 to 2025/26. Forecasts in the financial plan are based on a number of assumptions including allocation uplifts, inflationary costs and pay growth. A one per cent flexibility is contingent on NHS boards producing a credible financial plan and repayment of this flexibility in the three-year period.

57. The Plan was submitted to the Scottish Government on 9 February 2023 and presented to the Performance Governance Committee meeting on 2 March 2023. It details projected variances against Core RRL of £55.4 million in 2023/24, £61.7 million in 2024/25 and £67.7 million in 2025/26. Indicative savings targets of £10.0 million are identified for 2023/24 and 2024/25, and £15.0 million in 2025/26. Non-recurring savings of £13.7 million for 2023/24, £3.3 million in 2024/25 and £2.2 million in 2025/26 are also identified.

58. Following submission of the Plan, SG have asked the Board to undertake the following actions and to resubmit a revised finance plan by 30 June 2023.

- Continued development of a recovery plan, including further detail outlining IJBs financial performance and an assessment of regionalised working opportunities.
- Develop a plan to deliver 3% recurring savings in 2023-24 and to develop options to meet any unidentified or high risk savings balance.
- Develop other measures to be taken to further reduce the financial gap.
- Undertake a diagnosis of the key underlying drivers of the deficit and specific risks as presented within the financial plan and the reasons for the significant change from the position in 2022-23.
- Implement plans to reduce the number of unfunded beds within the system and provide an update on progress by 30 June 2023.

59. An updated Revenue Plan 2023/24 was submitted by the Director of Finance to the Board for approval on 28 March 2023. In his accompanying report, the Director of Finance notes that the allocation letter dated 15 December 2022 notified a 2% general allocation uplift (£16.7 million) and that Scottish Government would not claw back the unspent employer national insurance increase funded the previous year. Baseline funding for 2023/24 was therefore set at £850.2 million together with earmarked funding of £131.0 million.

60. In his report, the Director of Finance notified the Board of a recurring cost pressure of £53.2 million for 2023/24 as set out in [Exhibit 6](#) below. He also confirmed that in order not to worsen the underlying deficit of £26.4 million, they would require to find £33.5 million of cash releasing efficiency savings (CRES) in 2023/2024 on top of delivery of the £3.355 million acute unachieved CRES from previous years.

Exhibit 6 NHS Ayrshire and Arran Recurring Cost Pressures

2023/24 recurring cost pressures	£000
Pay related	11,890

Prior commitments	4,552
IJB pass through	4,800
Unavoidable clinical cost pressures	6,203
Non-clinical cost pressures	5,715
Covid related costs	1,822
CNORIS	860
Primary care prescribing	12,495
Acute prescribing	4,845
TOTAL	53,182

Source: NHS Ayrshire and Arran

61. The projected underlying deficit budget for 2023/24 is £50.3 million (£53.2 million less retained NI funding). This is an increase of £23.9 million from the £26.4 million budget deficit in 2022/23. In addition, a cost pressure of £6.1 million exists relating to unfunded acute beds put in place as a response to Covid-19, resulting in a total deficit budget of £56.4 million for 2023/24. Planned CRES for 2023/2024 is £9.6 million. Planned efficiency savings are therefore not enough to close the predicted financial gap in 2023/24.

62. Financial recovery from this position will require radical reform of health services, however in the board's view the budgets devolved to Integration Joint Boards are not within scope to deliver efficiency savings for the health board (these amount to around 45% of budget).

63. In a report to the Performance Governance Committee meeting of 2 March 2023, the Director of Finance noted that to recover this scale of underlying deficit, three parallel streams of work are needed:-

- Reform of acute services to reduce length of stay, close speedily all unfunded beds (cost avoidance) and thereafter close funded acute beds to release cash releasing efficiency savings.
- Achievable cash releasing efficiency savings targets set for all other Directorates (3%) except Integration Joint Boards.
- Rebalance the financial risk between the Health Board and Integration Joint Boards in relation to; primary care prescribing and overspends and payments through set aside for acute beds occupied by delayed discharge patients.

64. The board currently meet the increased costs of energy, e-health and all drugs (including primary care prescribing). The integration scheme sets out the position in relation to primary care prescribing, however the scheme also requires that in relation to the set aside budget, the Integration Joint Boards should contribute financially if they are responsible for increased use and risk

sharing in these areas. Work is ongoing with the IJBs around set aside services and the development of commissioning plans as the Integration Schemes are reviewed during 2023/24.

65. Savings and the timing of the closure of the unfunded acute beds will play a part in reducing the projected deficit during 2023/24. However the board's ambitions in this area have been slower than anticipated. In particular delayed discharges largely centred in South Ayrshire have prevented the removal of additional beds. This matter is discussed further at [paragraph 145](#).

66. As set out above, the Director of Finance has highlighted a number of cost pressures which will worsen the board's existing underlying deficit. These pressures are making a financial position that was already difficult and has been exacerbated by the Covid-19 pandemic, even more challenging. Given the board's own assessment of the risks it faces in delivering the 2023/24 Revenue Plan, the board's cost base is not sustainable in the future.

67. Recognising that the scale of the overall financial challenge varies across boards, NHS Boards have been categorised into three groups (Tailored Support; Enhanced Monitoring and Quarterly Engagement), to ensure Scottish Government support is directed based on need. NHS Ayrshire and Arran is in the 'Enhanced Monitoring' category which requires that they revisit their financial plans with specific support from Scottish Government in order to improve the underlying financial health of the board. We will monitor the board's work in relation to the production of the financial recovery plan as required as part of the enhanced monitoring arrangements between the board and the Scottish Government.

Priority service change programmes for 2022/2023 were unsuccessful because of service pressures, covid waves, flu outbreaks, staff absence and staff vacancies.

68. In April 2022, the Scottish Government requested that all NHS Boards produce an Annual Delivery Plan (ADP) for 2022/23 in place of a Remobilisation Plan. The Plan includes outstanding key deliverables from 2021/22 plan and new key deliverables which are expected to be delivered during the current year. The board's ADP was submitted to SG during August 2022 and formally submitted to the Board for approval in October 2022. The Plan included four agreed organisational priorities for 2022/23:

- The rightsizing of the bed footprint
- Rightsizing of the workforce
- Distributed Working & Estate Rationalisation
- Electronic Patient Records (EPR) and Records Management.

69. The board's Programme Management Office (PMO) had a coordinating role in preparing the 2022/23 ADP. Internal audit reviewed how potential savings were identified and documented by the PMO and how the planned actions delivered financial sustainability. The review was undertaken in two stages. Part one of the audit evaluated the adequacy of the internal controls in place around monitoring of priority programmes. The review received partial assurance with some improvement required around completion of documentation such as EQIAs and Programme Workbook.

70. The second review looked at the realisation of the savings in line with the plans through the four programmes. The report arising from the review was presented to the Audit and Risk Committee in March 2023 and provided a partial level of assurance with some improvement required. The report included two recommendations:

- Management should implement a more robust process for determining due dates for management actions.
- A member of the finance team (one or more) with appropriate skills and expertise should be assigned to each of the Programmes and attend the Programme Group meetings once per month.

71. Management agreed to implement both recommendations with due dates of 31 March 2023 and 30 April 2023 respectively.

72. The Director of Transformation and Sustainability provided an update on the four priority programmes of work for 2022/23 to the Performance and Governance Committee meeting in March 2023. She reported that both the Rightsizing the Workforce and Rightsizing the Bed Footprint programmes have struggled to make progress with actions and the intentions to close unfunded beds. In terms of the distributed working and estates rationalisation programmes, delays had also been encountered however progress was now being made and discussions with staff were starting to take place across the organisation. Some delays had also been encountered with the Electronic Patient Record programme, in particular the Trakcare System implementation however most other actions were on track.

73. The Director of Finance has also confirmed that the priority programmes for 2022/2023 were unsuccessful because of service pressures, covid waves, flu outbreaks, staff absence and inability to recruit registered staff, resulting in vacancies and use of agency as well as 180 unfunded beds remaining open in acute services. These all remain risks in 2023/2024.

Additional financial support received from Scottish Government will need to be repaid

74. The Scottish Government has brought back financial support, known as brokerage, for boards predicting a financial deficit.

75. NHS Ayrshire & Arran required £25.4 million of brokerage from Scottish Government in order to achieve financial balance in 2022/2023. Without this additional support, the board's final outturn would have been an overspend of £24.9 million (equivalent to 2.6% of the Revenue Resource Limit). This brokerage is repayable once the board is in financial balance along with £14.7 million brokerage from 2019/2020.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Main Judgements

The board and its partners share a central vision however the number of deliverables is confusing. It is not clear however how the individual deliverables and milestones contribute to the achievement of the organisational priorities.

The governance arrangements operating throughout the year have been effective overall, however Internal Audit identified a number of improvement recommendations which are being actioned and IT systems need to improve.

An IT Health Check identified 14 essential tactical activities that need to be addressed as a matter of urgency.

Improvements are needed in Cyber security arrangements.

The Board conducts its business in an open and transparent manner.

The board and its partners share a central vision however the number of deliverables is confusing

76. As set out in [paragraph 68](#), in April 2022 the Scottish Government requested that all NHS Boards produce an Annual Delivery Plan (ADP) for 2022/23 in place of a Remobilisation Plan. Alongside the four agreed organisational priorities, 227 detailed actions for the recovery and stabilisation of services were included in the 2022/23 ADP. These included:

- Recovery of Public Dental Services – return to pre-pandemic waiting times

- Complete draft long-term Caring for Ayrshire Property Strategy
- Improve discharges across the site and support the management of patients delayed awaiting a Care Home Place or Care at Home Package
- Reduce waiting list size and waiting times for Outpatients by increasing clinic capacity and reducing referral demand.

77. Each action point includes a key deliverable with agreed milestones and planned completion dates. Also detailed are the major strategies and programmes each deliverable relates to. Progress against each milestone is reported monthly and given a RAG status. It is not clear however how the individual deliverables and milestones contribute to the achievement of the organisational priorities.

78. Whilst we recognise that a range of improvement activity is taking place across the board, it needs to be clearer about how this activity makes a difference to the outcomes the board and its partners want to achieve. All partners share the central vision, but the number of deliverables is confusing.

79. Following submission of the ADP to SG, in September 2022 the NHSScotland Deputy Chief Operating Officer – Planning and Sponsorship provided specific feedback on the Plan and highlighted a number of areas for the board to consider including:

- ensure that the deliverables outlined within your ADP template explicitly addresses each of the six priority areas within the commissioning guidance
- to support monitoring of progress against the plans, we would request that you include timescales and milestones for each deliverable. I understand that these may need to be refined between updates however inclusion of intended timelines and milestones will enable us – and you - to track progress, or any variation, throughout the year.

Recommendation 6

The board needs to clearly set out what achieving its intended outcomes looks like in the short, medium and long term.

Caring for Ayrshire sets out the ambition for how health will be delivered in the area

80. The ADP sits alongside the board's 10-year strategic ambition, Caring for Ayrshire, which sets out their whole system health and care redesign and reform ambition. The programme is led by the board in collaboration with the three Ayrshire Integration Joint Boards.

81. The Caring for Ayrshire vision is to develop clear health and care pathways for the people of Ayrshire and Arran. Greater emphasis and resources will be focussed on providing care as close to home as possible, ensuring people can access appropriate health and care support in their own communities. This work will explore local Community Health and Social Care Centres providing more localised alternatives to acute hospital attendances and admissions. These could provide a wide range of services currently provided within acute hospital settings.

82. During 2022/23, internal audit reviewed work undertaken to date on the Caring for Ayrshire Programme. Their report identified four observations:

- As the Caring for Ayrshire Programme is a 10-15 year project, NHS Ayrshire and Arran should ensure that there is long term projected costs and funding over the expected life of the project and scenario planning is performed to ensure there is an understanding of the effects of various plausible events.
- Consistent progress updates should be reported to the Integrated Governance Committee ensuring they have clear oversight of the developments made towards the Caring for Ayrshire Programme.
- The Engagement Log should be updated at an agreed frequency to ensure that all engagements for the Caring for Ayrshire Program are recorded.
- Lessons learned from the pandemic should be considered to evaluate if any changes to the ways of working can be incorporated into the Caring for Ayrshire programme to provide more efficient care across Ayrshire and Arran.

83. Management accepted the observations and provided specific actions and deadlines for completion. Management have also acknowledged however that the programme of reform has reinforced the need to change the way that they deliver health and care services to improve the quality of care provided; key enablers to this reform agenda are investment in digital reform and in infrastructure.

Executive and non-executive members demonstrated effective leadership, challenge and scrutiny of the board's activity and performance in 2022/23

84. NHS board chief executives and senior teams are responsible for the delivery of critical day-to-day services as well as leading the changes to how services are accessed and delivered in their boards. This places significant demands on senior leadership teams.

85. We have concluded that the board's executive and non-executive directors have demonstrated effective leadership and scrutiny of the board's activity and performance in 2022/23. Going forward, the executive and non-executive directors will have some challenging decisions to make with regard to how services are best delivered in the current financial climate.

The board conducts its business in an open and transparent manner

86. There continues to be an increasing focus on demonstrating the best use of public money. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources.

87. NHS Ayrshire and Arran's commitment to transparency is demonstrated by:

- public availability of board papers and minutes of committee meetings
- the annual accountability review (where members of the public can attend)
- the form and content of annual reports.

88. As an alternative to public access to committee meetings, minutes of all meetings are available through the board papers. We concluded that the board conducts its business in an open and transparent manner.

The governance arrangements operating throughout the year have been effective overall

89. The Board of NHS Ayrshire and Arran is supported by 6 committees, including the Audit and Risk Committee. A further 2 standing committees (Area Clinical Forum and Pharmacy Practices) report annually to the Board. Minutes of committee meetings are presented to the Board. In addition, papers from the IJBs are presented to Board meetings as appropriate. Non-executive Board members are also members of selected committees and are represented at the IJB Board. From review of Board and committee minutes and papers, we found that there was clear and transparent reporting and decision making.

90. Board meetings for 2022/23 took place via Microsoft Teams and during the year there were 6 meetings with the recordings published on the board's website after the meeting. In addition, there were 6 private "in committee" Board meetings held during the year. Board members provide adequate scrutiny and challenge at these meetings to ensure the board's performance is effectively reviewed. There has been no significant change to the board's governance arrangements during 2022/23.

91. Through our attendance at Audit and Risk Committee meetings, we concluded that committee papers were well prepared (and in sufficient time in advance of meeting for review), adequate time was allowed to discuss the issues on the agenda and committee members were well-prepared and asked appropriate questions. This enables the Audit and Risk Committee to exercise effective scrutiny.

92. The NHS Scotland Blueprint for Good Governance states that NHS boards should regularly review their governance arrangements. In May 2023, the Head of Corporate Governance presented the annual review of the board's Code of Corporate Governance to the Audit and Risk Committee.

93. The review highlighted that the board's governance framework supports the requirements of The Blueprint for Good Governance in NHS Scotland, Second Edition published by Scottish Government in December 2022. The revised edition contains guidance for best practice in corporate governance, with a particular focus on the healthcare setting, and sets out a model 'blueprint' for a system of corporate governance to be applied consistently across all NHS Boards.

94. On an annual basis the Audit and Risk Committee undertakes a self-assessment exercise, and the draft results were discussed and endorsed at the Audit and Risk Committee meeting held in May 2023. The self-assessment checklist used by the board is taken from the Scottish Government Audit Committee Handbook. This process represents good practice in demonstrating a clear commitment to continuous improvement.

95. We concluded that the board's governance arrangements have continued to operate effectively during the financial year and they support good governance and accountability. Board members provide adequate scrutiny and challenge at regular meetings to ensure the board's performance is effectively reviewed.

Internal audit reported on areas for improvement in the governance arrangements which are being progressed and monitored

96. The board obtained independent assurance on its governance arrangements from Internal Audit. In his Annual Report and Opinion for 2022/23 to the Audit and Risk Committee in May 2023, the Head of Internal Audit gave

partial assurance with improvement required on the overall adequacy and effectiveness of the organisational framework of governance, risk management and control. From the eight assurance reviews completed in 2022/23, internal audit did not identify any high risk rated findings. There were 19 medium priority recommendations, 12 low priority recommendations and 3 improvement recommendations raised.

97. Internal audit reported in March 2023 that of the 37 actions outstanding rated as either high, medium, low risk or raised within their advisory reviews, 19 have been confirmed as implemented and 8 had not yet reached their due date. 10 actions had passed their implementation date.

98. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2022/23 we did not plan to place formal reliance on the work of internal audit to support our financial statements audit opinion. However, we considered internal audit report findings as part of our wider dimension work.

Service auditors' assurance reports were unqualified

99. The NHS in Scotland has a number of shared systems. NHS National Services Scotland (NSS) provides Practitioner and Counter Fraud Services (PCFS) covering the payments to primary care practitioners and the national IT contract. NHS Ayrshire & Arran provides a general ledger reporting service (the National Single Instance (NSI) eFinancials service).

100. The NHS in Scotland procures several service audits each year to provide assurance on the controls operating in shared systems. NHS NSS procures service audits covering primary care payments (Practitioner and Counter Fraud Services), the national IT services contract and the payroll services provided by NHS NSS. The service auditor's assurance reports for both the 2022/23 service audit of PCFS and the national IT contract were unqualified.

101. NHS Ayrshire & Arran procures a service audit of the National Single Instance (NSI) eFinancials service. The service auditor's assurance report for the 2022/23 service audit of NSI financial ledger services notes that an upgrade from eFin v5 to v6 at the end of January caused disruption to some elements of the finance functions. The most disruptive was a delay in processing and payment of invoices. Manual processing of invoices was required for a short period by boards. The majority of the issues have now been resolved. The NHS A&A Director of Finance has reported on the issues and longer term improvement solutions, to all boards. The National Finance Systems Manager also circulated a paper to all boards in April 2023 relating to a post implementation review of the upgrade from eFin v5 to v6 and lessons learned.

eFin disaster recovery arrangements were not tested in the year

102. The NSI service auditor report notes that system Disaster Recovery (DR) arrangements for the eFinancials system are tested annually by Atos to ensure systems can be run from the secondary hosting site in an emergency. However during the audit period 1 April 2022 to 31 March 2023, no system DR test was performed.

103. NHS Ayrshire and Arran, as host board for the NSI, have reported that due to the delay in the introduction of eFin v6 they did not have sufficient time to undertake a DR test during 2022/23 and the test has been rescheduled for June 2023.

Unqualified opinions were provided by service auditors on the controls operating in shared systems, however an assurance gap has been identified

104. One of the developments for the 2022/23 audit is the requirement under ISA 315 for us as auditors to better understand the board's use of IT in its business, the related risks of material misstatement in the body's financial statements and the system of internal control addressing such risks. This requires us to perform risk assessment procedures to obtain an understanding of the board's organisational structure, governance and its business model including the extent to which the business model integrates the use of IT.

104. From the ongoing work we have been doing at NHS Ayrshire and Arran, we have identified a gap in the current service audit arrangements. The NSI service auditor report which covers the financial ledger states: 'Atos provides national IT services to the NHS in Scotland and hosts the servers upon which the financial ledger sits. Therefore, IT general controls, controls over the server, backup of financial ledger data and disaster recovery arrangements are outside the scope of this report'. However, it is clear from our review of the IT services report that it covers only the elements of the Atos contract that supports the other service audit arrangements i.e. payroll and practitioner services. An assurance gap has therefore been identified for the IT general controls, system backup and disaster recovery for the NSI eFinancials system.

105. NHS NSS have confirmed our understanding is correct and that specific assurance for general IT controls only relates to payroll and practitioner services. They also confirmed that this was a change suggested and implemented by the service auditor when they took on the service audit contract in 2019.

106. This did not result in an audit risk in 2022/23 but is an area that needs to be resolved for NHS Scotland. NHS Ayrshire and Arran should work with NSS to

ensure appropriate service auditor assurance is provided to other NHS boards on Atos services which support e-Financials.

Recommendation 7

NHS Ayrshire and Arran should engage with NHS NSS to address the assurance gap over eFinancials general IT controls.

The board has appropriate arrangements in place for prevention and detection of fraud and error

107. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

108. The board has a range of established procedures in place designed to maintain standards of conduct, prevent and detect bribery and corruption and prevent and detect of fraud and error.

109. The counter fraud policy and action plan is available to all staff via the board's intranet and on the board's website. There are codes of conduct for members and staff which are also available on the board's website. The board has implemented and publicised the National Whistleblowing Standards as established by the Independent Whistleblowing Officer. Counter fraud update reports are presented to each Audit and Risk Committee meeting. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

110. We have concluded that the board has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

Improvements are needed in Cyber security arrangements

111. Our 2022/23 Annual Audit Plan highlighted that there continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents in the public sector have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we considered NHS Ayrshire and Arran's arrangements for managing and mitigating cyber security risks.

112. The board has a corporate responsibility to ensure all operational activities are carried out within the statutory standards as prescribed by the General Data

Protection Regulation (GDPR), Data Protection Act 2018 (DPA), Public Records (Scotland) Act 2011 legislation along with Network Information Systems (NIS) requirements for the management and handling practices of data, information on both paper and electronic media. The business of the board's Information Governance Committee is to oversee these working practices and ensure assurance against the named standards.

113. The board is deemed to be an Operator of Essential Services (OES) and is therefore required to adopt the cyber security controls set out in the EU Network and Information Systems Regulations 2018 (NISR). Compliance with the NISR is assessed on a regular basis by the Scottish Health Competent Authority, with the actual audit and review process undertaken by a service organisation. In the case of the board, this has been undertaken by Cyber Security Scotland. According to the NISR Audit Guidance, an initial compliance audit was undertaken for all Scottish health boards in 2020, with audits to be conducted every third year unless more frequent audits are warranted. Compliance reviews are conducted in intervening years.

114. The NISR Review Report 2022 which was reported to the August 2022 Information Governance Committee meeting highlighted that the board's overall compliance status was 73 per cent and shows steady improvements over the past couple of years from 52 per cent in 2020 up to 54 per cent in 2021. The key messages of the report are positive, giving the opinion that:

- The progress made in controls and recommendations implementation are clear evidence of a commitment by the board to cyber security.
- Improvements have been made in 15 of the 17 categories with 13 at a compliance level of 60% or more.
- The board risk profile has seen a concomitant reduction in risk exposure which is now at a low 5%.

115. The board has achieved two of the three 60-60-0 Key Performance Indicators cited in the 2021 Annual Report and is close to the third indicator as only 4 of the 76 subcategories are at < 30% compliance. This significant achievement gives the board the opportunity to be an early adopter of the 80-80-0 target.

116. The compliance progress analysis for the period 2020-2022 shows that there has been progress in several categories such as risk management, supplier management asset management, physical / building security, and incident detection. However, amber compliance ratings have remained over the three-year period in people, incident management and business continuity.

117. The recommendations current status shows that 2 per cent of the controls have been rejected by the board as not relevant and 82% of 117 recommendations are completed or in progress.

Internal audit reported on risks relating to Cyber Security and Resilience

118. In accordance with their 2022/23 Plan, internal audit completed a review on Cyber Security and Resilience. Their report was presented to the June 2023 Audit and Risk Committee and contained ten advisory actions including:

- The board are currently utilising systems and applications that are no longer supported, this poses a significant risk.
- The current back-up solution does not offer offline or immutable backups.
- GP users have excessive permissions on their devices.
- The board's current password policy does not align with best practice guidelines set out by the NCSC or equivalent cyber security frameworks.
- The board has not incorporated breach attack simulations into its cyber security framework.

119. A management response notes that all ten of the observations in the report are already under consideration from NIS audit recommendations.

An IT Health Check identified 14 essential tactical activities that need to be addressed as a matter of urgency

120. In May 2022 an IT Health Check and Vulnerability analysis was undertaken by CGI for NHS Ayrshire & Arran. The analysis comprised a health-check review of the board's IT landscape, including servers, network, storage and backup, IT security, processes and governance, and a vulnerability assessment covering the server estate and firewalls.

121. The report arising from the review identified 14 essential tactical activities that need to be addressed as a matter of urgency and 9 strategic priorities, which the report identifies as not necessarily a lower priority but, as a result of their size or significance, will require either a business case, more detailed requirements gathering and definition, and/or a fundamental revision compared to the current approach. A further 23 recommendations were made representing a mixture of good practice and activities that, depending on the speed and phasing of the strategic priorities implementation, may need to be amended or reviewed as the strategic implementation evolves. The immediate tactical priorities include:

- Migrate legacy group data shares and decommission remaining Windows 2003 servers.

- Create a segregated, legacy domain for the remaining four Windows XP desktops connecting to medical devices.
- Accelerate tactical retirement of extreme legacy and out-of-support storage, starting with the highest hardware risk, and migrating into spare current capacity.
- Address all Critical and High vulnerabilities.

122. The Governance Statement discloses the CGI review and highlights inadequacies in the Board digital infrastructure. The Statement also discloses that more than £5 million was invested non-recurringly in 2022/2023 to address immediate priorities and that the Revenue Plan for 2023/2024 includes over £5 million of recurring investment in digital. The January 2023 Board meeting approved a digital strategy which included the establishment of a Strategic Digital Delivery Group chaired by the Chief Executive.

123. The CGI report was circulated to all Board members and discussed at a Board workshop in September 2022 prior to the Boards' approval of the Digital Reform Strategy.

The board is proactive in investigating matches and reporting the outcomes of National Fraud Initiative (NFI) activity

124. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

125. NFI data matches were issued to the board in January 2023 as part of the NFI exercise for 2022/23. 97 per cent of the 4,218 data matches identified for the board were considered to have a high risk and 41 matches medium risk. 94% of matches related to payroll and will be reviewed as a priority in June 2023.

126. The results of NFI activity are reported regularly to the Audit and Risk Committee by the Assistant Director of Finance. We concluded that the board is proactive in investigating matches and reporting the outcomes of NFI activity.

Climate change arrangements

127. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

128. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

129. NHS Ayrshire & Arran's Climate Change and Sustainability Strategy 2021-2032 was approved at the Board Meeting on 31 January 2022. The strategy sets out the aims that the board must reduce greenhouse gas emissions across their estate, activities, goods, and services, meeting the Scottish Governments targets of achieving net zero by 2045.

130. The Strategy notes that to meet the 2030 target the board must reduce current emissions by 50%. This means a year-on-year reduction of 5%, requiring investment in infrastructure, buildings, service redesign, and a change in the way they carry out their business.

131. Targets have been set by the Board as:

- **Short term targets**

Year	Reduction since 1990
2023/24	61.7%
2024/25	63.6%
2025/26	65.6%

All fleet vehicles small to medium will be zero (tail pipe) emissions by 2025.

- **Medium term targets – Interim Target**

These are set out to 2030 where the board must achieve a 75% reduction in emissions on a 1990 baseline. The complete fleet vehicles will be all zero emissions vehicles.

- **Long term targets**

2035 board must achieve an 87.5% reduction.

2038 all buildings to be heated from low carbon emissions technologies.

2040 net zero achieved.

132. There is a section on climate emergency and sustainability in the Performance Report included in the Board's Annual Report and Accounts. It notes that the board have established operational groups which each address specific areas of net zero carbon, building decarbonisation group, green prescribing group, green theatre group and waste management groups. These groups feed into the boards Climate Emergency and Sustainability Operational Group which is supported by the Climate Emergency and Sustainability

Strategic Group. Progress against meeting emissions targets is reported to the Corporate Management Team 6-monthly.

133. The board consider that climate change is not expected to have a material impact on the figures in the financial statements. However if funding is provided for climate change projects or mitigations this will be reflected in future.

134. In March 2022, Audit Scotland published a report '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.

135. In their report on the 2021/22 audit, the previous auditors recommended that the board carry out a self assessment against each of the key themes in the report and develop an action plan to help focus where further work is required. This self assessment has not yet been completed.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Main judgements

The board is finding it difficult to recruit clinical staff and relies on temporary staff to fill gaps, at a high cost to the board. Expenditure on agency and other directly engaged staff was £18.7 million in 2022/23.

Delayed discharges have prevented the removal of additional beds that would realise efficiency savings.

A formal review should be undertaken to demonstrate how NHS Ayrshire and Arran is achieving Best Value.

Covid-19 has impacted significantly upon the board's activity and waiting times for services. Service performance against national waiting time standards is reported as being behind target.

Reliance on temporary staff comes at a high cost to the board

136. In 2022/23, nursing pay budgets were £6.1 million overspent, mainly due to £10.6 million of nursing agency spend. This compares with £6.7 million in 2021/2022 and £3.5 million in 2020/2021. Medical pay was overspent by £3.8 million mainly due to £6.3 million spend on agency doctors.

137. The use of bank, agency and locum staff provides flexibility to cover for vacancies and staff absence and is monitored closely by the board. However continued reliance on non-core staff will have a significant impact on the board's plans to achieve the savings required for longer term financial sustainability. Expenditure on agency and other directly engaged staff was £18.7 million in 2022/23 (£14.2 million in 2021/22).

138. The number of whole time equivalent (WTE) staff increased during and after the pandemic, from 9,500 WTE in 2019/20 to 10,449 in 2022/23. The board acknowledge that the trend of increasing staff during the pandemic requires to be reversed as recurring funding to support this level of staffing does not exist. This will require beds in acute hospitals to close.

139. The Health, Safety & Wellbeing Improvement Plan identifies the programme of work being undertaken to improve staff health and wellbeing and, through the Promoting Attendance Policy, to have a clear process for appropriately managing staff sickness absence. There was an increase in sickness absence in September and October 2022 due to covid related absence no longer being excluded and a further sharp increase in December to around 7% (against the 4% national standard). The absence rate then fell in the final quarter to 5.2%.

Recruitment of clinical staff is a challenge and represents a significant risk to deliver of services in the board

140. The board continues to experience challenges with supply in the clinical workforce at registrant level and as a result has a corporate risk assessed as high in relation to this. In March 2023 the board had 997 posts actively within the recruitment process with the largest volumes being within clinical workforce (94 allied health professions, 100 medical & dental and 592 nursing and midwifery). 83% of clinical roles are recruited within the 3 months or less, however the board had 37.8 WTE consultant vacancies of which 36 WTE had been vacant for 6 months or more including 4 WTE vacancies within psychiatric specialties which had been vacant for 6 months or more.

141. In her submission to the Health, Social Care and Sport Committee in March 2023, the Chief Executive highlighted that workforce deficits continue to drive challenge across the health and care system. Attracting and retaining staff in clinical and non-clinical roles is particularly difficult and directly impacts on the quality of care that they can offer and visibly influences operational and financial performance.

Workforce plans are in place

142. DL2022(09) – National Health and Social Care Workforce Strategy – Three year workforce plans set out the requirement for all NHS Boards and Health & Social Care Partnerships (HSCPs) to produce Workforce Plans. Draft plans were to be submitted to SG by 31 July 2022 and thereafter following due governance processes, approved final plans are to be published on organisations' public facing websites by 31 October 2022. The 2022-25 Workforce Plan was approved by the Board on 3 October 2022.

143. The Plan sets out the board's ambitions in relation to the Right Sizing the Workforce programme which materially contributes to the ADP. The aim of the

Right sizing the workforce group is to reduce agency and other costs to deliver safe staffing within budget. The five workstreams the group will progress are:

- Nursing agency spend.
- Safe nursing staffing.
- Medical agency spend.
- Other premium supplementary costs.
- Move back to funded establishment.

144. The Plan also sets out the board's key areas of focus and priority actions for 2022/23. These actions are included within the workforce component of the ADP.

Delayed discharges have prevented the removal of additional beds and cost efficiencies have not been realised in this area

145. The board's ambitions to reduce the number of unfunded beds have been slower than anticipated. In particular delayed discharges largely centred in South Ayrshire have prevented the removal of additional beds.

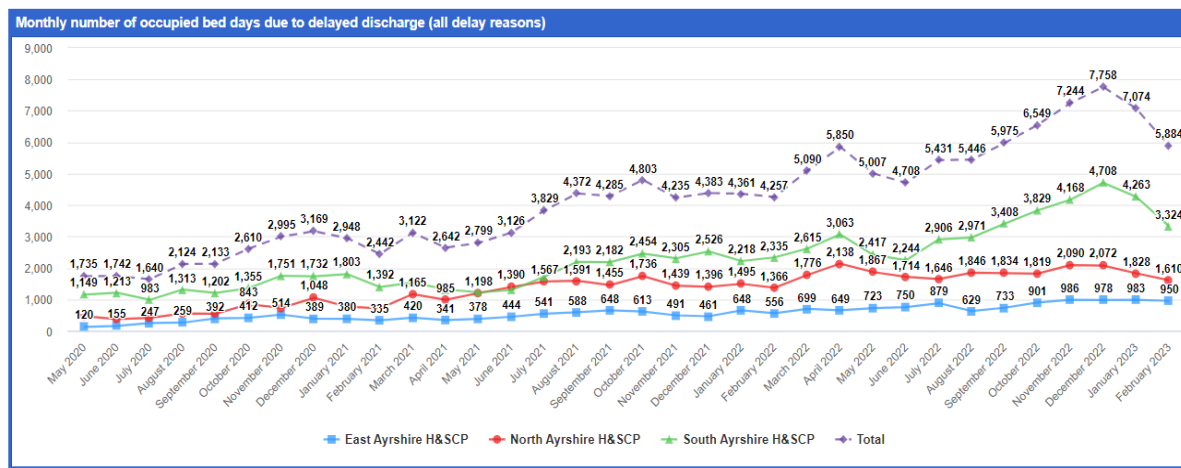
146. The board's Performance Report notes that Delayed Discharge Occupied Bed Days (OBDs) for all delay reasons (see [Exhibit 7](#)) increased each month to a record high of 7,758 in December 2022, although have subsequently fallen to 5,765 in March 2023, a decrease of 25.7% since December 2022, and the lowest figure recorded since August 2022.

147. However within South Ayrshire Health and Social Care Partnership (HSCP) the key challenge remains Care at Home capacity. From June 2021 to December 2022 recruitment and retention into both in house and commissioned care at home became extremely challenging with a 30% vacancy rate within the in house service during summer of 2022 and a number of private companies handing hours back. This coincided with an increase in demand of almost 30%.

148. In October 2022, South Ayrshire HSCP did not agree to a request from the board to provide £1.5 million towards the cost of acute beds in Ayr Hospital occupied by high numbers of delayed discharge patients. In response and on the basis that South Ayrshire Council did not fund the pay uplift in 2022/23 for employed staff, the board did not pass to South Ayrshire HSCP the 'top up' funding for pay awards from SG which amounted to £1.5 million.

149. The high numbers of delayed discharge patients in South Ayrshire acts as both a driver of an underspend for the IJB (projected at £1.5 million for purchased care at home service) and a driver of overspend within the acute hospital who are left caring for a high number of delayed transfers of care.

Exhibit 7: Delayed Discharge Occupied Bed Days (OBDs) for all delay reasons



Source: NHS Ayrshire and Arran

150. The Director of Finance acknowledges that to reduce the scale of the board's underlying deficit, work is needed to:

- Reform acute services to reduce length of stay, close speedily all unfunded beds and thereafter close funded acute beds to release cash releasing efficiency savings.
- Rebalance the financial risk between the Health Board and Integration Joint Boards in relation to payments through set aside for acute beds occupied by delayed discharge patients.

151. As noted at [paragraph 64](#), work is ongoing with the IJBs around set aside services and the development of commissioning plans as the Integration Schemes are reviewed during 2023/24. We will continue to monitor developments in this area during 2023/24.

Appropriate arrangements are in place for performance monitoring and reporting

151. The Board is kept informed of performance across all areas. The detailed review and scrutiny of performance has been delegated to the Performance Governance Committee (PGC) which meets five times per year. Reports presented to meetings of the PGC provide both an overview of operational performance for key performance indicators such as waiting times for accessing treatment and relating to the board's priorities as set out in the Priority Programme Plan and the ADP for 2022/23.

152. We concluded that the board has appropriate arrangements in place for performance monitoring and reporting.

Service performance against national waiting time standards is reported as being behind target.

153. The 2022/23 annual report and accounts include the position at the end of March 2023 on the board's performance against its national waiting time standards. The performance report records that the numbers of ED 12 Hour Breaches at board level increased to an all-time high of 965 in October 2022 before reducing to 729 by February 2023. Numbers have increased again in March 2023 to 907, the second-highest recorded position. While performance against waiting time standards is not currently the board's only focus for performance monitoring, they provide context for the scale of the impact of the pandemic of the delivery of health services. [Exhibit 8](#) demonstrates how activity and waiting times have been impacted by Covid-19 and [Exhibit 9](#) provides a comparison of current waiting times compared to prior years.

154. The largest increases in [Exhibit 8](#) are in waiting times, with one of the most significant being the number of people waiting more than 12 weeks for a new outpatient appointment. This has increased from 3,807 in December 2019 to 24,336 in March 2023. The impact of this increase is reflected in [Exhibit 9](#) which shows the percentage of outpatient admissions waiting no more than 12 weeks has reduced from 80.8 per cent in March 2020 to 42.1 per cent in March 2023.

Exhibit 8: Trends in demand and activity per acute services

Demand		% change
Number waiting for diagnostic tests	<p>Monthly Dec 2019 to March 2023</p> <p>7,202 7,429</p>	3.2%
Number of patients waiting for an inpatient or day case admission	<p>Quarterly Dec 2019 to March 2023</p> <p>3,997 8,065</p>	101.8%
Number of patients waiting for a new outpatient appointment	<p>Quarterly Dec 2019 to March 2023</p> <p>21,678 42,051</p>	94.0%
Activity		
Number of scheduled elective operations in theatre system	<p>Monthly Dec 2019 to March 2023</p> <p>1,641 1,467</p>	-10.6%
Number of inpatient and day case admissions	<p>Quarterly Dec 2019 to March 2023</p> <p>4,732 3,872</p>	-18.2%
Number of new outpatient appointments	<p>Quarterly Dec 2019 to March 2023</p> <p>28,992 24,524</p>	-15.4%
Length of waits		
Number waiting longer than 6 weeks for diagnostic tests	<p>Monthly Dec 2019 to March 2023</p> <p>2,061 2,575</p>	24.9%
Number of patients waiting longer than 12 weeks for an inpatient or day case admission	<p>Quarterly Dec 2019 to March 2023</p> <p>918 5,711</p>	522.1%
Number of patients waiting longer than 12 weeks for a new outpatient appointment	<p>Quarterly Dec 2019 to March 2023</p> <p>3,807 24,336</p>	539.2%

Source: Public Health Scotland

Exhibit 9

Performance against key waiting time standards

Target/standard	Performance at March 2020	Performance at March 2021	Performance at March 2022	Performance at March 2023 ¹
Cancer 62 Day RTT Proportion of patients that started treatment within 62 days of referral	92.2%	79.1%	77.3%	79.1%
18 Weeks RTT Proportion of patients that started treatment within 18 weeks of referral	82.2%	68.1%	64.4%	60.6%
Patient Treatment Time Guarantee (TTG) Proportion of inpatients or day case that were seen within 12 weeks	73.8%	75.2%	68.9%	58.3%
Outpatients waiting less than 12 weeks Proportion of patients on the waiting list at month end who have been waiting less than 12 months since referral at month end	80.8%	40.2%	40%	42.1%
A & E attendees Proportion of A & E attendees who were admitted, transferred, or discharged within 4 hours	87%	83.7%	68.9%	65.9%
Cancer 31 Days RTT Proportion of patients who started treatment within 31 days of decision to treat	99.2%	98%	97.4%	98.8%
Drug and Alcohol 21 days Proportion of drug and alcohol patients that started treatment within 21 days	97.1%	97.6%%	98.9%	99.4%

A formal review should be undertaken to demonstrate how NHS Ayrshire and Arran is achieving Best Value

155. Ministerial guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure Best Value. The guidance sets out the key characteristics of Best Value and states that compliance with the duty of Best Value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

156. The 2021/22 Report on the Audit highlighted that the board has a number of arrangements in place to secure Best Value. The Governance Statement also notes that in accordance with the principles of Best Value, the Board aims to foster a culture of continuous improvement. As part of this, Directorates are encouraged to review, identify and improve the efficient and effective use of resources. In addition, business cases and Board papers need to demonstrate that consideration has been given to the Best Value characteristics published in the Best Value Guidance to Accountable Officers.

157. Whilst there is evidence of elements of Best Value being demonstrated by NHS Ayrshire and Arran across a range of areas, the mechanism for formally reviewing and reporting on the arrangements to secure Best Value is not formalised and published.

Recommendation 8

A formal review of the Best Value assurance framework and an assessment of the board's Best Value arrangements should be completed and reported to the Board.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Recognition of costs in the correct years</p> <p>Our review of the board's accounting treatment for transactions around the year-end confirmed that the purchase of IT equipment with a value of £2.699 million was not accounted for in the correct financial year.</p> <p>There is a risk that accounting practices are compromised to achieve financial targets.</p>	<p>The board should not recognise a liability to pay for items prior to the point of delivery as the board does not control the item, does not have access to most of the future benefits and is not exposed to most of the risks.</p> <p>Exhibit 2</p>	<p>The IT equipment was shipped by Hewlett Packard and delivered in March to a bonded warehouse run by Capito where they are safely stored until called down by the Board. The Board therefore has control of the assets at 31 March 2023. The recommendation is noted.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: July 2023</p>
<p>2. Journal authorisation controls</p> <p>Our audit testing identified accounting entry errors, processed through manual journal entries, of £0.782 million.</p> <p>As reported in previous Annual Audit Reports, there are no journal authorisation controls in place. Members of the finance team can therefore post journals to the financial ledger without secondary authorisation.</p>	<p>The board should introduce robust journal authorisation controls to mitigate the risk of accounting entry errors, and misstatements, in the annual report and accounts.</p> <p>Exhibit 2</p>	<p>Management propose to introduce a targeted, retrospective sample approach to journal review in order to mitigate these risks.</p> <p>Responsible officer: Assistant Director of Finance (Operational Services)</p> <p>Agreed date: March 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Introducing secondary authorisation would reduce the risk of error when accounting entries are created.</p> <p>There is a risk that invalid or erroneous journal entries result in a material misstatement.</p>		
<p>3. Untaken holiday liability</p> <p>Our review of the board's approach to the calculation of the untaken holiday liability included in the board's 2022/23 unaudited annual report and accounts at £6.029 million, identified that it was not fully in accordance with the relevant guidance.</p> <p>As a result of our comments officers accepted that the accrual needed to be restated. The revised approach identified that the board's untaken holiday liability should be £6.270 million, an increase of £0.241 million.</p> <p>There is a risk that the untaken holiday liability is inaccurately disclosed in the board's financial statements.</p>	<p>The board should carry out a detailed review of its approach to, and the data used, for the calculation of the untaken holiday liability with reference to the relevant guidance, Exhibit 2</p>	<p>The adjustment required to the accrual was marginal (4%) however we expect a more robust basis of accrual for medical staff untaken holidays will be achieved through implementation of the Allocate e-rostering system over the next two years.</p> <p>Responsible officer: Assistant Director of Finance (Governance and Shared Services)</p> <p>Agreed date: March 2024</p>
<p>4. Assets no longer in use</p> <p>Our fixed asset testing identified fully depreciated plant and machinery assets with a value of £7.994 million which remained on the asset register, but were no longer in use.</p>	<p>The board should review its asset disposal processes, and obtain evidence at least annually to confirm that assets on the asset register remain in use. Exhibit 2</p>	<p>We will review and update our capital operating and accounting procedures and we will utilise the EME database and Digital Assets register to provide confirmation that assets on the register remain in use.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Finance are not notified when assets have been scrapped, and disposed of. This has resulted in inaccuracies in both the asset register and 2022/23 annual report and accounts.</p> <p>There is a risk that assets are inaccurately recorded in the board's asset register and financial statements.</p>		<p>Responsible officer: Assistant Director of Finance (Governance and Shared Services)</p> <p>Agreed date: March 2024</p>
<p>5. Fixed Assets</p> <p>The information recorded in the board's Real Asset Management system was inadequate for audit purposes. Several manual adjustments were required to populate and provide evidence for the fixed asset disclosures in the accounts.</p> <p>There is a risk that information in the RAM system does not provide the board with sufficient information to produce the fixed asset disclosures required for the annual report and accounts.</p>	<p>The board should review its arrangements for fixed asset accounting.</p> <p>Exhibit 2</p>	<p>RAM is a national system implemented 10 years ago therefore we would not replace the system, but will produce working papers for auditors reconciling to annual accounts.</p> <p>Responsible officer: Assistant Director of Finance (Governance and Shared Services)</p> <p>Agreed date: March 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>6. Annual Delivery Plan</p> <p>Alongside the four agreed organisational priorities, 227 detailed actions for the recovery and stabilisation of services were included in the 2022/23 ADP. Each action point includes a key deliverable with agreed milestones and planned completion dates. It is not clear however how the individual deliverables and milestones contribute to the achievement of the organisational priorities.</p>	<p>The board needs to set out in more detail what achieving its outcomes looks like and milestones over the short, medium and long term.</p> <p>Paragraph 78</p>	<p>The board is working on delivering its Whole System Plan and associated Infrastructure Plan which will set out intentions in relation to service reform and associated infrastructure (digital and buildings) investment needs over the medium and long term in line with our Caring for Ayrshire ambition. The Whole System Plan will provide a reference position that will contextualise Annual Delivery Plan and Medium Term Plan deliverables in the coming year/3 years planning cycles. In the meantime, the 2023/24 ADP has been developed and submitted to Scottish Government, the 3 year Medium Term Plan will be submitted in early July. Both reference key deliverables in the short and medium term that relate to national and local priorities.</p> <p>Responsible officer: Director of Transformation and Sustainability</p> <p>Agreed date: March 2024</p>
<p>7. Service auditor reports</p> <p>Unqualified opinions were provided by service auditors on the controls operating in shared systems, however an assurance gap has been identified. Specific assurance for general IT controls provided by the IT services report relates only to payroll and practitioner services.</p>	<p>NHS Ayrshire and Arran should engage with NHS NSS and wider NHS Scotland to address the assurance gap over eFinancials general IT controls.</p> <p>Paragraph 106</p>	<p>Will engage with NSS Director of Finance to identify and fill any assurance gap which exists.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: March 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>8. Best Value</p> <p>Whilst there is evidence of elements of best value being demonstrated by NHS Ayrshire and Arran across a range of areas, the mechanism for formally reviewing and reporting on the arrangements to secure best value is not formalised and published.</p>	<p>A formal review of the Best Value assurance framework and an assessment of the board's Best Value arrangements should be completed and reported to the Board.</p> <p>Paragraph 157</p>	<p>The Board will monitor local implementation of the Blueprint for Good Governance and the Chief Medical Officer's Delivering Value Based Health and Care strategy, both of which were published by Scottish Government over the last six months.</p> <p>The Board will also review the Integration Schemes for IJBs to amend the current risk imbalance.</p> <p>Responsible officer: Chief Executive</p> <p>Agreed date: March 2024</p>

Follow-up of prior year recommendations made by Deloitte in the 2021/22 External Audit Report

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. National Fraud Initiative</p>	<p>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><u>Original Management Response</u></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> <p>Responsible person: Assistant Director of Finance (Governance and Shared Services)</p>	<p>In Progress</p> <p>The 2022/23 NFI exercise is ongoing. We have concluded that the board is proactive in investigating NFI matches. A final report on the outcomes of the NFI exercise is still to be presented to the Audit and Risk Committee.</p> <p><u>Agreed Management Action</u></p> <p>The matching exercise will be finalised in July and a final report on the NFI exercise will be presented to the Audit and Risk Committee.</p> <p>Responsible officer: Assistant Director of Finance</p>

Issue/risk	Recommendation	Agreed management action/timing
	Target date: 31 December 2022	(Governance and Shared Services) Revised Date: 31 December 2023
<p>b/f 2. Journal entry monthly review</p>	<p>Management should review the adequacy of the control in place to review journals on a monthly basis. There 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><u>Original Management Response</u></p> <p>The senior management team within the Finance Department will discuss and review the process for reviewing journals.</p> <p>Responsible persons: Assistant Directors of Finance (Governance and Shared Services, Operational Services)</p> <p>Target Date: 30 September 2022</p>	<p>Outstanding (superseded)</p> <p>We have reported in Exhibit 2 that there remains weaknesses in the board's journal controls.</p> <p>We have reported at recommendation 3 of our 2022/23 action plan that the board should introduce robust journal authorisation controls to mitigate the risk of accounting entry errors, and misstatements, in the annual report and accounts. As such, this recommendation has been superseded.</p>
<p>b/f 3. Management review of estimates</p>	<p>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</p>	<p>Complete</p> <p>Evidence was provided by management to demonstrate that management had reviewed the estimates provided by experts. These assessments concluded that</p>

Issue/risk	Recommendation	Agreed management action/timing
	<p>by experts is in line with their expectations.</p> <p><u>Original Management Response</u></p> <p>Estimates will be reviewed, and signed off as appropriate.</p> <p>Responsible person: Assistant Director of Finance (Governance and Shared Services)</p> <p>Target date: 31 March 2023</p>	<p>the estimates provided were in line with expectations.</p>
<p>b/f 4. Adherence to deliverables timetable (2020/21)</p>	<p>While an agreed audit timetable was put in place, the full consolidated accounts were provided after the agreed date. Further improvements are required, in partnership with the IJBs.</p> <p><u>Original management response</u></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: 31 March 2023 (original date: March 2022)</p>	<p>In progress</p> <p>The annual report and accounts were provided after the agreed date. The supplementary working papers package was also not complete. The group accounts were received later in the audit process as agreed with management.</p> <p><u>Agreed Management Action</u></p> <p>Delays in providing the accounts were in part due to late revisions to the accounting template. A debrief with Audit Scotland will be undertaken along with a local debrief to identify how the process can be improved for the production of the 2023/24 accounts package.</p> <p>Responsible Officer: Assistant Director of Finance (Governance and Shared Services)</p> <p>Revised Date: March 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 5. Financial sustainability – transformational change (2020/21)</p>	<p>The Board should continue to prioritise the development of detailed programmes, incorporating the more medium to long term initiatives, with clear action plans, milestones and the associated capacity and resources to deliver.</p> <p><u>Original management response</u></p> <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 services and digital enablement will support a focussed approach. Progress against with will be monitored through the Performance Governance Committee of the Board.</p> <p>Responsible Person: Chief Executive</p> <p>Target Date: 31 March 2023 (original date: March 2022)</p>	<p>In progress</p> <p>The response to Covid-19 and a range of emerging financial pressures have exacerbated the financial position of the board.</p> <p>The medium-term financial plan indicates the board’s cost base is not sustainable in the future. The Director of Finance notified the board of a recurring cost pressures of £53.2 million for 2023/24.</p> <p>Priority programmes for 2022/23 were unsuccessful. Financial recovery from this position will require radical reform of health services.</p> <p><u>Agreed Management Action</u></p> <p>CMT have committed to delivering two transformational priorities for 2023/24:</p> <ol style="list-style-type: none"> 1) Right Sizing Bed Based Care for Ayrshire, taking a population health approach to securing the best value models of bed based care in the acute, community and care settings across Ayrshire. 2) Continue and sustain the delivery of our Digital Reform. <p>A dedicated programme of work will be developed to enable the delivery of the ADP, Medium Term plan and Whole System Plan, the latter</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>needing to be in place by December 2023.</p> <p>Right sizing the acute bed based care is underway, a 30% reduction of unfunded beds has been achieved by June 2023, further reductions have been committed to by reducing delayed discharges throughout the system (these are mapped and will be performance managed through the delivery of the unscheduled care programme).</p> <p>To support the sustainability of any revised bed based we will complete an in-year review of partnership working agreements, through our IJB commissions and directions (this will be overseen by SPOG and reported progress to CMT).</p> <p>Responsible officer: Chief Executive</p> <p>Revised date: March 2024</p>
<p>b/f 6. Financial management – savings plans (2020/21)</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><u>Original management response</u></p> <p>75% of the 2022/23 targeted savings are fully developed</p>	<p>In progress</p> <p>The projected underlying deficit budget for 2023/24 is £50.3 million. Planned cash releasing efficiency savings (CRES) for 2023/2024 is £9.6 million. This includes £3.355 million acute unachieved CRES from previous years.</p> <p>Planned efficiency savings are therefore not enough to close the projected financial</p>

Issue/risk	Recommendation	Agreed management action/timing
	<p>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>The 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>Responsible Person: Chief Executive</p> <p>Target Date: 31 March 2023 (original date: March 2022)</p>	<p>gap in 2023/24. The Scottish Government have asked the board to resubmit a revised financial plan by 30 June 2023.</p> <p><u>Agreed Management Action</u></p> <p>CRES delivery will be monitored and reviewed with a newly formed Finance Improvement and Scrutiny Group. The CRES programme is scoped and in year delivery will be performance managed through this CEO chaired group.</p> <p>The Acute Service Directorate has implemented a new triumvirate leadership model through which specialty teams will work collaboratively to reduce avoidable spend and provide a new operational lens to operational redesign. An Acute Service performance and service improvement structure is in place to capture outcomes from these senior leadership teams. This work will be aligned to business planning cycles for the NHSAA Annual Delivery Plan, Medium Term Plan and the Whole System Plan (expected by December 2023).</p> <p>Responsible officer: Chief Executive</p> <p>Revised date: March 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 7. Climate change action plan</p>	<p>The board should carry out a self-assessment against each of the points in the Audit Scotland report – Addressing climate change in Scotland and develop an action plan to help focus on where further work is required.</p>	<p>Outstanding</p> <p>The self-assessment has not yet been completed.</p> <p><u>Agreed Management Action</u></p> <p>Progress is being made by the Board to complete a self-assessment of the Audit Scotland report. The finalised report will be presented to the Climate Emergency & Sustainability Operational Group meeting in July 2023 for awareness and to enable a wider discussion on the assessment findings and recommendations.</p> <p>An action plan will support the self-check assessment focused on where further work is required.</p> <p>The report and supporting action plan will be presented to the Climate Emergency & Sustainability Strategic Group thereafter for awareness in line with existing governance</p> <p>Responsible officer: Energy Manager</p> <p>Revised date: 30 September 2023</p>

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £220 thousand.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr	Cr	Dr	Cr
Accounting Misstatements		£0	£0	£0	£0
1. IT equipment recognised in the incorrect period	Trade and other payables (current)			2,699	
	Property, plant and equipment				2,699
2. Staff lottery funds accounted for as a board asset and liability	Trade and other payables (current)			396	
	Cash and cash equivalents				396

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