

Government and Public Sector

30 June 2010

Scottish Ambulance Service
Annual Report to Members and the Auditor General for Scotland
2009/10



Contents

Section	Page
1. Executive Commentary	1
2. Introduction.....	2
3. Financial Statements and Audit Opinion	3
4. 2009/10 Performance.....	7
5. Governance and Control	12
6. Managing in Uncertain Times	15
Appendix A – Action Plan	19
Appendix B – Communications to Management	22

The principal objective of our audit procedures is to enable us to express our opinion, in line with the requirements of the Audit Scotland Code of Audit Practice, on the financial statements as a whole. Our audit opinion does not guarantee that the financial statements are free from misstatement. Our audit responsibilities, and their limitations are explained in our letter of appointment.

Any oral comments made in discussions with you relating to this report are not intended to have any greater significance than explanations of matters contained in the report. Any oral comments that we make do not constitute oral advice unless we confirm any such advice formally in writing.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks at the SAS or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

1. Executive Commentary

Introduction – Section 2

Our overall responsibility as external auditor of the Scottish Ambulance Service (SAS) is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice (“the Code”), revised and published in March 2007. We have a dual reporting responsibility for the audit: to the Board Members of SAS and to the Auditor General for Scotland.

Financial Statements and Audit Opinion – Section 3

The financial statements of SAS for the year ended 31 March 2010 have been prepared to comply with accounting requirements contained in the NHS Board Accounts Manual and supplementary guidance, as issued by the Scottish Government Health Directorates (SGHD) and approved by the Scottish Ministers. We are pleased to report that our **opinions** on the financial statements and regularity of income and expenditure for the year ended 31 March 2010 are **unqualified**.

In order to prepare financial statements which are International Financial Reporting Standards (IFRS) compliant, the Scottish Ambulance Service has been required to change the format of its financial statements and include a considerable number of additional disclosures. Significant work has been undertaken (in consultation with the PricewaterhouseCoopers’ technical support team) to achieve this objective. Over the last 18 months this has required a significant time commitment by the Director of Finance and her team and it is to their credit that this first full audit under IFRS has been completed smoothly.

In February 2010, HM Treasury issued a new discount rate of 1.8% (2008/09 2.2%) to be applied at 31 March 2010 to all provisions for pensions and similar obligations (including injury benefit provisions). This has required a final adjustment to be made to the SAS's financial statements whereby additional costs of £227,000 have been charged in year to increase the relevant provision by a similar amount. However, the impact of this adjustment has been funded by the SGHD, to be returned when and if the discount rate changes in future.

Concerns have been raised by us previously that significant payments, now totalling £6.693 million at 31 March 2010, have already been made for the Digital Radio Network - Airwave service that is yet to become fully operational. The SAS was required to sign up to this replacement system as part of a UK wide procurement initiative. The concerns focus on whether, given the technical difficulties to date, the product will function as expected and whether the stated benefits will be realised. Concerns also remain, especially in the current economic climate; regarding payments made in advance over the potential financial exposure associated with such payments should the third party be unable to meet its obligations. However, we recognise that the SAS has taken steps to ensure that only contractual payments are made and that recompense has been sought from Airwave for delays. In terms of accounting treatment, classification as a prepayment and release over the contract period is consistent with requirements contained in the 2009/10 Health Manual for Accounts.

The Financial Statements at 31 March 2010 report an increase in creditor payment days to 41 days, up from 38 days in 2008/09 and 33 days in 2007/08. Government guidance, issued in 2008/09 as a result of the economic downturn, states that good practice is for suppliers to be paid within 10 days.

2009/10 Performance – Section 4

The SAS budgeted for a break even position for the year to 31 March 2010. The final outturn was a surplus of £79,000.

The Capital Resource Limit and Cash Requirement targets were achieved in the year. In addition efficiency savings above the 2% Scottish Government target were reported.

SAS was measured against seventeen non financial key performance targets throughout the year, five of which were not met, in part because of the severe weather during the winter period. These were: A1 Response to category A incidents; A2 Response to category B incidents; A5 PTS punctuality for pick up after appointment; T5 Hyper acute stroke; and E4 sickness absence rates. It is worth noting that actual results for most of these measures were brought back on target by the end of the year.

An additional target exists in relation to Knowledge and Skills Framework development reviews, with 80% to be electronically captured by March 2011. At February 2010 progress was reported to the Board as being 1.7% of staff having e-KSF development reviews completed and signed off.

Governance and Control – Section 5

We have reviewed the SAS's overall governance arrangements including a review of Board and key Committee structures and minutes, financial reporting to the Board, and risk management. Appropriate arrangements and reporting were noted. We have also considered key areas of risk to the SAS including partnership working; service sustainability; performance management; and people management, where clearly defined arrangements and reporting were noted.

In particular, SAS devotes time and resources to achieve effective partnership working. As a special health board, SAS has a close working relationship with all territorial Health Boards to ensure services are delivered effectively.

Managing in Uncertain Times – Section 6

Despite entering the downturn from a relatively strong financial position the NHS in Scotland currently faces a period of uncertainty. Impending tightening of public expenditure will impact the sector at a time when the cost base of many NHS bodies will rise.

While some NHS bodies will be more vulnerable than others, all NHS bodies, including the SAS, will be impacted. Regardless of whether an NHS body is in a relatively stronger or weaker financial position, difficult decisions are going to have to be made. We recommend looking at six key areas that our experience in other sectors has shown may be relevant to addressing the challenges ahead:

- Honesty and awareness of the size of the challenge
- Strong leadership
- Need to engage with the whole organisation and external stakeholders
- Realistic and detailed plans to resolve the situation
- Rigorous implementation (programme management arrangements)
- Financial control and discipline

The SAS is already considering how best to respond to the existing drive for efficiencies. Forecasts for the next four years should include “downside” scenarios and challenge from zero and priority based budgeting. Tough decisions on which spending plans take priority are likely to be faced by the SAS in the coming months and years.

2. Introduction

Purpose of this report

The Annual Audit Report which follows is designed to set out the scope, nature and extent of our audit, and to summarise our opinion and conclusions on issues arising. Specifically this will direct your attention to matters of significance that have arisen out of the 2009/10 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

Scope, nature and extent of our audit

Our overall responsibility as external auditor of the Scottish Ambulance Service (SAS) is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007. 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. It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving the “appointed auditor”, the Auditor General for Scotland and other auditors such as Audit Scotland’s Health Performance and Public Reporting Group. Our audit has been planned and conducted to take account of these wider perspectives. 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 arising from the audit of financial statements to those charged with governance of an entity. This Annual Audit Report to Members, together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA 260.

Acknowledgment

We would like to formally extend our thanks to all SAS managers and staff for the assistance they have given us during the audit process.

PricewaterhouseCoopers LLP
Edinburgh

30 June 2010

3. Financial Statements and Audit Opinion

Audit opinion

Our audit opinions concern the true and fair statement of the SAS's financial results for the year ended 31 March 2010 and the regularity of its income and expenditure for the year.

We are pleased to report that our opinions on the true and fair view on the financial statements and on the regularity of income and expenditure are **unqualified**.

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.

Audit Process

The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided by management was of a high standard. Overall an efficient audit process was achieved through an effective working relationship with your staff.

Basis of Preparation

The financial statements were prepared in accordance with the accounting requirements contained in the NHS Board Accounts Manual for Directors' Report and Accounts of NHS Boards and for Scottish Financial Returns, and supplementary guidance, as issued by the Scottish Government Health Directorates (SGHD) and approved by the Scottish Ministers.

Government bodies, including NHS Boards, have been required to adopt International Financial Reporting Standards (IFRS) from 2009/10 onwards. This included a restatement of 2008/09 comparatives. The objective is to bring the public sector into line with the private sector, and to introduce greater comparability and consistency across public sector accounting.

In order to prepare financial statements which are IFRS compliant, the Scottish Ambulance Service has been required to change the format of its financial statements and include a considerable number of additional disclosures. Significant work has been undertaken (in consultation with the PricewaterhouseCoopers' technical support team) to achieve this objective.

Over the last 18 months this has required a significant time commitment by the Director of Finance and her team and it is to their credit that this first full audit under IFRS has been completed smoothly.

Approval

The Financial Statements were submitted to the SAS's Audit Committee on the 15 June 2010 and are to be approved and adopted at the Board meeting on 30 June 2010.

Unadjusted misstatements

Under ISA 260 - "Communication of audit matters to those charged with governance", we are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those which we deem to be of a trivial nature.

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 2009/10 financial statements. We therefore have no unadjusted 2009/10 misstatements to report.

Accounting Issues

A number of accounting issues were discussed with management during the audit. The most significant of these are set out below:

Change in Discount Rate for Provisions for Pensions and Similar obligations

In February 2010, HM Treasury issued a new discount rate of 1.8% (2008/09 2.2%) to be applied at 31 March 2010 to all provisions for pensions and similar obligations (including injury benefit provisions). This has required a final adjustment to be made to the SAS's financial statements whereby additional costs of £227,000 have been charged in year to increase the relevant provision by a similar amount. However, the impact of this adjustment has been funded by the SGHD, to be returned when and if the discount rate changes in future.

Asset Valuations

Valuations were obtained at 31 March 2010 for Land and Buildings held by SAS. However, for ten properties, additions made in the year were then incorrectly added to the year end valuation. As these additions already formed part of the building at the time of valuation, they should not have been identified as separate assets and have been removed leading to an impairment of £234,000. As this is a permanent reduction in value, it has been necessary for the SAS to adjust this through its Operating Cost Statement, although it has no direct effect on SAS's surplus as an additional adjustment which cancels its impact on expenditure is made "below the line" i.e. after Net Operating Costs but before Net Resource Outturn.

Digital Radio Network - Airwave

As reported in previous years, the SAS is involved in a significant project to replace the current analogue radio network with a digital equivalent. A UK-wide Emergency Services procurement exercise was undertaken to select a single secure digital radio network to replace the various analogue systems in use. Following selection of the Airwave system on a national basis, in July 2006 the SAS Board was required to sign a managed service contract with Airwave **0₂** for a

ten year period for a total cost of £51.263 million (including indexation). Payments under the contract are triggered by Ready for Service (RFS) notifications and have already been made in 2007/08, 2008/09 and 2009/10, and will continue to be made throughout the course of the contract.

The service was initially scheduled to be operational from 1 April 2008. However, the SAS is not prepared to accept the service until it is able to operate to the same standard as the current analogue system. Technical difficulties in achieving this standard have been encountered delaying the start date several times. The current go live date is 1 November 2010.

The impact of the technical issues and contract change notices is that the total cost of the contract including indexation is now expected to be around £54.396 million over a ten year period. Cumulative payments of £6.69 million have been made to 31 March 2010, treated as prepayments in the financial statements. Based on the likely date of activation for the system, £2.419 million of this has been treated as short term and the remaining £4.274 million as long term. A milestone is expected to be achieved by 30 June 2010, with the sign-off of Service Commencement: this triggers the start of the 'clock' for the ten year period of the contract. It also triggers a number of substantial payments. Management has stated that technical knowledge gained from the implementation of the system in England indicates the service is likely to be operational four months following this sign off.

Management intend releasing the prepayment to the Operating Cost Statement evenly over the contract period of ten years. In terms of accounting treatment, classification as a prepayment and release over the contract period is consistent with requirements contained in 2009/10 Health Manual for Accounts.

Concerns have been raised by us previously that significant payments, £6.693 million at 31 March 2010, have already been made for the Digital Radio Network - Airwave service that is yet to become operational. The concerns focus on whether, given the technical difficulties to date, the product will function as expected and whether the stated benefits will be realised. Concerns also remain, especially in the current economic climate, regarding the payments made in advance over the potential financial exposure associated with such payment. These concerns are alleviated slightly by the fact that SAS is now in possession of a significant amount of hardware relating to the network, providing some comfort over the payments made.

Creditors – Creditors Payment Days

The Financial Statements at 31 March 2010 report an increase in overall creditor payment days to 41 days, up from 38 days in 2008/09 and 33 days in 2007/08. Government guidance, issued in 2008/09 as a result of the economic downturn, states that it is good practice for suppliers to be paid within 10 days. The SAS processes invoices and releases them for payment as soon as they are matched to purchase orders and goods received notes. However, issues still exist in relation to the timely receipt of orders from divisions. This can prevent the Finance Department from processing invoices within the targets. Management are aware of this issue as it has been raised in previous audit reports and is included as an outstanding Follow Up item that will be tested further during our 2010/11 Interim Audit visit.

As noted in our 2008/09 annual report, the finance team has been concentrating a significant amount of effort on reducing long outstanding creditor balances. If only invoices **received** and paid in 2009/10 were considered, the average creditor payment days would be 28 days by value, or 30 by volume.

ACTION POINT 1

Equal Pay

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) has been instructed by the Management Steering Group of NHS Scotland in this regard and is co-ordinating the legal response of NHS Scotland to this issue. At the end of May 2010 there was one outstanding claim for equal pay, which is being handled centrally by CLO.

The CLO has co-ordinated the legal response to all claims and has attended tribunal hearings at which discussions about procedural matters has taken place. The CLO has confirmed that the cases in Scotland are at too early a stage to allow any assessment of the potential financial exposure to be included in the financial statements.

SAS has included a Contingent Liability Note in its financial statements, setting out this matter.

4. 2009/10 Performance

Financial Results 2009/10

	£m	£m
Recurring income	199.999	
Recurring expenditure (before savings)	(204.045)	
Recurring savings	<u>4.125</u>	
Underlying recurring surplus / (deficit)		0.079
Non-recurring income	8.148	
Non-recurring expenditure (before savings)	(8.198)	
Non-recurring savings	<u>0.050</u>	
Non-recurring surplus/(deficit)		0.000
Financial surplus/(deficit) for the year		<u>0.079</u>
Underlying recurring surplus / deficit as a percentage of recurring income		<u>0.039%</u>

Figures confirmed by Pamela McLauchlan, Director of Finance, 16 June 2010

The SAS budgeted for a break even position for the year to 31 March 2010. The final outturn was a surplus of £0.079 million

In achieving this surplus, the SAS encountered a number of variations from budget as follows:

Ambulance Car Service (underspend £0.354 million)

A change to the mileage rate paid to volunteer drivers in April 2009 has removed the incentive for drivers to continue driving after exceeding the initial annual mileage threshold resulting in a reduction in travel claims.

Heating, Light and Power (underspend £0.255 million)

The national contract used for utilities was changed in the year with reduced rates being charged in the latter half of the year resulting in significant efficiencies being made.

Pay Costs – Overtime (overspend £0.495 million)

As reported in previous years, unbudgeted overtime remains an area of financial concern. Particularly, tight controls on overtime in March 2010 helped reduce a projected overspend of £0.839 million at February 2010 to the end of the year overspend of £0.495 million. While efforts are being made to reduce overtime, contributing factors such as high levels of staff absenteeism remain. The particularly tight controls exercised in the latter part of the year should continue on an ongoing basis.

ACTION POINT 2

Consumables (overspend £0.300 million)

Spending on Consumables was over budget due to additional requirements for single use items and steps taken to prepare for the risk of a pandemic flu outbreak. Management have also identified issues of stations over ordering items that go out of date quickly.

Performance against Key Financial Targets

SAS has achieved all three of its financial targets in the year, as follows:

	Limit set by SGHD £m	Actual Outturn £m	Variance (over)/under £m
Revenue Resource Limit	201.494	201.415	0.079
Capital Resource Limit	13.202	13.192	0.010
Cash Requirement	200.000	199.370	0.630

SAS also reported efficiency savings in the year above the 2% Scottish Government target. Cash releasing revenue efficiencies of £4.125 million were reported in the year, against the Scottish Government target of £3.786 million.

Managing Financial Performance

Management receive detailed financial information each month to help manage performance against budgets and control expenditure. Detailed management accounts are prepared on a monthly basis. Management Accountants liaise with Budget Holders to analyse the management reports and understand key variances against budgets. The outcomes of the monthly reviews are consolidated into monthly financial management reports that are considered by the Board and senior management. The information produced and frequency of reporting ensures decision makers have appropriate information on which to base decisions. The reporting arrangements were considered during the year and reported in our Interim Management Letter reported to the Audit Committee on 9 March 2010.

Managing Performance and non financial performance targets

Performance Management is a standing agenda item at all Board meetings. Detailed reports are provided for HEAT targets showing results against targets for the period and year to date. The reports are scrutinised by the Board and actions developed where targets are not being achieved. For the year to 31 March 2010, of SAS's seventeen key performance targets, five were not met, including:

	2009/10 Target %	2009/10 Annual Actual Performance %	March 2010 Performance %
A1 Response to category A incidents	75	72.3	77.5
A2 Response to category B incidents	95	93.7	94.5
A5 PTS punctuality for pick up after appointment	87	85.3	(last quarter) 87.1
T5 Hyper acute stroke	90	66.8	64.3

Of the five targets not considered to have been met throughout the year, improvements were achieved in relation to A1, A2 and A5 towards the year end, with the SAS achieving the target for responding to category A incidents in March 2010, and PTS punctuality for pick up after appointment in the quarter to March 2010. Set against the backdrop of the harshest winter Scotland has experienced for 100 years, this shows significant effort by the teams.

ACTION POINT 3

Target T5 (Hyper acute stroke) is a new target which was introduced during the year. This is considered to be an aspirational target and is not something the service was expecting to achieve in the first few years of measurement.

Where targets are not met, further plans to address performance are discussed at Board level and through Clinical Governance reporting.

The fifth related to E4 sickness absence which is covered in more detail on page 10.

Reporting is also undertaken to inform the Board of developments impacting the Local Delivery Plan and wider strategic objectives, as well as detailed clinical performance.

Pay Modernisation

NHS Boards are required to ensure that at least 80% of staff covered by Agenda for Change have their annual Knowledge and Skills Framework development reviews completed and recorded on e-KSF by March 2011. eKSF progress to February 2010 was such that, although 85% of staff were registered to use e-KSF, only 1.7% of staff had e-KSF development reviews completed and signed off.

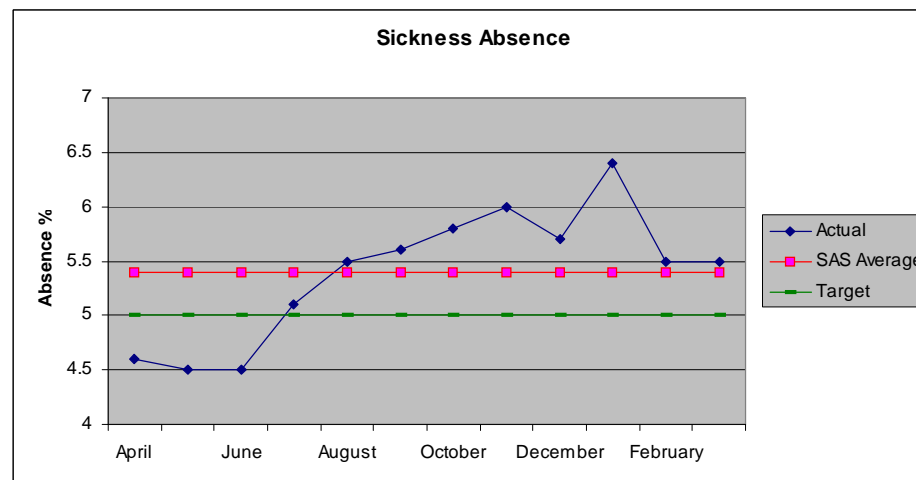
Plans are in place to move the SAS towards the national targets, however the current implementation levels are low and further plans to intensify efforts should be considered if targets are to be achieved.

ACTION POINT 4

Sickness Absence

The Staff Governance Action Plan includes steps to reduce sickness absence levels and is an essential part of the improvement process as the SAS continues to record levels of sickness absence above agreed national targets. The average sickness absence rate for the 12 months to March 2010 was 5.4% against a target level of 5%. This is 0.1% higher than the prior year.

The graph below illustrates the levels of sickness absence during 2009/10 against the target level of 5%, agreed with the Scottish Government. This demonstrates that the SAS is still experiencing very high levels of sickness absence during Autumn and Winter months; the severity of the 2009 winter and pandemic flu have been cited as a reason for this increase by management.



ACTION POINT 5

Best Value

Best Value audits are being carried out across the public sector to help protect taxpayers interests by examining the use of resources and to report on the delivery of outcomes for people who use services. The Best Value audits are being carried out in a cycle focusing on distinct areas each year. In 2009/10 Audit Scotland issued eighteen toolkits with instructions that one was to be performed and validated by the auditors of each NHS Board.

In agreement with management, two specific toolkits were selected for completion in 2009/10; these were selected to align with risks faced by the SAS. The evaluation for each module is classed as: does not meet basic requirements; basic practices; better practices; or advanced practices.

The aim of the Equalities Toolkit, was to provide a structured, evidence based assessment of SAS's approach to equalities and its achievement of Best Value in this area. It is broken down into the four component elements and posed questions as to the extent to which good practice had been embedded across SAS. The achievement of better practice in all four areas shows the commitment that the SAS has made in this area. Four recommendations for improvements were made (three medium risk and one low risk). Management has accepted all of these recommendations and detailed actions, with responsible officers and implementation dates agreed.

Equalities Toolkit Module	Evaluation
Profile and Needs of Diverse Communities	Better Practices
Improvements in Equality	Better Practices
Equality of Opportunity	Better Practices
Delivery of Positive Outcomes	Better Practices

The aim of the Planning and Resource Alignment Toolkit was similarly to provide a structured, evidence based assessment of SAS's approach to planning and resource alignment and its achievement of Best Value in this area. It is broken down into the three component elements and poses questions as to the extent to which good practice has been embedded across the SAS. The achievement of better practice in all three areas shows the commitment SAS has made in this area. Three recommendations for improvements were made (two medium risk and one low risk). Management has accepted all of these recommendations and detailed actions, with responsible officers and implementation dates agreed.

Resource and Planning Alignment Toolkit Module	Evaluation
Strategic Planning and Resourcing of Activities	Better Practices
Planning Framework	Better Practices
Delivery of Improved Outcomes	Better Practices

The detailed findings of these reviews have been presented to the Audit Committee in June 2010.

5. Governance and Control

Overall Governance Arrangements

The established Committee framework at the SAS, incorporating Audit, Staff Governance, Remuneration and Clinical Governance Committees remains in place. As reported in our Interim Management Letter (reported 9 March 2010), the posts of Chief Executive, Director of Finance and Logistics, Director of Service Delivery, and Director of Strategy and Performance are now filled on a permanent basis. This is a significant improvement from the interim governance arrangements which were in place at the 2008/09 year end.

The NHS Quality Improvement Scotland (QIS) Standards for Clinical Governance, Patient Safety, and Risk Management cover the full range of standards in the field. A QIS Clinical Governance and Risk Management monitoring visit was carried out in August 2009 with the report published November 2009 with the SAS scoring well. Further comment on this was included in our Interim Management Letter (reported 9 March 2010).

Partnership Working

The SAS devotes time and resources to achieve effective partnership working. As a special health board, SAS has a close working relationship with all territorial Health Boards to ensure services are delivered effectively. The SAS continues to participate and contribute to a number of partnership agreements including being part of the NHS Tayside Consortium for shared payroll and Cedar efinancials. NHS24 is also considered to be a key partner in delivering services to the public. This relationship has been enhanced with the sharing of resources and the development of systems for the sharing of information with NHS24. The Tripartite agreement between the SAS, Police and Fire also remains in place. This involves collaboration in terms of fleet services, including the sharing of vehicle workshops, which has helped to generate savings for the Scottish Government.

Systems of Internal Control

The results of our work on systems of internal control were communicated to the Audit Committee in our Interim Management Letter on 9 March 2010. The report contained 9 recommendations to improve controls, none of which were graded as higher risk or business critical in nature. The SAS 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 2010/11 audit process.

Statement on Internal Control

The Code of Audit Practice requires us to review and report on the SAS's Statement on Internal Control. The SAS 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 SAS's control framework have been highlighted.

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

Follow up of outstanding recommendations

We followed up the SAS's progress in implementing recommendations made in the prior year. Our Follow Up Report was considered at the Audit Committee meeting on 9 March 2010. At the time of reporting, of the 32 agreed actions, progress was as follows:

Status	Follow Up of 2007/08 Reports	Interim Management Report 2008/09	Annual Report to Members 2008/09	Information Governance Best Value Report	Total
Action Implemented	6	2	3	3	14
Action in Progress	12	1	2	-	15
Limited/Little Progress to Date	-	-	-	-	-
Not Yet Due	-	-	1	2	3
No Longer Applicable	-	-	-	-	-
Total	18	3	6	5	32

The SAS had fully implemented 14 prior year audit recommendations with action being taken on a further 15. This represents managements' commitment to improving the standards of internal control. One action classed as 'partially implemented' was noted as a higher risk recommendation in the original report.

"The Board (and project team) should continue to work with Airwave O₂ regarding the digital radio network to resolve the technical issues to ensure implementation in line with agreed timescales. It is also recommended that the Board considers the payment terms, particularly the potential financial exposure associated with paying in advance of receiving the full 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 further procurement exercises."

Information Technology General Controls

ISA (UK&I) 315.93 requires auditors to "... obtain an understanding of how the entity has responded to risks arising from IT". IT General Controls (ITGCs) are controls put in place by management to mitigate those risks. ITGCs help ensure the continued proper operation of information systems to maintain the integrity of information and security of data.

During 2009/10 Deloitte continued to act as the SAS's internal auditors. We have reviewed the work of internal audit and, where possible, have placed reliance on their work, specifically in relation to the testing of ITGCs.

National Fraud Initiative

The National Fraud Initiative (NFI) brings together data from health bodies, councils, police and fire rescue bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.

The SAS met its mandatory requirements in 2008/09 with regard to the submission of payroll data sets and subsequent investigation of matches. In addition, NFI prescribes that public sector bodies are required to submit additional datasets on a risk-based approach. Management chose to run the creditors dataset in 2009/10 having considered these to be the most applicable in respect of fraud risk.

As reported in our Interim Management letter (reported 9 March 2010), no exceptions were noted to our review of this area during the interim audit process.

6. Managing in Uncertain Times

The UK economy went into recession in mid-2008 for the first time since 1991. By summer 2009, UK economic output had fallen for five consecutive quarters. Significant financial pressures remain and the future economic position is uncertain and difficult to predict.

In response to the recession the UK Government almost doubled its level of borrowing to £175 billion in 2009/10 to allow it to increase public spending to support the economy. This level of borrowing means that the UK Government will need to pay higher debt interest payments, which in turn reduces the amount left for spending on the public sector. The recent Westminster General Election has resulted in a change of Government and this has led to a change in the plans for repaying the national debt with the new coalition government planning to halve the deficit by 2013/14. In order to achieve this ambitious target, significant reductions in public sector spending will be required. A recent paper by the Scottish Government Chief Economist predicts that public sector spending in Scotland may fall in real terms by 3% every year to 2014/15 and will take a total of 12 to 15 years to get back to 2009/10 levels.

Further details of this challenge may become clearer after the 22 June 2010 UK emergency budget, although the impact this will have on the NHS in Scotland may take some time to become apparent.

In April 2009, the UK Government also announced that Public Sector **capital budgets would fall**.

Taken together, these factors will have **serious consequences** for the Scottish budget. As a result of the current financial position, Audit Scotland has issued a number of reports on the matter. Key reporting themes from two of these reports are highlighted below.

The SAS Perspective

Despite entering the downturn from a relatively strong financial position the NHS in Scotland currently faces a period of uncertainty. Impending tightening of public expenditure will impact the sector at a time when the cost base of many NHS bodies will rise.

The SAS is already considering how best to respond to the existing drive for efficiencies. We suspect that much of the relatively easier savings will already have been achieved so that the ability of SAS to respond to a prolonged wave of revenue reduction arising from the re-assessment of public spending levels and priorities is likely to be more difficult. Forecasts for the next four years should include “downside” scenarios and challenge from zero and priority based budgeting. In addition, there are lessons to be learned from other organisations that have already weathered financial challenge and crisis. Tough decisions on which spending plans take priority are likely to be faced by all NHS boards in the coming months and years.

While some NHS bodies will be more vulnerable than others, all NHS bodies, including the SAS, will be impacted. Regardless of whether an NHS body is in a relatively stronger or weaker financial position, difficult decisions are going to have to be made. We recommend looking at six key areas that our experience in other sectors has shown may be relevant to addressing the challenges ahead:

- Honesty and awareness of the size of the challenge
- Strong leadership
- Need to engage with the whole organisation and external stakeholders
- Realistic and detailed plans to resolve the situation
- Rigorous implementation (programme management arrangements)
- Financial control and discipline

ACTION POINT 6

Audit Scotland - Scotland's Public Finances: Preparing for the Future

In November 2009 Audit Scotland published their report: 'Scotland's Public Finances: Preparing for the Future'. This report highlighted the fact that the Scottish Government budget is likely to have peaked in 2009/10 for the foreseeable future. This means that individual public bodies will have **smaller budgets** in future years. It highlighted that in addition, **other public sector income is likely to be less than previously forecast** – in particular, NHS capital funding, which may affect the SAS's ability to deliver its capital programme, although the vehicle and defibrillator capital is guaranteed.

The report concluded that we are at a real **historical breakpoint** in public finances.

Audit Scotland - Improving Public Sector Efficiencies

Following on from the Scotland's Public Finances report, Audit Scotland published a further report in February 2010: 'Improving public sector efficiency'. It provided a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in a 2006 Audit Scotland report about the previous efficiency programme.

The report noted that Scottish public bodies had reported more efficiency savings than the Government's two per cent target. However, there were serious financial challenges ahead – the biggest since devolution – and making the required savings simply through efficiency will become increasingly difficult.

The report recommends that to deal with reduced future funding, public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and to improving collaboration and joint working.

To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible for leading efficiency and improvement work at SAS should formally assess themselves against each question.

These Audit Scotland reports have been presented previously to the Board for consideration. The reports were provided in the Board papers along with financial performance information and details of the 2010/11 budget including key cost pressures and significant challenges facing the SAS.

The SAS Action Plan

The SAS is required to achieve efficiency savings of 2%, as outlined in the NHS Scotland Efficiency and Productivity Programme: Delivery Framework, published in June 2009. Cash and productivity efficiency savings are required to enable SAS to produce a break-even budget. The SAS has identified the key areas for 2010/11 to achieve the 2% and generate £3.9 million of savings towards the annual budget.

Figures confirmed by Pamela McLauchlan, Director of Finance, 16 June 2010

2010/11 Projected Outturn	£m	£m
Recurring income	181.106	
Recurring expenditure (before savings)	(183.161)	
Recurring savings	<u>3.055</u>	
Underlying recurring surplus		1.000
Non-recurring income	8.358	
Non-recurring expenditure (before savings)	(10.964)	
Non-recurring savings	<u>1.616</u>	
Non-recurring surplus		<u>(1.000)</u>
Financial break even for the year		<u>0.000</u>
Underlying recurring surplus as a percentage of recurring income		<u>0.552%</u>

Financial Plan

The Service has completed its revised three year financial plan and this is included within the Local Delivery Plan 2009/10 to 2011/12 submitted to the SGHD for approval.

Service Sustainability

The SAS has developed a revised strategy document, 'Working Together for Better Patient Care 2010-15'. This document sets out a framework for how SAS achieves its vision. It links the SAS's vision to the Scottish Government vision for improved health in Scotland and a NHS which offers greater patient focus and easier access to services. A Local (HEAT) Delivery Plan for the period to 2011/12 is also in place. This is aligned to Scottish Government objectives and includes the SAS's HEAT targets setting out the SAS's objectives, performance measures and targets. The SAS adopted an integrated approach to developing the HEAT Plan, involving stakeholders through a series of workshops. Underpinning the HEAT Plan is the local "Delivering for Health Programme", which outlines individual projects which are in place for the strategic development of the SAS.

Overall

In overall terms the uncertainties concerning future funding levels will put significant pressure on SAS meaning that existing strategies and approaches may need to be re-prioritised and flexed over the next few years.

Appendices

Appendix A – Action Plan

Ref	Issue and Recommendation	Management Response
1	<p>The creditor payment days figure for the year of 41 days is significantly above the government target of 10 days. Even when long outstanding creditors are removed, the figure remains 28 days. Management should remind staff in the divisions of the importance of receipting goods on the system promptly on receipt. Payments should then be made as soon as the three way match (purchase order, goods received note and invoice) are received.</p>	<p>Management Response: Significant process has been made during 2009/10 to reduce the creditor payment days. Management will again remind the division of the importance of prompt receipting as this is the critical factor in achieving payment within the target.</p> <p>Responsible Officer: Financial Service Manager</p> <p>Due Date: March 2011</p>
2	<p>Unbudgeted overtime remains an area of financial concern. Particularly tight controls were implemented in this area in March 2010 helping reduce a projected overspend of £0.839 million at February 2010 to the end of year overspend of £0.495 million. These particularly tight controls exercised in the latter part of the year should continue on an ongoing basis.</p>	<p>Management Response: The general managers accountable for budgets related to overtime are fully aware of the importance of remaining within budget – and will continue to exercise strong controls over overtime.</p> <p>Responsible Officer: Director of Service Delivery / Director of Finance and Logistics</p> <p>Due Date: June 2010</p>

Ref	Issue and Recommendation	Management Response
3	<p>The SAS need to put in place more sustainable plans to ensure category A and B response targets are met at all times throughout 2010/11.</p>	<p>Management Response: Management have identified the resourcing requirements to achieve these targets through the 'Optima' report. This will be progressed in 2010/11.</p> <p>Responsible Officer: Director of Service Delivery</p> <p>Due Date: March 2011</p>
4	<p>NHS Boards are required to ensure that at least 80% of staff covered by Agenda for Change have their annual Knowledge and Skills Framework development reviews completed and recorded on e-KSF by March 2011. eKSF progress to February 2010 was such that, although 85% of staff were registered to use e-KSF, only 1.7% of staff had e-KSF development reviews completed and signed off.</p> <p>Plans are in place to move the SAS towards the national targets, however the current implementation levels are low and further plans to intensify efforts should be considered if targets are to be achieved.</p>	<p>Management Response: Plans are fully in place for the achievement of this target which is reported to the Board on a regular basis. It is anticipated that the target will be achieved by March 2011.</p> <p>Responsible Officer: Director of Human Resources and Organisational Development</p> <p>Due Date: March 2011</p>
5	<p>The average sickness absence rate for the 12 months to February 2010 was 5.4% against a target level of 5%. This is unchanged from the prior year. This has been a contributing factor to overtime payments again being an area where costs are over spent against budget.</p> <p>Management should continue to focus on reducing sickness absence rates at all times of the year through the application of the staff governance plan and the consideration of possible additional action to motivate changes in behaviour.</p>	<p>Management Response: A strong focus on the management of sickness absence will continue throughout org. Additional measures such as employee assistance programme and fast track physiotherapy are making a difference. Other measures similar to this will be considered.</p> <p>Responsible Officer: Director of Human Resources and Organisational Development</p> <p>Due Date: June 2010</p>

Ref	Issue and Recommendation	Management Response
6	<p>The NHS in Scotland faces a period of uncertainty and impending tightening of public expenditure will impact the sector at a time when the cost of providing services is likely to rise. Forecasts for the next four years should include “downside” scenarios and challenge from zero and priority based budgeting. Tough decisions on which spending plans take priority are likely to be faced by all NHS boards in the coming months and years and this requires to be an area of primary focus by the board and management.</p>	<p>Management Response:</p> <p>The Board is conscious of the financial climate discussions at development sessions will continue throughout 2010/11 including mechanisms for prioritisation of services and options for further cash releasing efficiencies.</p> <p>Responsible Officer:</p> <p>Director of Finance and Logistics</p> <p>Due Date:</p> <p>June 2010</p>

Appendix B – Communications to Management

International Standards on Auditing (“ISA”) (UK&I) 260 – Reporting to those charged with Governance, requires that the External Auditor communicates certain matters to those charged with Governance. Those charged with Governance is taken to be the Members of the Audit Committee with responsibility discharged through the regular meetings of the Audit Committee during the year. Summarised below are the requirements set out within ISA 260 together with reference to the relevant communication with you during 2009/10 or comments as appropriate.

Communication Required under ISA 260	Reference/Comment
Engagement letters	Signed Engagements Letter with Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	Audit Planning document report to 16 December 2009 Audit Committee and confirmed no member of audit team has any direct interest, financial or otherwise, in the Scottish Ambulance Service.
Audit Approach and Scope	Audit Planning document (reported to Audit Committee 16 December 2009)
Accounting Policies/Practices with a Material Effect on the Financial Statements	Sections 3 and 4 of our Annual Report to Board Members and the Auditor General for Scotland.
Potential Effects of Material Risks and Exposures	Audit Planning document (16 December 2009).
Audit Adjustments	Section 3 of our Annual Report to Board Members and the Auditor General for Scotland.
Material Uncertainties relating to Going Concern	None identified.
Disagreement with Management about Matters that could be Significant to the Financial Statements	Not applicable.
Expected Modifications to the Auditor’s Report	No modifications identified. A true and fair opinion provided.
Letter of Representation	Signed by Management 30 June 2010.
Material Weaknesses in Internal Control	Internal Controls findings reported separately in our Interim Management Letter (9 March 2010), Section 5 of our Annual Report to Board Members and the Auditor General for Scotland.
Fraud	Discussed fraud arrangements with the Chair of the Audit Committee (16 December 2009), Management throughout audit process.

Communication Required under ISA 260	Reference/Comment
Laws and Regulations	We have not identified any material braches of laws and regulations in the period which impact on the 2009/10 Financial Statements.
Audit Materiality	Audit Planning document – presented to Audit Committee in 16 December 2009.
Fair Value Measurement and Disclosure	Included in representation letter, signed by Management dated 30 June 2010.
Related Parties	Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.

Formal Reporting to Management during 2009/10

During the year we have presented a number of formal reports to Management and the Audit Committee and produced certain outputs. Our principal outputs during 2009/10 are summarised below:

Formal Output	Timing	
Letter outlining work undertaken in relation to our review of the SAS's 2008/09 shadow IFRS based financial statements	16 December 2009	
Audit Plan	16 December 2009	
Detailed Timetable for 2009/10 Financial Audit	9 March 2010	
Follow-up of 2008/09 Recommendations	9 March 2010	
Interim Management Letter	9 March 2010	
Annual Report to Board Members and the Auditor General for Scotland	15 June 2010	
Audit Opinions	30 June 2010 Board Meeting	
1. True and fair view on the financial statements and regularity of income and expenditure ✓		} Unqualified Audit Opinions
2. Remuneration Report (parts only) ✓		

Freedom of Information Act (Scotland) 2002

In the event that, pursuant to a request which the institution has received under the Freedom of Information Act (Scotland) 2002 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made there under (collectively, the "Legislation"), the SAS is required to disclose any information contained in this report, it will notify PwC promptly and will consult with PwC prior to disclosing such report. The SAS agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with PwC, the SAS discloses any of this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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