



# Scottish Ambulance Service

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## External Audit Plan for the financial year ending 31 March 2018

Audit Committee 13 December 2017 and Finalised February 2018

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Manager

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# Our audit at a glance



Performance materiality is set at 75% and trivial is 5% of materiality. This reflects minimal audit adjustments in prior year and our understanding of Scottish Ambulance Service in a year two audit cycle.



Materiality is set at 2% of Core Revenue Resource Limit based on 2017/18 notified RRL (£4.6 million). Previous year it was 1% of gross expenditure.



Significant audit risks are: management override of controls as set out in International Auditing Standards (ISAs)(UK) and the risk of fraud in revenue recognition

An audit underpinned by quality and adding value to you



We fulfil our responsibilities per International Auditing Standards (ISAs) UK and the Audit Scotland Code of Audit Practice throughout our work.



At the planning stage we have identified other audit risks as being the risk of fraud in expenditure recognition as set out in Practice Note 10; and Provisions in particular the Injury Benefit provision.



Our audit is undertaken in accordance with the Code of Audit Practice and reflects the wider scope nature of public audit. Our wider scope risks identified are: Financial sustainability over the medium term; the replacement of the Airwave system (project management) and the arrangements in place to evaluate the outcome of the new response time pilot.

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# Overarching principles of our audit

Our audit is risk based and undertaken in accordance with the relevant International Auditing Standards (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

Our overall objective is a robust, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- professional scepticism
- a focus on audit risks and key areas of management judgement
- sharing our wider insights across the NHS sector (Scotland and UK)
- use of specialists to support our work where relevant
- using IDEA our data analytical software to effectively and efficiently test your balances
- clear and upfront communications, with regular communication during the year
- Reporting with focused actions which will support you in improving your controls/operations
- We will aim to not duplicate the work of your internal auditors. We will consider the internal audit plan for 2017/18 and identify any particular areas of risks that we either need to reflect in our approach or are relevant to our wider scope audit work. We will continue to review internal audit work throughout the year and maintain an ongoing, open, dialogue with internal audit.

Reflecting on the prior year audit and discussions with management specific areas we will seek to add value to you during the audit process for 2017/18 include:

- We will actively share relevant Audit Scotland and Grant Thornton publications with Senior Management and the Audit Committee, identifying particular areas for consideration.
- Should any new accounting changes or governance updates emerge during the year we will be providing a briefing for the Audit Committee. We will also pro-actively work with management during the year to discuss any emerging matters and seek to reach agreement on the treatment of these in advance of year-end.
- We will share the Scottish Public Sector Transparency report we produced for Audit Scotland at the end of December 2017, alongside our UK Grant Thornton Transparency Report.



## External Audit deliverables for 2017/18 – Audit Committee

- External Audit Plan (this document)
- Governance and Transparency report and audit quality briefing (April Audit Committee)
- Audit progress report on interim testing and control walkthroughs – including where relying on controls (April 2018)
- Annual Report to the Scottish Ambulance Service Board and the Auditor General (27 June 2018)
- Audit opinion (27 June 2018)
- Management letter of representation (27 June 2018)



## 2017/18 Deliverables as set out in the Audit Scotland planning guidance (October 2017)

- Confirmation of agreed fee by end of February 2018
- National Fraud Initiative - completed Auditor checklist (February 2018)
- Current issues return for NHS to Audit Scotland (19 January 2018 and 20 July 2018)
- Submission of fraud returns to Audit Scotland – 27 April 2018
- Submit accounts and electronic version by end of June 2018
- Submission of NHS Minimum data set (2 July 2018)



## Planned Audit Scotland publications which may be relevant to Scottish Ambulance Service

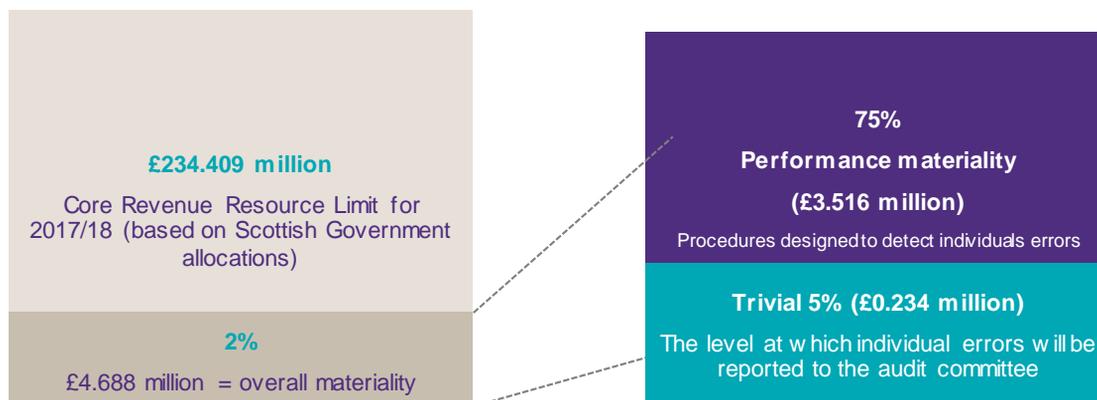
- Digital developments and projects – risks and issues
- Supporting Scotland's economic growth (Spring 2018)
- Health and Social care integration part 2 (Autumn 2018)
- Changing models of health and social care (March 2016) – Auditor impact assessment follow up, reporting to Audit Scotland

# Audit approach and materiality



We undertake your audit in accordance with International Standards in Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). On an annual basis we are required to give an opinion as to whether the Financial Statements:

- give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the annual report and accounts e.g. Performance Report, the Accountability report including the Corporate Governance Report and Governance Statement, management commentary, that are consistent with the disclosures in the financial statements
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance



## Overall materiality

We have calculated overall materiality in line with the Scottish Ambulance Service's Core Revenue Resource Limit. As this is our second year of the audit, and taking into account the level of errors and adjustments in prior year, and the context of the Scottish Ambulance Services activities we feel it is appropriate to increase our materiality benchmark to 2% (was 1% in 2016/17). Under our audit methodology we typically set materiality within the benchmark range of 0.5% up to 2%. We will review and recalculate materiality based on the final Core Revenue Resource limit for 2017/18 based on the unaudited financial statements.

## Performance materiality

Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality.

We have increased this for 2017/18 to 75% (65% in prior year).

## Trivial

Under ISA 540 we are required to set an amount below which we consider misstatements would be clearly trivial, and therefore when accumulated we would not expect that they would have a material impact on the financial statements. Misstatements identified below this level would not be reported to the Audit Committee. We have set this level at £0.234million (5% of overall materiality)

Misstatements above trivial (corrected and uncorrected) will be reported to the Audit Committee in our Annual Report to the Scottish Ambulance Service Board

## Going concern considerations

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements, in line with any particular Scottish Government guidance.

# A risk based audit methodology

## Our understanding of Scottish Ambulance Service

This is the second year of our external audit appointment, under the Audit Scotland framework. In line with the Scottish Ambulance Service 2020 strategy “Taking care to the patient”, the service continues to focus on: changing the model of service delivery to be more clinically focused; enhancing technology, equipment and processes so staff have the right tools to do the job; and to continue to develop the workforce through enhanced education, training and development of existing staff and introducing new staff and clinical roles. Scottish Ambulance Service work in partnership with NHS Boards, Integrated Joint Boards and other organisations to improve patient pathways.

An update on the financial position as at 31 October 2017 was presented to the November Board meeting. This reflected a slight overspend against the revenue resource limit of £0.323 million. The 2017/18 efficiency savings target was set at £8.652 million and as at end of October 2017 (7 months), £3.895 million had been achieved. In 2017/18 the Scottish Government invested an additional £6.300 million into the Service to support the Service’s delivery of the 2020 strategy. This investment is focused on enhancing the core skills of the paramedic and technician workforce. Spend against the 2017/18 capital allocation is on track.

Overall, the Scottish Ambulance Service is continuing to face considerable challenges in identifying and achieving recurring cost savings to ensure financial balance within 2017/18 but also beyond. Whilst still forecasting breakeven it is anticipated that this will be through the realisation of savings on a non-recurring basis.

### Overview of our audit risks identified at planning and our proposed approach

|                      | Risk of fraud in revenue   | Risk of fraud in expenditure  | Management override of controls  | Injury Benefit provision  |
|----------------------|--|---|--|---|
| The Risk             | As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. Scottish Ambulance Service receive £8.680 million classed as Hospital and Community Health services income/other income and we therefore focus our risk on this income stream, in particular transactions and balances at the year end. | Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities. We consider the risk to be most prevalent in transactions and balances at the year end.   | As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities   | Scottish Ambulance Service in 2016/17 had provisions of £16.924million. Of this, £9.013 million related to Injury benefit. This represents an area of management judgment and estimation, based on assumptions including life expectancy. There is a risk that this balance could be materially misstated.  |
| Our planned response | <ul style="list-style-type: none"> <li>Walkthroughs of the controls and procedures around material income streams and validation of key controls where appropriate</li> <li>Consider income cut off procedures and substantive testing over pre and post year end balances</li> <li>A focus on recoverability of balances at the year end</li> </ul>         | <ul style="list-style-type: none"> <li>Perform cut off at year end on pre and post year end transactions and recording</li> <li>Walkthrough of the key expenditure controls in place</li> <li>Regularity – Expenditure incurred in accordance with the type/nature of Scottish Ambulance Service as an organisation.</li> </ul> | <ul style="list-style-type: none"> <li>A focus on understanding how/where management override of controls may occur</li> <li>Review of the controls over journal entries</li> <li>Assess key areas of judgement within the Financial statements and the basis for these and the application of accounting policies</li> <li>Reviewing unusual and/or significant transactions</li> </ul> | <ul style="list-style-type: none"> <li>We will agree actual payments in year</li> <li>We will review the reasonableness of management’s judgments and assertions including consistency of application</li> <li>Substantive test a number of claims where appropriate</li> <li>Ensure that the disclosures are appropriate and in line with the NHS Manual of Accounts.</li> </ul> |

## Specific areas of focus – applying a lower materiality

During the course of our audit we may apply a lower level of materiality to specific balances or transactions in the financial statements. This reflects areas where there is a greater degree of interest or sensitivity on the amounts reported in the financial statements. Examples include the Remuneration and Staff Reports where due to the nature of the amounts reported we will apply a lower level of materiality.

# Wider scope – what this means for the external audit in 2017/18

## Financial sustainability

Scottish Ambulance Service are continuing to forecast a break-even financial position for 2017/18. However, 2018/19 and beyond is looking increasingly challenging, including the challenge to identify and deliver on recurring savings and deliver the level and performance of Service expected. Furthermore, the uncertainty around the potential impact of Brexit on future finances and workforce creates additional challenges.

Savings plans are in place, assessed according to risk and the financial position is reported as a routine item to the Scottish Ambulance Service Board.

**Our Response:** We will continue to discuss financial sustainability with Scottish Ambulance Service Management. We will review the financial plans in place, including the scenarios set out, the governance of the plans and regular reporting on future financial scenarios including the balance of recurring/non-recurring savings.

## Financial management

No specific financial management risks have been identified for 2017/18.

However, we will continue to consider Scottish Ambulance Service's financial management arrangements informed through the work of internal audit and the high level financial framework of policies and procedures in place. This will include: Financial Standing Instructions, Scheme of Delegation; and Fraud policies and training.

We will also consider the arrangements in place to cover the Director of Finance role from January 2018 to ensure sufficient financial cover is in place.



Best value

## Governance and transparency

No specific governance and transparency risks have been identified for 2017/18.

We will continue to consider through discussions with management and review of minutes Scottish Ambulance Service's overarching governance arrangements and how the Service ensure that they are transparent and open to Service's stakeholders including members of the public.

## Value for money

The Airwave contract is due to be replaced with the national Emergency Services network contract. The Airwave contract ends in 2020 but migration is planned earlier. This is a significant project for Scottish Ambulance Service which has risks and opportunities and is critical that it continues to be managed effectively.

In November 2016 the Service piloted a new response system which was developed based on clinical evidence and represented a change to the previous time based targets which were longstanding.

**Our Response:** We will review the progress towards this new contract during 2017/18, including the project governance and reporting arrangements as well as how potential risks are identified and escalated.

In addition we will consider how the Service capture, report and evaluate performance under the new response system, and how this pilot system is being evaluated, including the consideration of outcomes and service and staff user feedback.

**Our planned work, like our financial statements work, is risk based and proportionate. We will continue to develop our understanding over the four dimensions and conclude on these in our final report, based on the work we have undertaken during the year.**

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# Appendices

**Key audit deliverables and our team**

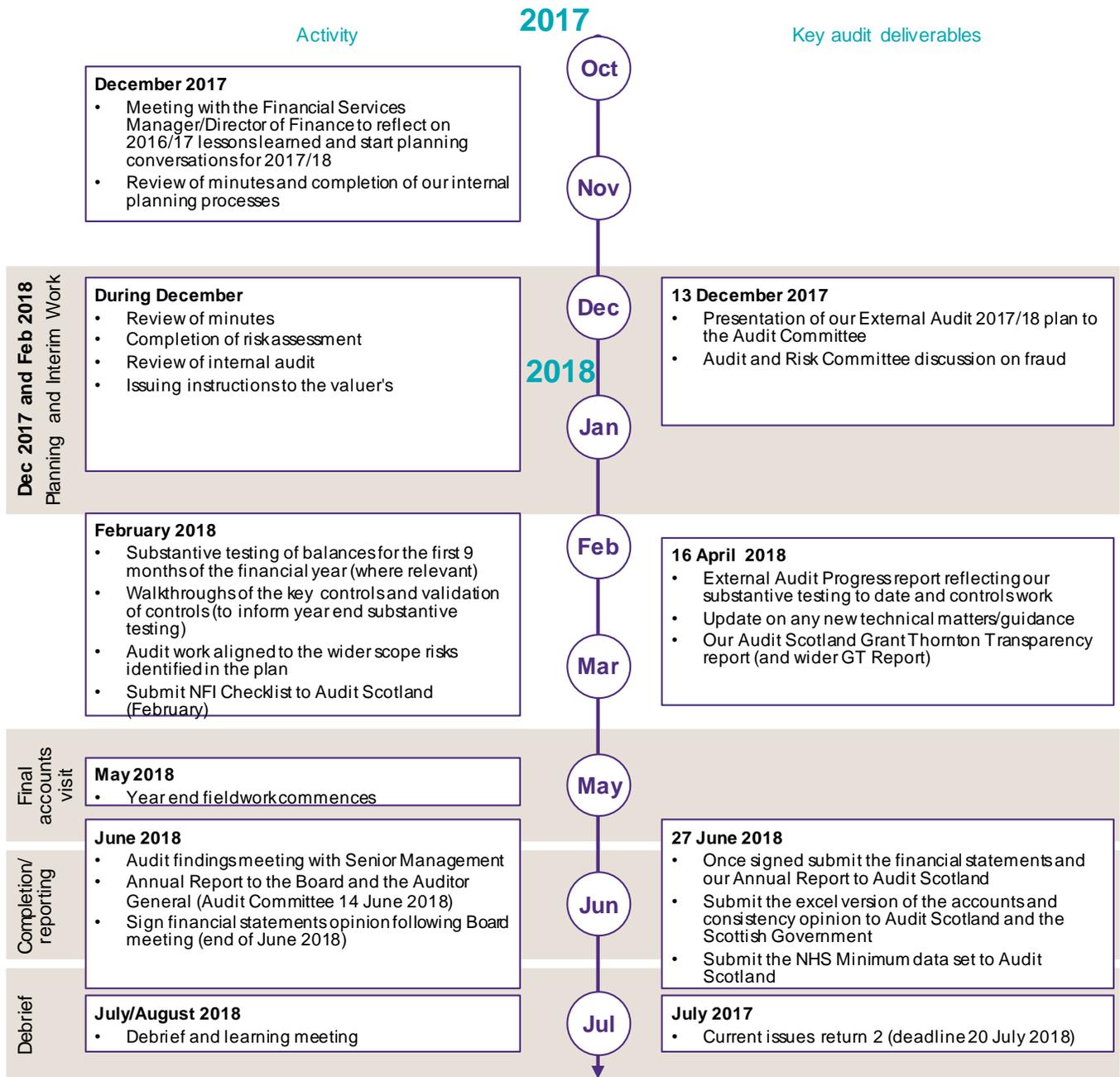
**Independence and fees**

**Fraud arrangements**

**Respective responsibilities**

**Communication of audit matters – to the Scottish Ambulance Service Audit Committee and then the Board**

# Key audit deliverables and our team



## Our team

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**In addition we will use our Accounting technical team and auditor experts as required**

# Fees and independence

## External Audit Fee

| Service  | Fees £        |
|--|---------------|
| External Auditor Remuneration                    | 62,750        |
| Pooled Costs                                     | 9,070         |
| Contribution to Audit Scotland costs             | 3,790         |
| Contribution to Performance Audit and Best Value | 0             |
| <b>2017-18 Fee</b>                               | <b>75,610</b> |

## Fees for other services

| Service  | Fees £ |
|--|--------|
| At planning stage we confirm there are no non-audit fees | Nil    |

The audit fee is calculated in accordance with guidance issued by Audit Scotland. In accordance with the Audit Scotland guidance we can increase the fee by up to 10% from the base fee set by Audit Scotland, depending on risk factors identified by us as your external auditors. We cannot reduce the fee from the baseline set out by Audit Scotland. We have agreed with management to set the fee for 2017/18 at this baseline.

Typically our fee assumptions include:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and Scottish Ambulance Service activities will not change significantly from planned
- Scottish Ambulance Service will make available management and accounting staff to help us locate information and to provide explanations. We reserve the right to charge an additional fee for any additional work.
- We will only receive (and audit) 3 sets of accounts (1st draft; amended draft and final)
- Specific balances such as valuations of assets are supported by an independent specialist, and we receive the relevant information from the Central Legal Office in relation to certain provisions.

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

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# Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at Scottish Ambulance Service.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- Leading a discussion with those charged of governance (for Scottish Ambulance Service this is assumed to be the Audit Committee) on their view of fraud. Typically we do this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding management's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement..

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is Scottish Ambulance Service's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with Scottish Ambulance Service to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing Scottish Ambulance Service's arrangements in response to the national fraud initiative exercise.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on an annual basis (no later than end of April 2018)

# Respective responsibilities

As set out in the Code of Audit Practice (pages 10 to 16) there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

| Area                 | Scottish Ambulance Service Responsibilities   |
|----------------------|---|
| Corporate governance | <ul style="list-style-type: none"> <li>Establishing arrangements for proper conduct of its affairs</li> <li>Legality of activities and transactions</li> <li>Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)</li> </ul>   |
| Financial statements | <ul style="list-style-type: none"> <li>Preparing financial statements which give a true and fair view of their financial position</li> <li>Maintaining accounting records and working papers</li> <li>Putting in place systems of Internal Control</li> <li>Maintaining proper accounting records</li> <li>Preparing and publishing an annual governance statement, management commentary and remuneration report</li> <li>Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money</li> </ul> |
| Financial position   | <ul style="list-style-type: none"> <li>Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure best value</li> </ul>   |
| Fraud and error      | <ul style="list-style-type: none"> <li>Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed</li> </ul>   |

## Our responsibilities



- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an opinion on financial statements and where appropriate regularity of transactions
- Review and report on, as appropriate, other information eg annual governance statements, management commentary, remuneration reports
- Notify the Auditor General when circumstances indicate a statutory report may be required
- Demonstrate compliance with wider public audit scope

## How do we do this in practice



- By reviewing and providing judgements and conclusions on Scottish Ambulance Service's arrangements including those across the wider scope of audit dimensions.
- Consideration of the effectiveness of performance management arrangements
- Suitability and effectiveness of corporate governance arrangements in year
- Financial position and arrangements for ensuring financial sustainability in the medium to longer term
- Review of other information in line with our knowledge and understanding of the Scottish Ambulance Service
- Ongoing dialogue and engagement with Audit Scotland during the year

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

# Communication of audit matters

| Our communication plan  | Audit Plan | Audit Findings |
|---|------------|----------------|
| Respective responsibilities of auditor and management and the Audit Committee/Board in their respective governance roles  | •          |                |
| Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks   | •          |                |
| Confirmation of independence and objectivity  | •          | •              |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | •          | •              |
| Significant matters in relation to going concern  | •          | •              |
| Views about the qualitative aspects of Scottish Ambulance Service accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures   |            | •              |
| Significant findings from the audit   |            | •              |
| Significant matters and issues arising during the audit and written representations that have been sought   |            | •              |
| Significant difficulties encountered during the audit   |            | •              |
| Significant deficiencies in internal control identified during the audit  |            | •              |
| Significant matters arising in connection with related parties  |            | •              |
| Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements   |            | •              |
| Non-compliance with laws and regulations  |            | •              |
| Unadjusted misstatements and material disclosure omissions  |            | •              |
| Expected modifications to the auditor's report, or emphasis of matter   |            | •              |

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while our Annual Report to those Charged with Governance will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to Scottish Ambulance Service Management and the Audit Committee.



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