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Scottish Ambulance Service

Annual Report to Members and the Auditor General for Scotland

2010/11

June 2011

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Contents

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 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) ("the Board") 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 the Scottish Ambulance Service and to the Auditor General for Scotland.

Financial Statements and Audit Opinions - Section 3

The financial statements of SAS for the year ended 31 March 2011 have been prepared to comply with 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. We are pleased to report that our opinion on the financial statements for the year ended 31 March 2011 is **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.

As a result of our work, we proposed a number of audit adjustments, which have all been processed by management in the finalised version of the 2010/11 financial statements.

Two significant accounting issues were noted during the 2010/11 financial statement audit in relation to the Airwave contract and Class 1A National Insurance Contributions. The accounting treatment has been confirmed in the preparation of the 2010/11 financial statements, with no unadjusted misstatements remaining. However, these issues require further action from SAS management to resolve.

2010/11 Performance - Section 4

SAS budgeted for a break even position for the year to 31 March 2011. The final outturn was a surplus against the core revenue resource limit of £0.044 million and surplus against non core of £0.002 million, representing a net surplus of £0.046 million.

Capital expenditure was under spent by £0.001 million against a core capital resource limit of £19.484 million.

In addition to their financial target SAS had made progress towards the achievement of its key performance targets. Ten of the nineteen targets reported on in 2010/11 had been met or exceeded during the period.

Looking Forward - 2011/12 - Section 5

A break even budget has been approved for 2011/12. The budget requires £6.45 million of cash releasing savings to achieve the break even position reflecting the increased cost pressures that are expected to exceed the Scottish Government Health Department funding package that is budgeted to be uplifted by 1% from 2010/11.

The 2011/12 capital programme includes committed and previously approved business cases, including the final years funding towards the vehicle replacement programme. The total 2011/12 capital budget has been set at £13.2 million.

Governance and Control - Section 6

We have assessed the Board's overall governance arrangements including a review of Board and key Committee structures and minutes, financial reporting to the Board, and risk management. We consider that appropriate arrangements and reporting are in place. We have also considered key areas of risk to the Board including partnership working; service sustainability; performance management; and people management. Appropriate evidence of activity has been provided by SAS.

The Code of Audit Practice requires us to review and report on SAS's Statement of Internal Control. SAS has used the correct format for its Statement and has outlined the processes it had employed to identify and evaluate risks. In addition, key elements of SAS's control framework have been highlighted. Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Statement.

2. Introduction

Purpose of this report

Our 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 2010/11 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 Board 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.

Acknowledgement

We would like to formally extend our thanks to SAS's managers and staff for the assistance they have given us during this year's audit process and over the last five years.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Glasgow
29 June 2011

3. Audit Opinion and Financial Statements

Audit Opinion

Our audit opinion concerns the true and fair statement of SAS's financial results for the year ended 31 March 2011 and the regularity of its income and expenditure for the year.

We are pleased to report that our opinion on the true and fair view on the financial statements and on the regularity of income and expenditure is **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 and the quality of working papers provided by management were 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.

Approval

The Financial Statements will be submitted to the Audit Committee on the 22 June 2011 and are to be approved and adopted at the Board meeting on 29 June 2011.

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 2010/11 financial statements.

Accounting Issues

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

Digital Radio Network - Airwave Contract

As reported in previous years, SAS is involved in a significant project to replace the current analogue radio network with a digital equivalent. A UK-wide NHS procurement exercise was undertaken to select a single secure digital radio network to replace the various analogue systems in use. As part of this procurement process, the SAS Board agreed a managed service contract with Airwave in July 2006 for a ten year period. The total cost of this contract, including additional contract change notices and applicable indexation is £57 million. The managed service contract contains a payment profile which involves substantial payments in advance as the service is implemented.

Payments are triggered by Ready for Service (RFS) notifications signed off by SAS's implementation team. Payments to Airwave commenced in 2007/08.

The service was initially scheduled to be operational from 1 April 2008. However, a number of technical difficulties have been encountered delaying the start date several times. However, the North area went live during January 2011, followed by the East in March 2011 and the West in May 2011.

Total payments of £14.864 million have been made to 31 March 2011. £0.345 million of this balance has been charged to expenditure in 2010/11. The remaining balance totalling £14.519 million has been carried forward as a prepayment, to be released evenly over the period of the contract, matching expenditure to the period over which the benefit will be received.

The service commencement in 2010/11 triggered certain additional payments to Airwave. However, this should also have triggered penalty deductions as a result of the delays in the project implementation. We have been informed that the contract enables SAS to recover penalty deductions from Airwave, capped at £0.500 million plus indexation per year of delay. SAS has provided Airwave with calculations to support a penalty deduction of £2.170 million.

Airwave is disputing the penalty deduction and has not included any deductions on invoices submitted to SAS during 2010/11. As a result, SAS took the decision to withhold payment of £2.170 million from an Airwave invoice totalling £6.453 million pending resolution of this matter.

The unpaid balance of the invoice has been included within Trade Creditors at the year end reflecting the fact that the services to which the invoice relates are valid and still due for payment despite the ongoing claim for penalty deductions.

This transaction also created confusion concerning the treatment of VAT, which is in process of resolution.

In addition a contingent asset has been created in respect of the £2.170 million penalty claim.

Action 1

Concerns have been raised by us previously that significant payments have already been made for the Airwave Digital Radio Network in advance of use. The concerns focused on whether, given the technical difficulties to date, the product would be implemented and function as expected and over the financial exposure of making payments in advance. However, these concerns have been partly alleviated by the fact that SAS is now in possession of a significant amount of hardware relating to the network and the system is operational.
Notwithstanding, to realise the full benefits of the payments made in advance and from the remaining cost of the contract, the network will need to remain technically sufficient over the full ten year period of the contract.

Class 1A National Insurance

SAS is liable for Class 1A National Insurance (NI) contributions on benefits provided to employees. Employer contributions on cars provided to staff incur charges at 12.8% of the cash equivalent value of the benefit. During 2010/11 the Inland Revenue has highlighted to SAS that it disagreed with the calculation basis for determining the employers NI contributions being paid by SAS. The discussion centres around allowances being made for 'business mileage'.

In 2009/10 an accrual was included in the financial statements for £35,000 for Class 1A National Insurance contributions. Using the revised calculation basis provided by the Inland Revenue in 2010/11 the required accrual for 2010/11 has been recalculated as £147,000. SAS should proactively engage with the Inland Revenue as early as possible to confirm the revised approach being taken to calculate the liability and to ensure that agreement is reached over tax paid in prior years. Should the Inland Revenue deem to make a claim for back dated NI contributions, SAS could be facing a sizeable unbudgeted liability.

Action 2

Gama Aviation Air Ambulance Contract

The Air Ambulance is provided by a company called Gama Aviation. SAS pay an annual standard charge for the use of the aircrafts along with monthly charges linked to utilisation figures. The contract with Gama Aviation enables SAS to receive a discount on the annual charge for payment of the full balance in advance. The discount is based on the Bank of England base rate and the number of days the payment is being made in advance. The contract allows for a quarterly payment to be made should no discount be sought. The discount received on the 2011/12 annual charge of £5.338 million was only £0.010 million. In addition to the cash discount, by paying in advance SAS remove an exposure to foreign currency movements.

While the discount received on the Air Ambulance annual charge represents a cash saving to SAS the decision to prepay the annual charge should be reviewed on an annual basis with a detailed cost benefit assessment conducted to ensure it represents value for money for both SAS and the overall public purse.

Action 3

Prior year adjustment – Cost of Capital

The financial regime of health bodies has been amended to remove the Cost of Capital from 1st April 2010. This is considered to be a voluntary change in accounting policy and therefore a prior year restatement has been made. As a result, a £2.098 million charge has been removed from the 2009/10 figures in the Statement of Comprehensive Net Expenditure, Balance Sheet, Cash Flow Statement and Statement of Changes in Taxpayers Equity together with Notes 3, 4,and 6. This prior year restatement is being made by all NHS Scotland Boards.

4. 2010/11 Financial Performance

Scottish Ambulance Service	***£m***
Recurring income	202.515
Recurring expenditure	(206.269)
Recurring savings	3.809
Underlying recurring surplus/(deficit)	**0.046**
Non-recurring income	7.510
Non-recurring expenditure	(9.680)
Non-recurring savings	2.170
Non-recurring surplus/(deficit)	**0.000**
Financial surplus/(deficit)	**0.046**
Underlying recurring surplus/(deficit) as a percentage of recurring income	**0.02%**

Confirmed by the Director of Finance and Logistics on 29 June 2011

SAS budgeted for a break even position for the year to 31 March 2011. The final outturn was a surplus of £0.044 million.

While SAS operated within the core revenue resource limit, two factors significantly assisted this outturn, enabling SAS to achieve its targets, being the change in discount rate for injury benefits and slippage to large projects.

The discount rate, provided by HM Treasury, changed from 1.8% in 2009/10 to 2.9% in 2010/11. This contributed to a decrease in the provision for injury benefit and pension obligations from £5.565 million to £4.179 million.

The Airwave and defibrillator upgrade projects also slipped in the year enabling SAS to defer a portion of expected training and implementation costs to the 2011/12 budget; £1 million has been provided for these projects in the 2011/12 budget. These factors provided some non recurring flexibility that compensated for overspends in recurring expenditure. Should SAS record similar operational overspends in 2011/12, in the absence of similar non recurring events, SAS would find it very challenging to achieve its 2011/12 financial targets. This point has been raised with management in the Interim Management Letter 2010/11, presented to Audit Committee on 15 March 2011.

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

Ambulance Car Service (underspend £0.111 million)
SAS is enforcing a strategy to ensure only individuals with defined medical requirement for care en route receive the ambulance car service, reducing the utilisation of the service.

Heating, Light and Power (underspend of £0.253 million)
The national contract continued to deliver cost reductions, with base budgets yet to completely and accurately reflect the reduced prices of the contract. The closure of a site, along with energy efficiency drives also contributed to reduced consumption,

Travel and Subsistence (underspent £0.175 million)
This is an area targeted by management for cost savings. The stringent review of the necessity of journeys along with overall reductions in training requirements has helped control costs.

Pay Costs – Overtime (overspend £0.409 million)
As in prior years overtime continues to be overspent. Increased emphasis by management on controlling overtime spend helped reduce the amount of overtime being incurred, however, the implementation of Airwave and the defibrillator upgrade required additional training, increasing overtime towards the year end. Overall Total Pay was underspent by £0.030 million.

Vehicle maintenance (overspend £0.232 million)
Delays to the vehicle replacement programme has meant that older vehicles had to be kept operating beyond their expected useful life; with the older fleet incurring increased maintenance charges.

Cleaning (overspend £0.132 million)
Increased Health & Safety requirements resulted in increased need for individual consumables.

The capital resource limit of £19.484 million was met, however, as in prior years significant capital expenditure was incurred during March 2011, with £2.3 million of capital accruals recognised in the 2010/11 financial statements. The vehicle programme and defibrillator upgrades were delayed during the year resulting in a significant proportion of the expenditure being made in February and March 2011.

The delays to the capital programme and the lost opportunity to purchase capital items under the reduced VAT rate has already been highlighted to management in the Interim Management Letter 2010/11, presented to Audit Committee on 15 March 2011. The audit recommendation concerning delayed capital spending is included in that report's Action Plan and is repeated in this report.

Action 4

Performance against Key Financial Targets

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

	Limit set by SGHD £m	Actual Outturn £m	Variance (over)/under £m
Core Revenue Resource Limit	191.498	191.454	0.044
Non Core Revenue Resource Limit	12.145	12.143	0.002
Capital Resource Limit	19.484	19.483	0.001
Cash Requirement	221.000	220.155	0.845

An additional allocation of £0.023 million for non core revenue was received from the SGHD to allow for an audit adjustment of £0.070 million.

SAS also reported efficiency savings in the year above the 2% Scottish Government target. Cash savings of £3.81 million were achieved against a SAS target of £3.9 million. While slightly below the SAS target these efficiencies exceeded the Government requirement by £0.025 million.

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 2011, SAS had made progress towards the achievement of its 19 key performance targets reported on in 2010/11. Ten of those targets had been met or exceeded during the period.

The table below summarises those targets were SAS can still improve and where SAS did not fully meet the target. Where targets are not met further plans to address performance are discussed at Board level and through Clinical Governance reporting.

Performance Indicator	20010/11 full year targets	Performance YTD For Performance Period	Performance shift on previous month/quarter
SAS H2 Cat A cardiac arrest patients % of cardiac arrest patients responded to within 8 mins	80%	77.4%	↑
SAS H3 Response to Cat A incidents % Cat A incidents responded to within 8 mins	75%	72.0%	↑
SAS H4 Response to Cat B incidents % of Cat B incidents responded to within 14,19 or 21 mins	95%	92.6%	↑
SAS E1 Sickness absence Rate of sickness absence	5%	5.2%	↑
SAS A2 PTS: punctuality for appointment % P1 patients at hospital 30 mins prior to appointment	72%	71.7%	↓

SAS A3 PTS: punctuality for pick up after appointment % P1 patients picked up 30 mins after appointment	90%	81.2%	↓
SAS A4 PTS: journeys cancelled by SAS % PTS journeys cancelled by SAS	< 1%	1.5%	↑
SAS T3 Reduce hospital admissions % of emergency calls treated at scene	12%	11.4%	↑
SAS T5 Hyper acute stroke % hyper acute stroke patients taken to hospital within 60 mins	80%	75.5%	↓

Better Payment Policy

In 2009/10 we reported that SAS should take steps to improve its creditor payment days after taking on average 41 days to settle invoices. Management attention to this area has helped SAS reduce this to an average of 18 days for 2010/11. While a significant improvement, further efforts should continue to drive SAS towards the Scottish Government aspirational target of 10 days.

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 the e-KSF system by March 2011.

SAS has achieved this target with 86% of staff completing their reviews prior to 31 March 2011.

National Performance Audits - Best Value

As reported in our Interim Management Letter, at the request of Audit Scotland we have undertaken targeted follow up on the Board's response to *Improving public sector purchasing* (published July 2009).

The findings of this review have been reported to management in a separate letter. No significant weaknesses or issues were noted in relation to the work, however, it was highlighted that Internal Audit have not performed a detailed Procurement Review for a number of years and SAS management has been encouraged to liaise with Internal Audit as soon as possible to scope out a relevant review. A review of Procurement has been included in the 2011/12 Annual Audit Plan.

High Earnings

The Cabinet Secretary for Health and Wellbeing issued a letter to all health board Chairs on 12 November 2010 asking them to undertake a detailed review of their boards' pay policies for all staff earning over £100,000 to ensure they have been properly applied. The letter also requested that external auditors provide 'specific reassurance' that boards had complied with national policies and guidance.

We reviewed the work undertaken by the Board. The findings of our work were subject to a separate letter issued to the Board during March 2011. No matters of significant concern were identified or reported.

5. Looking forward - 2011/12

Scottish Ambulance Service	***£m***
Recurring income	**204.103**
Recurring expenditure	**(209.953)**
Recurring savings	**5.850**
Underlying recurring surplus/(deficit)	**0.000**
Non-recurring income	**3.708**
Non-recurring expenditure	**(4.308)**
Non-recurring savings	**0.600**
Non-recurring surplus/(deficit)	**0.000**
Financial surplus/(deficit)	**0.000**
Underlying recurring surplus/(deficit) as a percentage of recurring income	**0.00 %**

Confirmed by the Director of Finance and Logistics on 29 June 2011

Financial Plan and Service Sustainability

The Service has completed its revised 2011/12 financial plan reflecting the quality strategy and corporate priorities outlined in the Corporate Plan 2011/12. Financial projections have also been considered over the period 2011/12 to 2016/17, although the degree of uncertainty remaining in the economic environment and regarding UK and Scottish Government budgets over this period will clearly impact on the assumptions made.

The Corporate Plan and Financial Plans are driven by the SAS vision and overall strategies outlined in 'Working Together for Better Patient Care 2010-15'. This document sets out a framework for how SAS achieves its vision. It links the vision of the Service to the Scottish Government vision for improved health in Scotland and a NHS which offers greater patient focus and easier access to services.

Financial Challenges

The 2011/12 budget includes a number of financial challenges and is dependent on a range of efficiencies and service review outcomes. The budget has been based on a Scottish Government Health Department uplift of 1% with assumptions included on those areas viewed as key financial challenges.

The cost pressures facing SAS in 2011/12 have been calculated as £8.41 million. The efficiency programme, continual cost reduction and maximisation of resource utilisation have been highlighted as vital to cover these cost pressures and achieve a break even budget over this period.

2011/12 Cost Pressures

Pay costs are budgeted to inflate by around £3.6 million due to the low pay award to staff earning under £21,000, annual incremental progression for Agenda for Change staff, increased 0.5% National Insurance contributions from April 2011 and the additional April public holiday.

A review of overtime expenditure during 2010/11 highlighted that it continues to fluctuate from budget impacting management's ability to plan and deliver a balanced budget. Overtime was overspent in 2010/11 by £0.409 million despite increased controls in force over overtime in the final months of the year. Area management should continue to review overtime spend, ensuring the use of overtime to meet operational resourcing requirements is subject to detailed review and represents the best use of SAS resources.

Action 5

In relation to non pay costs the following areas are highlighted as posing additional cost pressures, contributing to overall non-pay pressures of £4.8 million.

- Fuel price volatility impacts on management's ability to accurately forecast expenditure. £0.700 million has been identified to address increases in fuel costs over 2011/12; however continued uncertainty in the middle east and impact from the Japanese nuclear disaster could increase diesel, electricity and gas prices further.

- The impact of the increased VAT changes on supplies has been quantified as £0.680 million.

- As the Airwave network is embedded during 2011/12, SAS will continue to run two parallel radio systems to ensure business continuity. The costs of dual running are budgeted at £0.540 million.

- The basis for calculating the CNORIS risk share contributions changed in 2010/11, however the impact on the costs was absorbed by the Scottish Government Health Department. In 2011/12 these costs will have to be met by SAS and are expected to increase by around £0.500 million.

- The Gama Aviation Air Ambulance contract includes a built in index that could cause prices to rise by £0.300 million in 2011/12.

Savings Plans

The 2011/12 budget, reflecting the cost pressures outlined above, includes a shortfall of £6.45 million to achieve a break even position. £6.45 million of cash releasing savings will be required to address this shortfall and an efficiency programme has been developed to address this gap.

The efficiencies programme includes some areas acknowledged as high risk. The Service is progressing three Learn and Improve programmes which it hopes will both deliver service redesign and release efficiencies. These are in the areas of: Scheduled Care, Workforce and Administration. Uncertainty over the timing of the implementation of the findings from the PTS Learn and Improve work stream increases the risk that these efficiencies will not achieved in 2011/12. Any revised service delivery also requires careful management to ensure service quality is maintained and statutory responsibilities of SAS continue to be met. The achievement of these savings also relies on a degree of staff turnover and ability to generate increased income from other Health bodies in respect of support for specialist areas.

£0.600 million remains unidentified in the 2011/12 efficiency target listing.

Action 6

Capital Plans

The Scottish Government has agreed to fund Capital Expenditure in 2011/12 to the value of £13.2 million. This represents a reduction of 17%.

The majority of the capital expenditure in 2011/12 will be on projects already approved and underway, including the final year of the three year rolling vehicle replacement programme. A business case will need to be submitted to the Scottish Government Health Directorate during 2011/12 to identify the funding mechanisms for the continuation of this programme for 2012-2016.

6. Governance and Control

Overall Governance Arrangements

The established Committee framework at SAS, incorporating Audit, Staff Governance, Remuneration and Clinical Governance Committees remains in place. The remits of each committee are well established, with Terms of Reference in place for each.

The NHS QIS review into Clinical Governance and Risk Management Standards awarded the Service the highest available assessment rating, indicating the presence of a robust and effective risk management process. These arrangements have continued to be embedded during 2010/11.

Risk Management continues to hold prominence in the governance arrangements and is a standing agenda item at Board meetings. Each quarter the risk profile of the organisation is profiled and mitigating actions in place considered in order to refresh the corporate risk register. Each division and project board also has its own risk log. The risk register is maintained and reviewed on a more frequent basis by the Senior Management Team.

Statement on Internal Control

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

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 15 March 2011. The report contained nine recommendations to improve controls, two of which were considered high risk, concerning overspends within divisions during 2010/11 and significant debtor balance outstanding with other NHS Boards. Management has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion.

Follow up of outstanding recommendations

We followed up SAS's progress in implementing recommendations made in the prior year during our interim visit. Our Follow Up of Prior Year Recommendations Report was considered at the Audit Committee meeting on 15 March 2011.

Of the 40 agreed recommendations made in the reports issued to 2009/10, progress is now as follows:

Status	Total
Action implemented	22
Partially implemented	7
Little action to date	-
Not yet due for implementation / No longer applicable	11
Total Recommendations	40

Since our interim visit, an additional four recommendations have moved from the 'Partially implemented' category into the 'Action implemented' category representing ongoing progress by the Board to put in place control improvements identified by external audit.

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". Information Technology 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 our 2010/11 interim visit, we performed ITGC procedures and identified a number of risks in relation to IT which had also been highlighted in previous years. These were reported to the Audit Committee in our Follow Up Report 2010/11.

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 Director of Finance has assumed responsibility for the NFI exercise as the fraud champion, with responsibility for investigating the matches and resolving potential issues delegated to the Fraud Liaison Officer.

SAS choose to investigate all 106 matches rather than focusing on recommended matches or a particular type of match. To 31 May 2011 all matches had been reviewed to determine a suitable course of action and to investigate and conclude on the reason for the match. This includes reviewing payroll records, liaising with the Human Resources Department or other Boards and Local Authorities. SAS has allocated time in June 2011 to follow up on the initial investigation, conclude on the outcome of the match and to update the NFI database.

The majority of the matches SAS received related to employees working on multiple jobs. The Human Resources Department is contacted to ensure the individual has formally applied for permission to work on a secondary job and received the appropriate authorisation. Checks are also performed on individuals with long term sickness absence to ensure they are not working for other Boards or Local Authorities.

As at 31 May 2011 no frauds have been identified through the 2010/11 NFI exercise.

Appendices

Action Plan

Ref	Recommendation	Management Response
1	**Airwave contract** SAS is in discussions with Airwave regarding contract penalties for the delayed delivery of services. SAS should pursue the penalties from Airwave with vigour. In addition SAS should liaise with HMRC to ensure the VAT position concerning the part paid invoice is resolved promptly and to HMRC's satisfaction.	Management Response: Agreed. This will form part of the June submission Responsible Officer: Financial Services Manager Due Date: 30 June 2011
2	**Class 1A National Insurance** In 2009/10 an accrual was included in the financial statements for £35,000 for Class 1A National Insurance contributions. A revised calculation basis for Class 1A National Insurance contributions has been provided by Inland Revenue in 2010/11. Based on this methodology the required accrual for 2010/11 has been recalculated as £147,000. SAS should proactively engage with the Inland Revenue as early as possible to confirm the revised approach being taken to calculate the liability and to ensure that agreement is reached over amounts paid in prior years.	Management Response: Management is endeavouring to meet with HMRC as soon as practical as Newcastle based to discuss NI liability for 2010/11 and establish whether any prior year liability exists or not. Responsible Officer: Director of Finance and Logistics Due Date: 31 July 2011
3	**Air Ambulance Discount for Prepayment** Whilst the discount received on the Gama Aviation Air Ambulance annual charge represents a cash saving to SAS, the decision to prepay the annual charge should be reviewed on an annual basis with a detailed cost benefit assessment conducted to ensure it represents value for money for both SAS and the public purse.	Management Response: Management will review on an annual basis whether to make a prepayment to Gama Aviation. The contract has only one more year to run beyond 2011/12. Responsible Officer: Director of Finance and Logitics Due Date: 31 March 2012
4	**Capital Slippage** The capital resource limit of £19.484 million was met, however, as in prior years significant capital expenditure was incurred during March 2011, with £2.3 million of capital accruals recognised in the 2010/11 financial statements. The vehicle programme and defibrillator upgrades were delayed during the year resulting in a significant proportion of the expenditure being made in February and March 2011. The delays to the capital programme contributed to budgeting difficulties during 2010/11, overspends on vehicle maintenance and meant SAS lost the opportunity to purchase capital items under the	Management Response: Working within the constraints of manufacturers SAS will endeavour to expend capital resource evenly throughout the year and if there are any future VAT advantages these will be maximised. Responsible Officer: General Manager Fleet Due Date: Immediate

	reduced VAT rate. SAS should endeavour to spend capital budgets more evenly throughout a period, taking advantage of any possible cost reductions.	
5	**Overtime Expenditure** A review of overtime expenditure during 2010/11 highlighted that it continues to fluctuate from budget impacting management's ability to plan and deliver a balanced budget. Overtime was overspent in 2010/11 by £0.409 million, assisted by the final months of the year with increased controls in force over overtime. Area management should continue to review overtime spend, ensuring the use of overtime to meet operational resourcing requirements is subject to detailed review, demand driven and represents the best use of SAS resources.	**Management Response:** General Managers in each division understand the importance of strong controls over overtime. The introduction of the optima resourcing tool will assist them in planning deployment of resources in the future, this should contribute to improved management of overtime. **Responsible Officer:** Director of Service Delivery **Due Date:** Immediate/Optima Oct 2011
6	**Efficiency Targets** SAS is required to identify a further £0.600 million to meet the 2011/12 efficiency target. Management should complete its review of potential efficiency options to ensure specific areas have been identified to generate all required efficiencies.	**Management Response:** The additional efficiency required is to meet the obligations of non recurring expenditure relating to the additional April 2011 public holiday. Management will explore non recurring options to make good this shortfall however it is currently a high risk. **Responsible Officer:** Director of Finance and Logistics **Due Date:** Immediate

Communication 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 2010/11 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 11 January 2011 Audit Committee confirmed no member of audit team has any direct interest, financial or otherwise, in SAS.
Audit Approach and Scope	Audit Planning document (reported to Audit Committee 11 January 2011).
Form and Timing of Communications	Audit Planning document (reported to Audit Committee 11 January 2011).
Accounting Policies/Estimates/Disclosures	Reviewed throughout audit process. No outstanding issues identified.
Correspondence with management on significant matters	Discussed and resolved matters arising with management throughout audit process.
Letter of Representation	Signed by management 29th June 2011.
Other matters significant to the oversight of financial reporting process	None identified.
Material Uncertainties relating to Going Concern	None identified.
Related Parties	Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.
Fraud	Discussed fraud arrangements with the Audit Committee (11 January 2011) and management throughout audit process.
Material Weaknesses in Internal Controls	Internal Controls findings reported separately in our Interim Management Letter (15 March 2011)