June 2008

Annual Report to Members
Scottish Ambulance Service

PRICEWATERHOUSE COOPERS 🏛

Contents

1. Introduction

To the Members of the Board and the Auditor General for Scotland

1.01   We have completed our audit of the Scottish Ambulance Service (SAS or "the Service") for the year ended 31 March 2008.

1.02   The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2007/08 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

1.03   Our overall responsibility as external auditor of the Scottish Ambulance Service is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007.

1.04   In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources.

1.05   It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving not only the "appointed auditor", but also the Auditor General for Scotland and other auditors such as Audit Scotland's Health Performance and Public Reporting Group.

1.06   Our audit has been planned and conducted to take account of these wider perspectives.

1.07   Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260: "*Communication of audit matters to those charged with governance*", we are required to communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity.

1.08   This Annual Report to Members, together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA 260.

1.09   We would like to thank all SAS managers and staff for their assistance throughout the audit process

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27 June 2008

2. Executive Commentary

Our Audit Opinion

2.01 Our audit opinion concerns both the true and fair statement of the Service's financial results and balances for the year ended 31 March 2008 (2007/08) and the regularity of its income and expenditure in the year.

2.02 We are pleased to report that our opinion on the true and fair view on the financial statements is unqualified.

2.03 Our regularity opinion on income and expenditure is also unqualified.

2.04 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is unqualified. Our audit opinion does not extend to any other part of the Directors' Report.

The Audit Process and Accounting Issues

2.05 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by management were of a high standard.

2.06 We are required to report any unadjusted errors to those charged with governance. All adjustments identified from the audit process have been agreed and adjusted by management.

Performance and Service Suitability

2.07 At the year end, the Service reported that it had met its performance targets for treating patients with life threatening emergencies (Category A) and also treating other emergency cases (Category B). This was achieved against a backdrop of continued increases in demand - indeed Category A demand increased by 24.4% on the previous year, without a commensurate increase in funding.

2.08 Category A performance continues to improve, with a 73.3% performance reported for April 2008.

2.09 In our 2007/08 Annual Report to Members we commented on the continued challenge in achieving Ministerial targets, particularly with the temporary appointments in place within the Executive team, the proposed decrease in relative terms in annual uplift allocations from the SGHD, and the changing political landscape and uncertainty around modernisation programmes.

2.10 We also commented on the need to co-ordinate programmes, whilst avoiding "initiative overload" and excessive focus on Category A targets at the expense of other areas of performance.

2.11 The Board appointed a new Chief Executive (November 2007) and Director of Operations (January 2008), with the acting Chief Operating Officer returning to the post of Director of Finance in January 2008.

2.12 Since then, staff relations issues have emerged. In May 2008, the Board received complaints from a number of staff members concerning the lack of effective partnership working and allegations of bullying and harassment have been raised.

2.13 The Board took the matter of staff complaints very seriously and acted swiftly. The Chairman, appointed an independent investigation team and the Chief Executive and Director of Operations have taken leave of absence pending this investigation.

2.14   In addition, Parliamentary questions have arisen over the sustainability of recent performance and the approach to improving performance (particularly Category A response times). This has led to concerns relating to excessive and unreasonable pressure on staff and an imbalance in SAS's priorities.

2.15   As a result the Cabinet Secretary has put in place two further investigation teams which are considering the clinical viability of the "front loaded model" (single manned rapid response vehicles) and the categorisation and reporting of performance.

2.16   All of these matters have created a significant risk in terms of service and financial sustainability, particularly regarding the achievement of Category A targets.

2.17   We recently met with the Chairman, interim Chief Executive and Audit Committee to discuss the current situation. In our role as external auditors, we will continue to support the Service throughout this process and work with the independent investigation team where required.

Governance Arrangements

2.18   A summary of the work we have performed in the year in relation to the Board's Governance Arrangements was set out in our 2007/08 Interim Management Letter. In overall terms, the Board has in place sound arrangements developed over a number of years.

Financial Performance and Forecast

2.19   The Service achieved a £0.038 million surplus for the year, compared to the predicted break-even position reported in the financial plan at the beginning of the year. In this regard the Service successfully contained costs within revenue limits, particularly in the face of increased activity, rising fuel costs and continued pay pressures.

2.20   To achieve this surplus position, the Service required and achieved a 1% savings target for 2007/08 – amounting to £1.778 million. These savings were deducted from base budgets.

2.21   However, several Divisions returned deficits for the year, mainly as a result of significant overspends on overtime required to back-fill vacancies and sickness absence. This reflects the pressure on Divisions to achieve performance with budgets and increased control and scrutiny on overtime costs will be a key requirement to achieve the financial challenge in 2008/09.

2.22   The Service is projecting a break-even position in 2008/09 and requires to make £3.67 million recurring savings in order to meet this target and fund proposed investments, including initiatives designed to achieve the 75% (8 minute) Category A response target by March 2009.

2.23   This will require sound financial management, monitoring and reporting, particularly in light of continued financial pressures and a less than previously forecast increase in income allocation.

Systems of Internal Control

2.24   The Code of Audit Practice requires us to review and report on the Board's Statement of Internal Control. Based on our normal audit procedures, we do not disagree with the disclosures contained within the Statement of Internal Control.

2.25   A number of control matters requiring corrective action have been reported previously to the Board's Audit Committee and management are continuing with agreed actions. None of these matters have been classed as high risk.

3. The Audit Process, our Audit Opinion and Accounting Issues

Audit Process

3.01   The financial statements and comprehensive supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by management were of a high standard. Overall, we believe an efficient audit process was achieved and an effective working relationship exists with your staff.

Preparation and Approval of Financial Statements

3.02   The Financial Statements were prepared in accordance with the accounting requirements contained in the NHS Accounts Manual for the Annual Report and Accounts of Unified NHS Boards, and supplementary guidance, as issued by the Scottish Government Health Department (SGHD) and approved by the Scottish Ministers.

3.03   The Financial Statements were submitted to the Board's Audit Committee on the 18th June 2008 and approved and adopted at the Board meeting on 25th June 2008.

Our Audit Opinion

3.04   Our audit opinion concerns both the true and fair statement of the Service's financial results for the year ended 31 March 2008 (2007/08) and the regularity of its income and expenditure in the year.

3.05   We are pleased to report that our opinion is unqualified.

3.06   We also provide a view as to whether those parts of the Remuneration Report subject to audit have been prepared properly. Our opinion on the Remuneration Report is unqualified. Our audit opinion does not extend to any other part of the Directors' Report.

Key Financial Targets

3.07   The Board achieved its key financial targets for the year, as follows:

Financial Targets	Achievement
Revenue Resource Limit ("RRL")	The Board spent £179.628 million against its RRL of £179.666 million, resulting in a surplus of £0.038 million.
Capital Resource Limit ("CRL")	Total capital spend was £10.973 million against a CRL of £10.984 million.
Cash Requirement Target	The Board spend during 2007/08 was £182.160 million; equating to the cash requirement target of £182.160 million.

Accounting Issues

3.08   We noted several accounting issues during the course of our audit of the financial statements and the following are brought to your attention.

Revaluation of Estate to Existing Use Value

3.09   The Service revalued the majority of its estate to Existing Use Value (EUV) as at 1st April 2008. The entire estate was previously valued at Depreciated Replacement Cost, as used throughout the NHS to reflect the specialised nature of buildings which are not normally traded on the open market e.g. hospitals.

3.10   Revaluation to EUV reflects the non-specialised nature of the majority of the Service's estate e.g. ambulance stations. This has resulted in a change in the Net Book Value of Land and Buildings in the annual accounts from £43.10 million at 31 March 2008 to £24.40 million at 1 April 2008 - a total impairment of £18.7 million. Whilst this has no bearing on the numbers in the 2007/08 accounts, the materiality of the adjustment requires disclosure within the accounts as a Post Balance Sheet event.

3.11   In terms of the 2008/09 Annual Accounts, this impairment charge will not affect the 2008/09 Revenue Resource Limit (RRL) as it will be covered from the Revaluation Reserve (£8.10 million), with the remainder (£10.60 million) charged "below the line RRL" as "annually managed expenditure".

3.12   The effect of this revaluation will be a reduction in annual capital charges of approximately £1.20 million (commencing in 2008/09). The notional amount charged to the Operating Cost Statement to reflect the use of assets in providing services.

Unmatched Invoices and GRNs

3.13   An issue was raised in our 2006/07 Annual Report to Members regarding the level of unpaid invoices as a result of unmatched Goods Received Notes (GRNs) to Purchase Orders (POs). Invoices are only paid when they have been successfully matched to a GRN and PO.

3.14   Management has undertaken a number of actions to resolve this issue. As a result of these actions we noted through our audit work that the level of unmatched invoices has reduced substantially for 2007/08.

3.15   In the prior year an adjustment of £2.60 million had to be made to the financial statements to move unmatched invoices from the accruals balance to creditors. A similar adjustment from accruals to creditors has been made to the 2007/08 accounts, but for only £0.327 million.

Late Invoicing of Income

3.16   Our audit work included a review of income invoiced in April 2008 to verify recognition in the correct period. This work revealed a number of invoices raised in April relating to work performed some months earlier, specifically, one invoice related to August 2007 and three related to September 2007.

3.17   Slow invoicing may create cash flow management and working capital issues, increases the risk of disputed invoices, and may result in an understatement of income in the accounts.

It is recommended that management ensures invoices are raised on a timely basis.

Recommendation 1

Accuracy of Fixed Asset Register – Transport Equipment

3.18   Vehicles purchased by SAS require conversion to fully operational ambulances before being brought into use. Once vehicles are fully operational they are added to the Fleetplus System which keeps track of vehicle information e.g. service history.

3.19   It is the responsibility of Fleet staff to complete an asset addition form and, together with the relevant invoices, forward these to Finance for inclusion in the Fixed Asset Register. Vehicles in operational use at the year end are included in the financial statements within the Transport Equipment category within Fixed Assets. Expenditure on vehicles which are still in the process of conversion at the year end is included within the Assets under Construction balance within Fixed Assets.

3.20   Our testing of fixed asset additions revealed that in some cases there was a delay of several months between vehicles becoming operational on the Fleetplus System and details being notified to the central Finance team. In addition it was noted that the reconciliation of the Fixed Asset Register to the Fleetplus System was not performed throughout the year.

3.21   Further review of the reconciliation between the Fleetplus system and the Fixed Asset Register revealed:-

- at year end there were seven vehicles recorded in the Fleetplus system but not the Fixed Asset Register;

- two vehicles which were in operational use at the Balance Sheet date but were recorded under Assets under Construction; and

- one vehicle which had been disposed of in the year but had not yet been notified to Finance to enable it to be removed from the fixed asset register.

Management should ensure that vehicle additions are notified on a timely basis to the Finance department. A regular reconciliation should be performed between the Fleetplus system and the Fixed Asset Register in order to highlight any discrepancies.

We acknowledge that since our year end audit, a dedicated staff member has been assigned responsibility for ordering vehicles and for collating the information needed to record additions.

Recommendation 2

Misstatements and Significant Audit Adjustments

3.22   Misstatements represent audit findings for which we do not agree with the amount, classification, presentation or disclosure of items in the financial statements.

3.23   In conducting our audit procedures, we may identify misstatements that require adjustments to the recorded amounts. These audit adjustments are discussed with management who, in consultation with us, determine if an adjustment should be processed. Our expectation is that all non trivial misstatements are adjusted.

3.24   As a result of our work, we proposed a number of audit adjustments and all of these have been processed by management in the finalised version of the 2007/08 financial statements.

4. Performance and Service Sustainability

Service Development and Sustainability

The Health Plan

4.01 *Delivering for Health* sets out the Scottish Executive's vision for the future of health services in Scotland. The new Scottish Government has outlined an intention to continue in a broadly similar manner detailed in the *Better Health Better Care Action Plan* (December 2007).

4.02 The Service reviewed its strategic plans in light of this document at a strategic planning event for stakeholders in January 2008 and subsequently completed The Health Plan 2007/08 to 2009/10 (incorporating the Delivery Plan 2008/09 to 2010/11). This Plan set out the Service's performance objectives over the next 3 years together with a strategic development programme.

4.03 The Plan was drafted following consultation with a variety of partners across the Public Sector including NHS24, other emergency services, the SGHD and territorial NHS Boards. The Plan reflects the continued increases in demand experienced by the Service and changes in planned service reconfigurations at territorial Boards such NHS Lanarkshire and NHS Ayrshire and Arran.

4.04 As highlighted in the Plan, the Service remains focused on the achievement of performance targets, particularly Category A and B. A number of initiatives, projects and workstreams have had an impact on the achievement of Category A targets.

4.05 These can be summarised as:-

- The Operational Performance Improvement Project (OPIP) included detailed work to better understand the impact of demand on performance and ensure the maximum efficiency and effectiveness of available resources.

- Close engagement with the Improvement Support Team of the Scottish Government's Health Directorate in 2007/08. Additional resources were also secured.

- The full year effect of the investment in 2006 of 100 additional full-time front-line staff targeting the areas of greatest need and the part year investment in 23 additional fulltime frontline staff.

Service Developments

4.06 The Service plans to continue to build on its improvement and efficiency in a number of key areas. This will include building on new protocols for the dispatch of accident and emergency vehicles, introduced in January 2008, known as the 'front-loaded model' whereby more single-crewed fast response vehicles (FRV) are despatched to certain agreed types of emergency incidents and backed up by a double-crewed ambulance, either automatically for certain cases, or as requested by the FRV crew member.

4.07 The Service plans to deliver this in parallel with ongoing development and expansion of 'See and Treat' pathways for patients, helping to reduce unnecessary hospital attendances. This, in turn, should help to reduce pressures on A&E departments and therefore support joint efforts between the Service and NHS Boards to reduce the turnaround time for Service crews at hospitals.

4.08 The Service is also pursuing a number of performance management initiatives in areas such as the availability, utility and use of management information, strengthening local management and supervisory structures and procedures, and the efficiency and effectiveness of Emergency Medical Despatch Centres (EMDCs). A review has also been completed of the roles, locations, functions and wider integration of the EMDCs and the implementation of the recommended options will begin to take place during 2008.

Executive Leadership and Independent Investigations

4.09 In our 2007/08 Annual Report to Members we commented on the continued challenge in achieving Ministerial targets, particularly with the temporary appointments in place within the Executive team, the proposed decrease in relative terms in annual uplift allocations from the SGHD, and the changing political landscape and uncertainty around modernisation programmes.

4.10 We also commented on the need to co-ordinate programmes, whilst avoiding "initiative overload" and excessive focus on Category A targets at the expense of other areas of performance.

4.11 The Board appointed a new Chief Executive and Director of Operations, with the acting Chief Operating Officer returning to the post of Director of Finance in January 2008.

4.12 Since then, staff relations issues have emerged. In May 2008, the Board received complaints from a number of staff members concerning the lack of effective partnership working and allegations of bullying and harassment have been raised.

4.13 The Board took the matter of staff complaints very seriously and acted swiftly. The Chairman, following consultation with the Cabinet Secretary for Health and Wellbeing ("the Cabinet Secretary"), appointed an independent investigation team and the Chief Executive and Director of Operations have taken leave of absence pending this investigation.

4.14 In addition, Parliamentary questions have arisen over the sustainability of recent performance and the approach to improving performance (particularly Category A response times). This has led to concerns relating to excessive and unreasonable pressure on staff and an imbalance in SAS' priorities.

4.15 As a result the Cabinet Secretary has put in place two further investigation teams which are considering the clinical viability of the "front loaded model" (single manned rapid response vehicles) and the reporting of performance.

4.16 All of these matters have created a significant risk in terms of service and financial sustainability, particularly regarding the achievement of Category A targets.

4.17 We recently met with the Audit Committee Chairman and the interim Chief Executive and to discuss the current situation. In our role as external auditors, we will continue to support the Service throughout this process and work with the independent investigation team where required.

The Board should continue to liaise closely with the Cabinet Secretary for Health and the independent investigations teams to resolve promptly the various risk issues which have arisen recently concerning staff management and morale, appropriate focus, clarity and achievement of the key strategic objectives of the Service.

Recommendation 3

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Performance Management

4.18   The Board is responsible for monitoring performance against the objectives of the Delivery Plan and receives monthly progress reports on these targets.

4.19   The Service has recently reviewed its internal structures and performance management arrangements. The Chief Executive led bi-monthly performance management reviews with individual Divisional General Managers. These were complimented by ongoing and ad-hoc performance management arrangements led by Executive Directors.

4.20   At the year end, the Service reported that it had met its performance targets for treating patients with life threatening emergencies (Category A) and also treating other emergency cases (Category B).

4.21   The Service was expected to respond to 61.3% of category A calls within 8 minutes (revised target); its performance for 2007/08 was 62%. Response to category B calls is expected to be 91% within 14, 19 or 21 minutes (depending on the geography and demographics of the caller) and performance for 2007/08 was 91.4%. This has been achieved against a backdrop of a 4.8% increase in emergency demand across mainland Scotland; indeed Category A demand increased by 24.4% on the previous year, without a commensurate increase in funding.

4.22   However, the Service missed its performance targets for appointment and pick-up for Priority 1 PTS patients for the year 2007/08. The results relating to patient arrivals within 30 minutes was 69.4% against a target of 71% and for patient pick-ups was 83.7% against a target of 89%.

4.23   Category A performance continues to improve, with a 73.3% performance reported for April 2008.

4.24   However, as outlined above, recent staff complaints concerning management style and actions, the leave of absence of the Chief Executive and Director of Operations and the Cabinet Secretary's recent announcements concerning elements of SAS's operations (e.g. single manning) creates significant risk in terms of service and financial sustainability and the achievement of the 75% (within 8 minutes) category A target by 31 March 2009. It is worth noting that this 75% target is a UK wide target for all ambulance services irrespective of population or rurality. As a result its achievement is more difficult for an ambulance service, such as SAS, which incorporates a large rural area, compared to a more urban based service.

In light of the Cabinet Secretary's announcement, and the issues over staff management and morale, the Service will require to revisit the service delivery models outlined in the business plan and ensure they remain sustainable.

In addition, clear and strong leadership will be required to drive the organisation forward. This will involve managing potential "initiative overload" and avoiding an excessive focus on Category A targets at the expense of other areas of performance, such as clinical governance.

Recommendation 4

4.25   Another key performance target is the NHS wide sickness absence target of 4% by 31 March 2009. However, due to its method of operation and service provision a target of 5% has been agreed by SAS with the SGHD.

4.26   In terms of achievement for 2007/08, performance was 5.8% (2007– 5.6%). The Service has been running a programme to control sickness absence for a number of years, including the application of the Management of Sickness Absence Policy and Procedures, together with close monitoring and reporting of the level of sickness absence and the reasons for it arising.

4.27   The Service is continuing with these initiatives, together with closer scrutiny at individual Divisional level, in order to achieve the target of 5% by March 2009.

5. Governance

Introduction

5.01   We comment on the following areas throughout this section of the report:

- Overall Governance

- Risk Management

- Clinical Governance

- People management

- Financial management

- Information management

Overall Governance Arrangements

5.02   Through good governance, NHS boards are able to improve services for patients and the working lives of those staff that care for them.

5.03   The Service has established Board and Committee structures which have been developed over a number of years, monitoring financial and clinical performance through the following Committees:

- Audit;
- Staff Governance and Remuneration; and
- Clinical Governance.

5.04   The Standing Orders and Standing Financial Instructions were updated and approved by the Audit Committee and the Board during the financial year under review.

Risk Management

5.05   The Service has a well established and comprehensive Risk Management process, with the top-ten risks identified, monitored and updated regularly. A Risk Management Steering Group and a corporate risk register exists for each Division, department and Project Board, governed by a Risk Management Strategy.

5.06   The Service has implemented the Datix system for Risk Management with training packages available to relevant staff.

Clinical Governance

5.07   The NHS Quality Improvement Scotland (QIS) standards for clinical governance, patient safety, and risk management cover the full range of standards in the field.

5.08   The Service received a ten, the highest score in NHS Scotland for the 2007 QIS Review. In order to develop and maintain standards continual review of the suite of clinical indicators and reporting and analysis capabilities have been undertaken as part of an update of management reporting systems. One such area of development was the introduction of 'cab based (computer) terminals' into A&E vehicles and the subsequent roll-out of electronic patient report forms.

5.09   However, there appears to be a number of operational issues with the introduction of electronic patient report forms (e-prf). At the end of March 2008, completion figures indicated only 30% of forms were being correctly completed, with problems concerning the operation of units within vehicles and crews' understanding of the new coding system. Indeed this appears to have hindered performance monitoring, with the Service failing to achieve four of the five headline clinical performance indicators relating to chest pains and emergency patients treated at scene.

5.10   In addition to the clinical need there are also ethical and legal requirements for correct and timely recording of patient data, In order to resolve this issue, the Head of Risk is currently reviewing the clinical reporting process, including the use of e-prf, through meetings with a range of key stakeholders and examination of current systems and processes.

The Head of Risk should continue with the review to analyse various aspects of clinical reporting, including the use of e-prf. Additional consideration should also be given to providing additional training support to crews on the new system. The need for improved and reliable performance data in this regard is a key requirement for the service's Clinical Governance Committee.

Recommendation 5

Infection Control

5.11   In terms of infection control, the Service has recently undertaken internal audits of its compliance with infection control standards, with overall scores returned for stations and vehicles of 90%. However, in order to ensure continuous improvement, SAS is in the process of negotiating Service contracts with various NHS Boards for cleaning vehicles and facilities at the busy urban stations. Cleaning at rural locations will continue to be undertaken in house.

People Management

Pay Modernisation

5.12   The Service has a well established Education and Training Strategy to ensure appropriate training and Continuous Professional Development. This includes leadership development and skills development for front-line staff and implementation of the Knowledge and Skills Framework under Agenda for Change.

5.13   All staff have now been assimilated as part of the Agenda for Change process and the majority of appeals processed – an accrual of £605,000 remains within the 2007/08 final accounts for outstanding arrears payments. An Agenda for Change Benefits Realisation plan has been endorsed by the Chairman and Chief Executive and it, along with a summary of progress to date, has been submitted to the Scottish Government Health Directorate.

5.14   A pilot of the Knowledge and Skills Framework project has commenced within the Finance Directorate including training sessions for staff. The Service is confident it will meet the deadline of 100% of staff having a Personal Development Plan by the deadline of March 2009.

Overseas staff in the NHS – pre-employment checks

5.15   Audit Scotland is co-ordinating a national survey of pre-employment recruitment checks for staff recruited to the NHS from outwith the European Economic Area, commonly referred to as overseas staff. SAS were asked to provide details of all such staff and identified ten employees.

5.16   The HR files were examined for evidence of the pre-employment recruitment checks. The findings from this review will be reported separately in a letter to the Chief Executive.

5.17 In addition to the work performed at our final audit at the request of Audit Scotland, we also conducted a review of the compliance with the NHSScotland pre-employment checks guidance. This piece of work was initiated in response to the security incidents in London and Glasgow in summer 2007 which allegedly involved overseas staff working in the NHS, and is an extension of the work performed by Audit Scotland in November 2007 as part of its national report 'Overseas staff in the NHS - pre-employment checks'. The work included a review of the files of 8 staff employed by the Scottish Ambulance Service who originated from outside of the European Economic Area (EEA). Our findings will be reported separately to the Board.

Equal Pay

5.18 The National Health Service in Scotland has received a number of claims for equal pay including related back pay. The NHS Central Legal Office (CLO) is instructed by the Management Steering Group of the NHSScotland and co-ordinates the legal response of NHSScotland to this issue.

5.19 As at 31 March 2008, NHS bodies had received over 12,000 claims and these had been passed to the Central Legal Office. It is possible that these claims represent a current liability for NHS boards generally. By the end of May 2008 there were 2 grievances and employment tribunal claims registered against SAS.

5.20 The CLO has co-ordinated the legal response to all claims and has attended Tribunal Hearings at which discussion about procedural matters has taken place. The CLO affirms that the cases in Scotland are at too early a stage to allow any assessment of financial risk to be included in the financial statements.

SAS management, working with the Scottish Government Health Directorate and other NHS Boards, should form a view of the potential liabilities regarding equal pay claims as soon as practicable taking into account the progress of cases in Scotland and in England.

Recommendation 6

Financial Management

5.21 The Board meets 10 times a year moving round the Country and has a standard structured agenda which involves papers from the Chief Executive and the Directors covering financial, clinical and performance issues.

5.22 The financial report is presented detailing the financial position compared with budget, achievement of savings (including Divisional performance), progress against the capital plan, and highlighting any areas of perceived financial risk.

5.23 Budgets are clearly linked to the financial plan with operational budgetary responsibility delegated to budget holders. The reporting process identifies Divisions which consistently perform poorly against budget. Follow-up meetings are held with budget holders and management accountants to establish reasons and agree relevant action.

Information Management

5.24 Following the publication of the updated NHS Scotland eHealth Strategy, SAS's Information and Communication Technology (ICT) Strategic Development Group plan to meet in late June 2008 to review SAS's current 2005-2010 Strategy and to update and align it to the National eHealth agenda.

5.25 This group is also driving the Information Technology (IT) security agenda within the Service. A project is currently underway to ensure IT Security policies are up to date and suitably designed to safeguard information and the Services IT and communications infrastructure. This project is planned to produce an overall security policy and codes of conduct for information security.

5.26 We also performed detailed controls work on the Internal General Computer controls currently in place at SAS. Findings were included in our 2007/08 Interim Management Letter and an overall summary of our work relating to the Board's systems of internal control is included in Section 8 of this report.

6. Financial Targets and Performance 2007/08

Revenue Out-turn

6.01 The actual out-turn for the year was a surplus of £0.038 million against a projected break-even position.

6.02 It is emphasised that we do not express a specific audit opinion on the figures on the following pages – these have been extracted in agreement with management from various reports, supporting papers and detailed discussions with management.

The Board's Reported Financial Out-turn for 2007/08.

	£'m	£'m
	Actual	**Actual**
Recurring income	183.934	
Recurring expenditure (before savings)	(185.688)	
Recurring savings	1.792	
Underlying recurring surplus		**0.038**
Non-recurring income	1.872	
Non-recurring expenditure (before savings)	(1.872)	
Non-recurring savings	0	
Non-recurring surplus/(deficit)		**0**
Financial surplus for the year		**0.038**
Figures confirmed by Pauline Moore, NHS Board Director of Finance		

6.03 The above table highlights the £0.038 million surplus and shows that the Service was successful in containing costs within revenue limits, particularly in the face of increased activity, rising fuel costs and continued pay pressures.

Actual Out-turn versus Original Plan for 2007/08

		£m
Projected Break Even (at 1 April 2007)		**0**
Costs over budget:		
Overtime/pays	(0.900)	
Fuel costs	(0.400)	
Vehicle running costs	(0.788)	
		(2.088)
Costs under budget:		
Underspend on IT budget	0.105	
Capital charges and property rates	0.738	
		0.843
Income over budget:		
Response times funding	0.777	
Public Events	0.094	
Gain on sale of assets	0.340	
		1.211
Savings over budget:		
Savings		0.072
Actual surplus reported (at 31 March 2008)		**0.038**

Increase in overtime / vacancy underspends (£0.9 million net overspend)

6.04   A number of Divisions again returned deficit positions for the year. The most significant contributory factor was total overtime costs of £6.5 million, against a total budget of £2 million. However, the financial effect of the additional overtime is offset by vacancy underspends of £3.6 million, predominantly within the Emergency Medical Despatch Centres.

6.05   In addition to proposed monthly performance management meetings between the Chief Executive and the Divisions, to better manage the overtime position from the 1st May 2008 Divisions are to be given a daily budget for overtime to be monitored by the Director of Finance.

6.06   In addition it is worth noting that no accrual for overtime worked in March 2008, but not paid until April 2008, has been made in the 2008/09 financial statements.

Management should continue to monitor overtime within the Divisions to reduce the overspends. However, a review of vacancies and their impact on the requirement to back-fill through overtime, should also be undertaken.

Recommendation 7

Increase in fuel costs (£0.400 million overspend)

6.07   With almost 1300 vehicles, the increasing cost of fuel, together with increased levels of activity, resulted in a significant cost pressure in the year and an overspend of £0.400 million against a full year spend of £5.5 million.

Increase in vehicle running costs (£0.788 million overspend)

6.08   The Service also experienced an additional £0.245 million overspend on the costs of vehicle accidents, £0.323 million in additional leasing charges due to excess mileage and £0.220 million overspend on vehicle maintenance.

Costs under budget of £0.843 million

6.09   Planned expenditure was less than budgeted in the following areas :

* IT hardware and consumables - £0.105 million; and
* Capital charges and property rates due to delays in new buildings becoming operational - £0.738 million

Income over budget of £1.211 million

6.10   Other non-recurring monies of £0.777 million were received to support response time targets and much of this expenditure was used to bring forward the equipping of fast response vehicles. In addition, sales of vehicles achieved a £0.340 million more than budgeted.

Savings over budget of £0.072 million

6.11   The Service set a 1% savings target for 2007/08 – amounting to £1.778 million. These savings were top sliced from Divisional budgets at the start of the year and were achieved in the following areas:-

6.12   Savings were all achieved in accordance with the plan, together with an additional £0.072 million in medical supplies efficiencies identified during the year.

6.13   However, with several Division's returning deficit positions as a result of overtime claims, together with, the top-slicing of savings and the use of central funds to achieve financial balance creates a concern over how realistic initial Divisional budgets are in the first place.

The Board should ensure that Divisional budgets are realistic and achievable, with a monitoring and scrutiny framework which promotes budget-holder buy-in and encourages staff morale.

Recommendation 8

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Capital Out-turn

6.14   For 2007/08 capital spend amounted to £10.973 million, within the Capital Resource Limit of £10.984 million. Key areas of spend related to the completion of the new Edinburgh ambulance station and various workshop improvements (£1 million), further investment in the cab-based terminals project (£0.4 million) and investment in new A&E fleet and Patient Transport vehicles during the year (£9 million).

6.15   The Capital expenditure out-turn for 2007/08 is detailed in the table below.

Capital Expenditure 2007/08	£m
Capital expenditure in year	12.845
Capital Grants given	0
	12.845
Capital Receipts	(1.872)
Capital Grants received	0
Capital Resource Limit out-turn	**10.973**
Capital Resource Limit	**10,984**

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7. Financial Forecast 2008/09

Revenue Forecast for 2008/09

7.01   The table below outlines that after prioritising investments to meet the targets in the Health Plan and areas for savings, the Board plans to return a break-even position.

	£'m Forecast	£'m Forecast
Recurring income	193.422	
Recurring expenditure (before savings)	(195.758)	
Recurring savings	3.536	
Underlying recurring surplus		**1.200**
Non-recurring income	2.304	
Non-recurring expenditure (before savings)	(3.644)	
Non-recurring savings	0.140	
Non-recurring deficit		**(1.200)**
Financial forecast for the year end 31 March 2009		**0**
Figures confirmed by Pauline Moore NHS Board Director of Finance		

Cost Pressures

7.02   The Service has identified a number of cost pressures as follows : -

Pay Costs

7.03   The national pay offer amounting to 2.75%, together with higher than anticipated incremental bandings as part of Agenda for Change, have created a cost pressure of £3.9 million for 2008/09.

Fuel Costs

7.04   The continual rise in the unit cost of fuel has created a projected pressure of £0.6 million for 2008/09.

Non-Recurring Funding and Expenditure

7.05   The Service will receive £2.3 million non-recurring monies in 2008/09, which will fund the purchase and conversion of vehicles as part of the Front Loaded Model and contribute to model response initiatives.

7.06   Staff training on the new Airwave system (£1.3 million) will also be funded from non-recurring expenditure.

Efficiency Savings

7.07 The Scottish Government's 2% efficiency target equates to £3.67 million savings for the Service in 2008/09. In order to fund the Service's planned service developments, all of the 2% will require to be cash releasing. The Board has identified a number of schemes which meet this criteria, totalling £3.3 million, further schemes will be identified to address the shortfall in the target.

7.08 In addition, three further areas have been identified for potential savings in 2009/10 - air ambulance, patient transport services and resource mix in the A & E service. A range of options have been identified, together with savings, risk and impact, which are projected to release a further £3.8 million in 2009/10, however consideration will be required at Board level as to the impact these potential savings schemes will have.

Management should continue to ensure robust monitoring, reporting and early action to ensure achievement of these savings.

Recommendation 9

8. Systems of Internal Control

Statement on Internal Control

8.01   The Code of Audit Practice requires us to review and report on the Service's Statement of Internal Control.

8.02   The Board has used the correct format for its Statement and has outlined the processes it has employed to identify and evaluate risks. In addition, key elements of the Board's control framework and continuous development and improvement initiatives have been highlighted.

8.03   Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Follow Up Report on control matters raised for action in previous years

8.04   We followed up the Board's progress in implementing recommendations made by ourselves in the prior year and by the previous external auditor. Our Follow Up Report was considered at the March 2008 Audit Committee.

8.05   Of the 45 recommendations made, progress was as follows:

Status	Follow up of 2005/06 Audit Recommendations	Internal Controls & Governance 2006/07	Annual Report to Board Members 2006/07	Final Management Letter 2006/07	Total
Action Implemented	5	10	11	3	**29**
Partially Implemented	2	10	1	1	**14**
Little Action to Date	-	-	-	-	**0**
Not Yet Due	1	-	-	1	2
Total	**8**	**20**	**12**	**5**	**45**

8.06   Overall, the Service had fully implemented 29 recommendations from the reports issued in 2006/07. However, action has been taken on all of the recommendations due and this represents a substantial commitment to improving the standards of internal control within the Service.

Interim Management Letter 2007/08

8.07   Our Interim Management Letter was also presented to the March 2008 Audit Committee. The report contained four recommendations to improve controls, none of which were classed as high risk.

8.08   The Board has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. We will follow up this action plan during our 2008/09 audit.

National Fraud Initiative (NFI)

8.09   We submitted a return to Audit Scotland in February 2008, providing information on the Service's arrangements for the management of its 2006/07 NFI project. We concluded that the Service appeared to have established satisfactory systems to fulfil the requirements of the 2006/07 NFI exercise.

8.10   As outlined in CEL 18 (2007) the Scottish Government Health Directorate supports Audit Scotland's proposal that NHS bodies should continue to participate in NFI.

8.11   The 2008/09 exercise will commence on 6 October 2008 with payroll being the only mandatory dataset for submission by health bodies; however health bodies may also take the opportunity to submit trade creditors' payment history information for comparison.

Fraud Strategy and Submission

8.12   CEL 3 (2008) informed Boards of the need for an updated strategy to combat NHS fraud and set out specific action in relation to the strategy. In order to build on the current policies and procedures within the Service to prevent, report and investigate fraud, the Service fully adopted the strategic actions outlined in "Strategy to Combat NHS Fraud in Scotland".

8.13   This involves an agreed schedule of 12 workstreams, with allocated responsibility and deadlines for achievement. In addition:

- The Audit Committee will ensure that all appropriate counter fraud measures are in place and that it has sight of all reports produced by NHSS Counter Fraud Services.

- The Finance Director will act as Counter Fraud Champion, fulfilling the role set out in CEL 3 (2008).

- The Financial Services Manager will act as Fraud Liaison Officer, fulfilling the role as set out in CEL 3 (2008).

8.14   A return has been made to Audit Scotland of the reported frauds that have occurred within the Board during the year. The return was a "nil return".

9. Other Matters

Digital Radio Network

9.01   A UK-wide NHS procurement exercise was undertaken to select a single secure digital radio network to replace the various analogue systems in use.

9.02   As part of this procurement process, the SAS Board agreed a managed service contract with Airwave O2 in July 2006 for a ten year period at a cost of £51.263 million (including indexation). The managed service contract involves a payment profile which involves substantial payments in advance as the service is implemented.

9.03   The payments are triggered by various Ready for Service (RFS) notifications signed off by the Service's implementation team when they are satisfied that a number of conditions have been met. The equipment will not be operational until the Service transfers networks at a single point, initially scheduled for midnight on 1 April 2008.

9.04   However, the project has been delayed due to technical difficulties and the failure to meet delivery milestones. At present, a formal Remediation Plan has been presented to the Service by Airwave O2, and was signed off by the Project Team at the end of May 2008. The Project Plan is subsequently being re-base-lined, with the "go-live" date agreed as February 2009. At the time of this report, vehicle installations have been performed in approximately 400 vehicles, and staff continue to progress through their e-learning programmes.

9.05   The approach adopted for this contract includes pre-paying contract invoices until the fifth year of the contract. By way of example, the contract specified pre payments of £11.738 million (including indexation) up to 31 March 2008. It was the Service's intention to prepay this whole amount, although it has not yet for the reasons set out above. However, certain payments have been delayed to reflect the technical difficulties experienced.

9.06   Whilst we acknowledge the ultimate benefits of moving to a digital network, we remain concerned over the delays in installation and difficulties in meeting agreed milestone, resulting in continued reliance on the ageing analogue system.

9.07   In addition, the structure of the payment process, which involves the Service paying almost 40% of the total costs in the first two years of service, exposes the Service to a significant financial risk should the supplier company Airwave O2 experience business viability issues or the new digital system fail to deliver the expected benefits.

The Board (and project team) should continue to work with Airwave O2 regarding the digital radio network to resolve the technical issues and ensure implementation in line with agreed timescales.

It is also recommended the Board consider the payment terms, particularly the potential financial exposure associated with paying in advance of receiving the service.

Following implementation, it is also imperative that management continue to monitor and report on the performance of the system, and perform a post-implementation review to assess any lessons learned for future procurement exercises.

Recommendation 10

Appendix 1: Action Plan

Ref	Recommendation	Risk Category	Management Response and Action	Responsible Officer	Date of Implementation
1	Review of the invoices raised in April revealed that a number related to work performed some months earlier, in particular 1 invoice related to August 2007 and 3 related to September 2007. Management should ensure that all invoices are raised on a timely basis.	Medium	Agree recommendation a system will be put in place with Finance and the Divisions to ensure prompt receipt of information to enable invoices to be raised in a timely manner	Head(s) of Service/ Financial Services Manager	August 2008
2	Management should ensure that vehicle additions are notified on a timely basis to the Finance department. A regular reconciliation should be performed between the Fleetplus system and the Fixed Asset Register in order to highlight any discrepancies. We acknowledge that since our year end audit, a dedicated staff member has been assigned responsibility for ordering vehicles and for collating the information needed to record additions.	Medium	An individual is being appointed with the specific job responsibility to effectively monitor the capital budget with particular attention to the assets under construction and fixed asset register. Reconciliation between Fleetplus and the Fixed asset register will be the joint responsibility of the Fleet manager and the Capital Accountant	Capital Accountant/ Fleet manager	July 2008
3	The Board should continue to liaise closely with the Cabinet Secretary for Health and the independent investigations teams to resolve promptly the various risk issues which have arisen recently concerning staff management and morale, appropriate focus, clarity and achievement of the key strategic objectives of the Service.	High	Agreed. Plans have been developed and, if Board approves them, they will be submitted to the Cabinet Secretary on 26 June 2008	Chairman/ Acting Chief Executive	June 2008

Ref	Recommendation	Risk Category	Management Response and Action	Responsible Officer	Date of Implementation
4	In light of the Cabinet Secretary's announcement, and the issues over staff management and morale, the Service will require to revisit the service delivery models outlined in the business plan and ensure they remain sustainable. In addition, clear and strong leadership will be required to drive the organisation forward. This will involve managing potential "initiative overload" and avoiding an excessive focus on Category A targets at the expense of other areas of performance, such as clinical governance.	**High**	Redevelop plan.	SAS Board	Over Summer 2008
5	The Head of Risk should continue with the review to analyse various aspects of clinical reporting, including the use of e-prf. Additional consideration should also be given to providing additional training support to crews on the new system. The need for improved and reliable performance data in this regard is a key requirement for the service's Clinical Governance Committee.	**High**	The recommendation is agreed and further training is taking place as well as software upgrades which have pushed completion rates to over 80%. The Clinical reports are now written and being validated.	Cab based terminal implementation group	Summer 2008
6	SAS management, working with the Scottish Government Health Directorate and other NHS Boards, should form a view of the potential liabilities regarding equal pay claims as soon as practicable taking into account the progress of cases in Scotland and in England.	**Medium**	The Board has two claims currently and whilst at present it is not possible to establish whether a liability exists, we wll be guided by advice from the CLO and when and if a liability becomes apparent then appropriate estimation of this liability will be undertaken	Director of Finance	Post legal test cases.

Ref	Recommendation	Risk Category	Management Response and Action	Responsible Officer	Date of Implementation
7	Management should continue to monitor overtime within the Divisions to reduce the overspends. However, a review of vacancies and their impact on the requirement to back-fill through overtime, should also be undertaken.	**Medium**	Systems are in place for Divisional management to effectively monitor their allocation of overtime and they are aware of the vacant hours within their division that can be used against overtime expenditure. Monthly information is available from finance to track progress. Workforce planning systems will also enhance the ability of divisional management to control overtime usage.	General Managers	In place

and – December 2008 |
| 8 | The Board should ensure that Divisional budgets are realistic and achievable, with a monitoring and scrutiny framework which promotes budget-holder buy-in and encourages staff morale. | **Medium** | The Service has demonstrated that additional resources are required to meet HEAT targets. Finance work closely with the Divisional management teams to develop the annual budgets. Consideration will be given to alternative budget allocation methods however the overall financial position of NHS Scotland will remain extremely tight for the forthcoming years of the spending review | Board | Ongoing |
| 9 | Management should continue to ensure robust monitoring, reporting and early action to ensure achievement of these savings. | **Medium** | The savings program is in place and it is being monitored on a monthly basis with reports going to the Board. | Director of Finance | In place |

Ref	Recommendation	Risk Category	Management Response and Action	Responsible Officer	Date of Implementation
10	The Board (and project team) should continue to work with Airwave O2 regarding the digital radio network to resolve the technical issues and ensure implementation in line with agreed timescales.	**High**	Work is ongoing to resolve technical issues.	Project Manager	Ongoing
	It is also recommended the Board considers the payment terms, particularly the potential financial exposure associated with paying in advance of receiving the service.		The Board will take advice on any mitigating actions that are permitted within the terms of the contract.	Director of Finance	August 2008
	Following implementation, it is also imperative that management continue to monitor and report on the performance of the system, and perform a post-implementation review to assess any lessons learned for future procurement exercises.		This recommendation is part of normal post project evaluation and will be implemented when the system is operational.		

Appendix 2: Other Reports Submitted During the 2007/08 Audit

Reports submitted by PricewaterhouseCoopers LLP during the 2007/08 audit process

Planning visits

1. Annual Service Plan

Interim Visits

2. Follow up of 2006/07 Audit Recommendations

3. Interim Management Letter 2007/08

Final Accounts Visit

4. Final Management Letter

5. Audit Opinion

6. Annual Report to Board Members

Health Reports finalised by Audit Scotland during 2007/08

1. Managing long-term conditions (16 August 2007)

2. Primary care out-of-hours services (30 August 2007)

3. Health and community care bulletin (11 October 2007)

4. Priorities and Risks Framework: A national planning tool for 2007/08 NHSScotland audits (16 November 2007)

5. Overseas staff in the NHS – pre-employment checks (29 November 2007)

6. Overview of Scotland's health and NHS performance 2006/07 (14 December 2007)

7. A review of free personal and nursing care (1 February 2008)