



Scottish Ambulance Service

**External Audit Annual Report to the Board and the Auditor General for
Scotland**

For the financial year ending 31 March 2019

Audit Committee and Board 26 June 2019

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Our audit at a glance – financial statements



We have fulfilled our responsibilities as set out in International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work and this final report to the Board and the Auditor General for Scotland concludes our external audit.



Materiality is set at £5.187 million, representing 2% of gross expenditure based on the 2017/18 audited financial statements. We did not consider it necessary to update our materiality figure to reflect the draft 2018/19 financial statements as our planned figure remained appropriate based on our professional judgement on what would be of such significance to impact the economic decisions of user of the accounts.



We have performed audit testing around our identified areas of significant risk: management override of controls; and the risk of fraud in expenditure recognition.

An audit underpinned by quality



We received a good complete set of financial statements including the Performance Report, Accountability Report and Governance Statement. Management continues to look to streamline and enhance the quality of the Annual Report and accounts. We identified one adjustment during the course of our audit and this has been reflected in the final draft accounts. This did not impact on the net surplus against RRL.

Our audit at a glance – wider scope dimensions



In accordance with the Code of Audit Practice our audit work includes consideration of Scottish Ambulance Service against the wider scope audit dimensions: financial management; financial sustainability; governance and transparency; and value for money.



We have outlined three audit recommendations around financial sustainability, performance management, and publication of the annual accounts.



While the Scottish Ambulance Service is exposed to potential risks with regards EU withdrawal, we found that the Board is well prepared for its potential implications. Management recognise that there remains considerable uncertainty surrounding the potential implications of EU Withdrawal and that this remains an area of risk.

Wider scope audit work



The Scottish Ambulance Service met its key financial targets for 2018/19. This included a £58,000 surplus against a revenue resource limits of £251.841 million. The service still has considerable level of unidentified financial savings which it will need to identify and deliver in the future.



Scottish Ambulance Service has undertaken a self-assessment against NHS Scotland's Blueprint for Good Governance. The assessment, completed by non-executives and executive directors, identified opportunities for improvement around assessing risk, stakeholder engagement and influencing culture. An action plan is in place for the Service to continue to enhance governance arrangements.

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Introduction

Reporting

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2019.

Our work has been undertaken in accordance with International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice.

Our report is addressed to the Board of Scottish Ambulance Service. In addition, in accordance with our reporting responsibilities the report is jointly addressed to the Auditor General for Scotland.

Once finalised this report will be made publically available on the Audit Scotland website (www.audit-scotland.gov.uk)

Our report was presented as a draft to the Scottish Ambulance Service Audit Committee on 13 June 2019. Scottish Ambulance Service presented this report alongside the final 2018/19 financial statements to the Board meeting on 26 June 2019.

We would like to thank Scottish Ambulance Service management and in particular the finance team for an effective year-end audit process and all their support and assistance in the audit process during the year.

Structure of this report

In accordance with the Audit Scotland Code of Practice 2016, in addition to our core financial statements audit we provide conclusions on the four dimensions of wider-scope public audit. Our report is structured as follows:

Financial statements – Section 1

Financial management – Section 2

Financial sustainability – Section 3

Governance and transparency – Section 4

Value for money – Section 5



Our Opinion

For the financial year ended 31 March 2019 we have issued an **unqualified audit opinion**

- True and fair view of the financial statements
- Regularity – expenditure has been incurred in accordance with the purpose of the Scottish Ambulance Service
- Other prescribed matters (which include the audited information in the remuneration report)



The audit process

We received a good complete set of financial statements including the performance report, the corporate governance report, remuneration report and staff report, and parliamentary accountability report.

This was in line with the timetable we agreed. The draft financial statements were supported by good working papers and the audit was efficient.



Audit completion

We identified no unadjusted differences to report to the Audit Committee and the Board. We identified one audit adjustment to the primary statements including overstatement of accruals and expenditure. We also identified a disclosure adjustment to the Remuneration report with regards staff numbers as well as minor disclosure adjustments within the notes to the financial statements (Appendix 1). We are are satisfied these have been reflected within the financial statements.

Our financial statements audit



Materiality is set at £5.187 million, representing 2% of gross expenditure based on the 2017/18 audited financial statements. We did not consider it necessary to update our materiality figure to reflect the draft 2018/19 financial statements as our planned figure remained appropriate based on our professional judgement on what would be of such significance to impact the economic decisions of the user of the accounts.



The draft financial statements were of a good standard and in line with the NHS accounts template. The financial statements were supported by detailed working papers. There were improvements in the audit process this year.



We have issued a true and fair audit opinion on the financial statements, including the wider information contained in the financial statements, and regularity opinion. The audited parts of the Directors Remuneration Report are free from error.



Testing provided assurance on identified areas of significant audit risks and there were no material audit differences arising during the course of our audit. We did not identify any additional significant risks of material misstatement to the financial statements from those identified in our annual audit plan (January 2019).

Audit approach and materiality

Our audit approach was set out in our annual audit plan presented to the Audit Committee on 16 January 2019. As set out in our plan, our materiality calculations were based on the audited 2017/18 financial statements. Overall materiality has been set at £5.187 million (2% of gross expenditure) and performance materiality is set at £3.891 million (75% of materiality). We report to management any audit difference identified over £250,000 (Trivial as 5% of materiality).

The draft financial statements were of a good standard supported through detailed working papers. There were improvements in the audit process this year and we will continue to work with management to continue to enhance the audit process.

Audit opinion

Based on our audit procedures performed we have issued an unqualified audit opinion on the financial statements including:

- give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the affairs of the board and its group as at 31 March 2019 and of the net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 FReM;
- have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers;
- the wider information contained in the financial statements, e.g. Performance Report and Governance Statement, is consistent with the financial statements;
- regularity of expenditure; and
- audited parts of the remuneration and staff report have been prepared in accordance with applicable guidance

Internal control environment

During the year we sought to understand Scottish Ambulance Service overall control environment (design) as related to the financial statements. In particular, we have:

- Sought to understand procedures and controls around related parties, journal entries and other key entity level controls
- Performed procedures around entity level controls and there are no significant matters that we wish to draw to your attention.
- Performed walkthrough procedures on key controls around identified risk areas including revenue, expenditure

No material weaknesses in the accounting and internal control systems were identified based on our work undertaken during the audit which could have an adverse impact on Scottish Ambulance Services ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. We adopted a substantive based approach to the audit of the financial statements and therefore our review is limited to the design of controls rather than the operating effectiveness of these controls.

Internal Audit

We have not placed formal reliance on the work of Scott-Moncrieff, the internal audit provider, during 2018/19. We have reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach. For 2018/19, Internal Audit's opinion conclusion "*the Scottish Ambulance Service has a framework of controls in place that provides reasonable assurance regarding the organisation's governance framework, effective and efficient achievement of objectives and the management of key risks.*" We are satisfied that there were no areas arising from the work of internal audit that would impact on our audit opinion or require specific disclosure in the annual governance statement.

Key audit issues – Responding to significant risks

Within our annual external audit plan we identified significant audit risks and our planned approach. We have set out below a summary of the work undertaken over these risks and our audit conclusions.

	Identified audit risk at planning	Work completed	Our conclusion
Operating expenditure is not treated correctly	<p>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. As payroll expenditure is well forecast and agreeable to underlying payroll systems there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on non-pay expenditure. As financial performance targets are measured on year end outturn, we consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure.</p>	<ul style="list-style-type: none"> • Developed our understanding of Scottish Ambulance Service's material expenditure streams including walkthrough of key transactions. • Performing sample testing of key expenditure streams during the year, including analytical review of expenditure and targeted transaction testing, including consideration of the regularity of expenditure incurred. • Performing sample testing of post year end expenditure transactions to identify if there was transactions relating to 2018/19 incorrectly allocated to 2019/20. • Reviewing post year end bank statements and sample testing transactions for any unrecorded liabilities 	<p>Assurance gained that expenditure has been recorded within the appropriate financial year and that payables are free from material misstatement.</p> <p>We are satisfied that expenditure has been incurred in accordance with the type/nature of Scottish Ambulance Services as an organisation</p>
Management override of controls	<p>As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. Override of controls is present in all entities.</p>	<ul style="list-style-type: none"> • Developed our understanding of the entity level controls in place at Scottish Ambulance Service that reduce the risk of management override • Performed review of journal transactions for unusual transactions or balances. This included reviewing any journals prepared by members of senior management; journal transactions with indications of fraud through their descriptions; and, journals reflecting transactions between unusual account pairings for example income and property, plant and equipment. • Evaluated key areas of judgement within the Financial statements and the basis for these judgements / application of accounting policies including accruals, prepayments and provisions. 	<p>We did not identify any significant areas of bias in key judgements by management. We have not identified any unusual or significant transactions during the course of the year that would indicate management manipulation.</p>

Other key areas of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of increased risk due to their complexity or magnitude. This includes areas of key estimation and judgement and application of accounting policies.

Commentary:

Scottish Ambulance Service Accounting policies are in accordance with IFRS as interpreted and adapted by the 2018/19 NHS Accounts Manual (where relevant to the health board) and we consider these to be appropriate to the organisation. These have been applied consistently to the previous year with the exception of the adoption of two new accounting standards IFRS 9 and 15. While these resulted in minor disclosure changes to the accounts, neither of these standards had a material impact on Scottish Ambulance Service primary financial statements.

Accounting estimates and judgements:

Scottish Ambulance Service significant accounting estimates and judgement impacting on the annual accounts are the following:



Valuation of property, plant and equipment: Scottish Ambulance Service holds property, plant and equipment and fair value. Valuations of land and buildings are reassessed by professional valuers, District Valuation Office, annually. During 2018/19 the revaluation resulted in a net increase in the carrying value of property, plant and equipment of £0.439 million. We have agreed the revaluation to the independent revaluation report and confirmed through testing a sample of revaluation entries, that these have been appropriately recognised in the financial statements and that underlying assumptions applied, including market movements are supported through appropriate market data.

We have reviewed the reasonableness of the revaluation through assessing in year movements across the asset base and investigated any movements out with the trend for assets in that category. These have been investigated with the valuer. We are satisfied that the revaluation has been appropriately reflected in the financial statements.

Pension provisions and injury benefit: Scottish Ambulance Service provides for future estimated payments in relation to permanent injury benefit awards to former employees as well as amounts relating to former employees who retired early in the interests of the service. The total amount provided at 31 March 2019 was £9.426 million. We are satisfied that the provision has been appropriately calculated in accordance with the NHS Accounts Manual and has been independently agreed to supporting information from the Scottish Public Pension Agency and HM Treasury which we have reviewed as an appropriate source of management evidence.

Clinical and Medical Legal Claims and CNORIS provisions: Scottish Ambulance Service provides for Clinical and medical legal claims against the board. Scottish Ambulance Service participates in the Clinical Negligence and Other Risk Indemnity Scheme (CNORIS). Under CNORIS, Scottish Ambulance Service meets the costs of claims up to £25,000. Any amount above this is covered through a pooled CNORIS share made up from contributions from all health boards. Scottish Ambulance Service contribute annually to the CNORIS scheme. Audit Scotland have provided an independent assessment of the suitability of the Central Legal Office (CLO) as Management expert and a review of the Scottish Government methodology to calculate CNORIS provisions. We have reviewed clinical and medical legal claims and CNORIS provisions and have confirmed that the amounts recognised are in accordance with advice received from the CLO in relation to claims outstanding against the Board.



New accounting standards

The 2018/19 financial statements reflect the adoption of two new International Financial Reporting Standards (IFRS): IFRS 9: Financial Instruments, and IFRS 15: Revenue Recognition. While the introduction of IFRS 9 resulted in some minor disclosure changes, given the nature and type of Scottish Ambulance Service's transactions and balances there was limited impact on the financial statements. Management's assessment of these standards was that they did not have a material impact on the financial statements. In line with NHS template accounts, the financial instruments note has been enhanced disclosure of the classes of financial assets and liabilities and accounting policies amended to reflect the new standards.

Going concern

Scottish Ambulance Service has an agreed budget for 2019/20 and financial forecasts for 2020/21 and 2021/22. The Board has received a draft resource allocation letter for 2019/20, however final confirmation of allocations will not be received until later in the financial year.

The Scottish Ambulance Service budget for 2019/20 recognises increasing financial pressures. The board has estimated cost pressures of £25.85 million, primarily in relation to pay cost pressures (£16.5 million), 2018/19 cost pressures managed through non recurring savings (£4.1 million); operational replacement programmes (£3.7million) as well as other inflationary and non-pay related pressures of £1.55 million. While Management envisage that additional resources and routine slippage, the Board will have a net financial gap of £12.75 million for 2019/20. A range of savings have been identified to support these, However, £1.3 million of savings still need to be identified.

In concluding on the going concern basis, we have assumed that Scottish Government will continue to provide revenue and capital resource allocations to the Scottish Ambulance Service. The board maintains net assets position of £83.139 million and sufficient cash flows to meet its obligations as they fall due.

Fraud and irregularity

There are no provisions or uncertainties related to the accounts. In relation to the audit risk of fraud in respect of expenditure we tested Scottish Ambulance Service's cut-off arrangements in particular (timing) and identified no issues in accruals or prepayments which would indicate potential fraud.

There are no post balance sheet events or legal uncertainties at year-end.

Adding value through our external audit work

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards on Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, gives you assurance over our opinion.

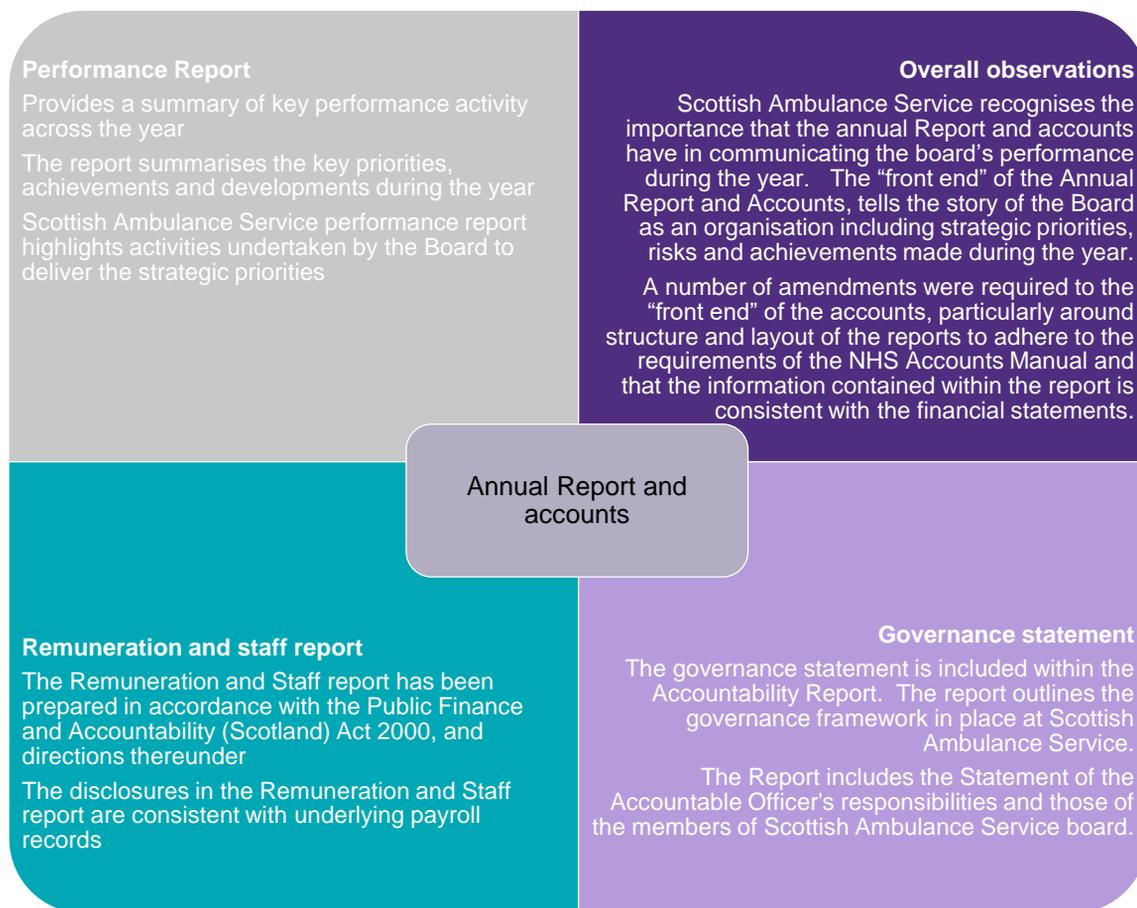
Through this Annual Report we seek to provide insight and commentary over certain aspects of Scottish Ambulance Service's arrangements, sharing relevant practices with the Audit Committee and Management.

We have continued to build on our working relationship with management and our understanding of Scottish Ambulance Service as an organisation.

We have representation on NHS Scotland Technical Accounting Group (TAG) to ensure we have knowledge and understanding of latest technical accounting guidance and practice. Where applicable, we discuss any new accounting standard or guidance with Management.

Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.



Changing the landscape for public financial management

Recognising the changing landscape of Scottish public finances, including significant tax –raising powers as well responsibility for 11 social security benefits provides the Scottish Parliament with more policy choices. Subsequently, there is potentially greater volatility and complexity around Scottish budget and greater focus on the use of Scottish funds.

The focus on public entities performance reporting will be under increasing scrutiny, including that of the Board and how public funds are used. We have considered the extent to which the performance report provides an accessible account of the Scottish Ambulance Service's overall performance and impact of its public spending and transparency of reporting. From 2019/20, health boards will have the financial flexibility to incur a deficit against revenue resource limits of up to 1% per annum as long as they can demonstrate a break-even position over a three year period. Currently the Scottish Ambulance Service's financial plans do not anticipate the use of this flexibility in the coming years due to the additional pressure it has on future years outturn delivery.

Financial management



The Scottish Ambulance Service met its key financial targets for 2018/19. This included a £58,000 surplus against revenue resource limits of £251.841 million and an £8,000 surplus against capital resource limits of £13.506 million.



Scottish Ambulance Services' outturn position was reliant on non-recurring revenue and savings. To achieve its financial targets, the Scottish Ambulance Service delivered savings of £9.9 million. However, of these savings, £2.9 million related to routine recruitment and training slippage. While the Board has met its outcome targets it demonstrates reliance on non-recurring savings.



Management have developed a 3 year savings plan and through more efficient and effective ways of working through the Best Value programme. It is critical that Scottish Ambulance Service develop a financially sustainable operating model that supports service delivery while continuing to invest in strategic developments. The Board has appointed a permanent Director of Finance and Logistics and appointed a Head of Finance during the year.

During our audit planning process, we did not identify any significant risks around financial management arrangements at Scottish Ambulance Service.

Financial performance

During 2018/19, Scottish Ambulance Service generated a surplus against Scottish Government Health and Social Care Directorate (SGHSCD) revenue resource limit of £58,000.

While the overall outturn position was in line with budget, the position was only achieved through the delivery of Support Services Savings targets exceeding savings targets by over £1 million. This offset overspends across Service Delivery Directorate of £0.9 million through unachieved savings and cost pressures across supplies. Supplies costs were higher than budget due to diesel prices remaining 10% higher than prior year and budgeted assumption, as well as an increase in diesel usage of 5%. In total these resulted in costs of £0.8 million to Scottish Ambulance Services cost base.

	Resource Limit £'000	Outturn Expenditure £'000	Variance (over)/under £'000
Revenue resource limit – Core	251,841	251,783	58
Revenue resource limit – Non-Core	13,506	13,506	0

	Resource Limit £'000
Capital Resource Limit £'000	15,062
Outturn Capital Expenditure £'000	15,054
Variance (over)/under £'000	8

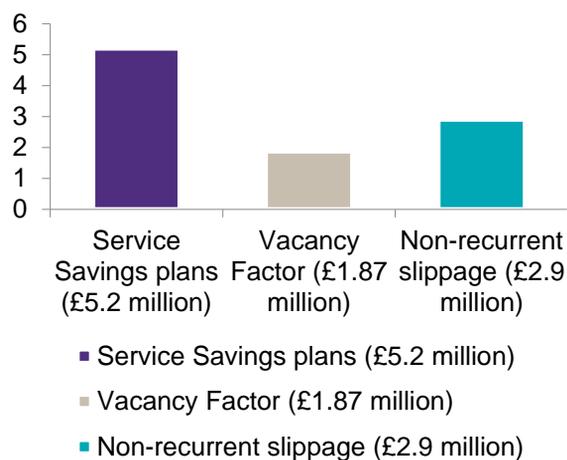
Capital Expenditure

Scottish Ambulance Service reported a small underspend against capital resource limit of £8,000. During 2018/19, the most significant capital expenditure related to £13.515 million to support the vehicle replacement project. Capital expenditure forms a critical part of the organisation's continued investment in the ambulance infrastructure.

Delivery of savings

Scottish Ambulance Service's outturn position was achieved through the delivery of £9.9 million of efficiency savings. This included a number of Directorate Savings delivered across the board's service lines including those plans identified and delivered through Best Value initiatives. The outturn position includes £2.9 million of routine slippage. The Scottish Government invested an additional £6.7 million in 2018/19 to support the delivery of "Towards 2020: Taking Care to the Patient" taking the total investment to £24m". While there has been slippage in training and recruitment, the Board has continued to deliver outcome targets. However, the use of slippage demonstrates the board's reliance on non-recurring savings and funding. It is critical that the board develop a sustainable operating model that delivers financial balance while supporting strategic investment. **Action plan point 1**

Savings (£m)



Source: SAS budget monitoring reports.

Financial management

Financial performance is monitored by management and reported to the Board on a monthly basis. Financial Performance reports are reported regularly to the Board. From our review of the financial reports and Board papers:

- Financial performance reports were clear and concise
- From review of minutes there is challenge and scrutiny of performance in the year and key variances between actual and outturn performance.
- Financial pressures and challenges are discussed and savings profiles revised during the year to ensure accurate forecasting



Scottish Ambulance Service scrutinise financial performance through regular reporting to the Board. While we found this provided sufficient detail around financial performance, with Board workshops and executive team updates, given the financial pressures facing the organisation, there is potentially an opportunity to review financial governance arrangements going forward.

Financial capacity and capability

During 2018/19 the Board has made progress in establishing its finance function. Following the departure of the previous Director of Finance and Logistics, an interim arrangement was agreed with NHS National Waiting Times Centre Board, for the secondment of the Director of Finance. This interim arrangement was in place throughout 2018/19. However, the arrangement will cease with a permanent appointment in June 2019. In addition, the Scottish Ambulance Service appointed a new Head of Finance. These arrangements should enhance the capacity and capability of the finance function. This will be critical to support Scottish Ambulance Service management during a period of challenging financial pressures as it looks to delivery a financially sustainable operating model.



Financial sustainability



Scottish Ambulance Service's medium term Financial Plan 2019-22 is set in a context of rising pay and non-pay cost pressures which won't be offset through increased resources funding. To achieve financial balance, Management has identified the need to deliver significant efficiency savings over the next three years. By 2021/22, £30.6 million of savings will need to be delivered on a recurring basis. While we recognise the progress made by Scottish Ambulance Service in identifying savings, over the medium to long term more fundamental changes are likely to be required to continue to meet forecast financial challenges.



"Towards 2020: Taking Care to the Patient" outlines Scottish Ambulance Service's strategic priorities over the three year period of the plan. The Plan recognises the financial and operational challenges faced by Scottish Ambulance Service.



The 2019/20 financial planning assumptions appear reasonable. During 2019/20 Management have forecast that savings of £16.72 million need to be delivered to meet resource targets. To date £11.4 million of savings have been identified. However, £4 million will be achieved through routine slippage in strategic projects, with a remaining £1.3 million of savings yet to be identified. Through the 3 year financial plan management have recognised that it needs to move away from reliance on non-recurring savings and utilising strategic resource funding to meet operational cost pressures to develop a financially stable operating model.

Within our audit plan we identified risk around financial sustainability at Scottish Ambulance Service. In accordance with the Code of Audit Practice, we have undertaken appropriate procedures to allow us to form a conclusion around the identified areas of risk and the organisation's financial sustainability. This includes review of corporate and financial strategies and plans as well as discussion with senior management.

We identified a specific audit risk in our plan related to Scottish Ambulance Service longer term financial sustainability. We have outlined below our response to this risk and overall conclusion.

Identified audit risk at planning

Like other health boards, Scottish Ambulance Service faces financial challenges. Management have identified that for 2018/19, the Board requires savings of £9.4 million to meet its financial targets. This represents a significant challenge for the Board and will likely require fundamental changes to how the Board operates to deliver this level of savings. As a key cost base, a key aspect will be maximising the use of workforce. To operate efficient and effectively the Board will need to ensure workforce planning is robust.

To support the identification and delivery of required savings, the Board has endorsed a new efficiency savings approach overseen by the Best Value Group chaired by the Director of Finance and Logistics. There is a risk that the group's unable to identify or deliver the significant levels of savings required in a sustainable way.

Our Response:

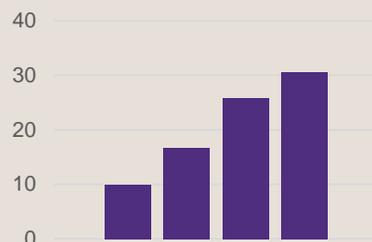
We will consider the work undertaken by the Best Value Group and savings identified. We will review the financial plans in place, including the scenarios set out, the governance of the plans and regular reporting on future financial scenarios. We will consider workforce planning arrangements that support the service delivery model and how these are aligned with financial plans. We will assess the progress made by the Board in developing financially sustainable operating plans that continue to support the delivery of the Board's statutory functions and strategic objectives.

Conclusion

Scottish Ambulance Service's Financial Plan 2019-22 is set in a context of rising pay and non-pay cost pressures which won't be fully offset through increased resources funding. Scottish Ambulance Service is particularly exposed to pay increase pressures as well as inflation and other supply costs on equipment and diesel. To achieve financial balance, Management has identified the need to deliver significant efficiency savings over the next three years. By 2021/22, £30.6 million of savings will need to be delivered on a recurring basis.

The level of savings required by the Scottish Ambulance Service increase significantly each year. The Board recognise that given the financial challenges faced it can not continue to rely on one-off non-recurring savings. Furthermore, it is unsustainable to continue to rely on routine recruitment and training slippage of strategic initiatives to support operational pressures as this could significantly impact on the delivery of Scottish Ambulance Service longer term strategy. To meet these pressures, the Best Value and efficiency Programme aims at identifying more efficient and effective ways of working..

Efficiency Savings Required



The Best Value Programme is led by the Director of Finance through support of the Board and the Executive Team. Progress is monitored through the Programme Board with oversight of the Audit Committee as well as reporting to the board. To date a total of 62 Best Value Initiatives have been identified, with 42 of these in 2019/20 and further required over the next three years. Alongside the Best Value programme are other cost control savings being achieved through corporate savings as well as across regional and national operations. However, the main area of identified savings is across the Best Value pipeline. Overall, Management have identified £20.3 million of savings over the next three years. However, this represents a significant gap from the total level of efficiency savings required. By 2021/22, Management forecast that the unidentified savings gap will be £10.3 million which represents 5% of the total funding expected in that year.

Scottish Ambulance Service faces significant financial challenges over the next three years. While we recognise the work underway in identifying efficiencies through the Best Value Programme, a key challenge will be both the delivery of these savings as well as identifying the additional levels of savings required to meet financial pressures. **Action plan point 1.**

Financial planning 2018/19

The Board approved the operational delivery plan 2018/19 and the operating budget for the year in February 2018. The financial plan is developed using detailed budgeting approach to ensure that forecast income and expenditure is developed on key planned activity during the year. Financial forecasts are reviewed during the year to ensure these remain appropriate. The financial plan for 2019/20 projects a breakeven position. However, £1.3 million of savings have yet to be identified to meet these targets.

Key assumption	Budget £ million	Considered reasonable	Comment
Revenue resource allocations	286.166	✓	Draft grant-in-aid letter received from the Scottish Government. Scottish Ambulance Service has assumed uplift of 1% of baseline in line with other patient facing health boards across Scotland as well as strategic funding requested from Scottish Government to support the delivery of the 2020 strategy.
Other income	8.446	✓	The funding assumption includes strategic Investment funding from Scottish Government of £6.6 million and other operating income including charges to Boards. We consider the forecasted other income levels to be reasonable.
Cost baseline	(311.332)	✓	The budget numbers reflect the three year pay deal agreed for staff on agenda for change contracts which increased pay bill by £5.7 million. Incremental drift in pay bandings as well as the proposed reform to agenda for change scales (reducing number of points) will put an additional £8.9 million on to the pay bill. Non-pay inflationary pressures include assumptions around 5% increase in diesel cost as well contractual indexation increases. Management have looked to adopt a more prudent approach to cost assumptions in this area reflecting budget variances experienced during 2018/19.
Efficiency savings identified (including strategic investment slippage)	15.400	Challenging	£4 million of the total relates to the routine slippage of planned investment in strategic initiatives. This is funded through RRL and therefore can be used to support in year cost pressures. Management anticipate a further £2 million of savings through cost control and vacancy management. The remainder will be delivered through regional and operational efficiencies of £1.6m and £7.8 million of Best Value Pipeline projects. The timely delivery of these will be critical to generate the required level of in year savings.
Unidentified savings	1.300	Challenging	Management are in the process of identifying potential opportunities to generate in year savings. While Management has demonstrated capacity to meet financial pressures, it will be critical that potential additional income or savings programmes are identified as a matter of urgency to avoid short term decision making to achieve financial balance at the risk of longer term strategic priorities.
Forecast surplus / (deficit)	-		

Scottish Ambulance Service have a number of key costs pressures including changes to pay arrangements as well as ongoing pressures associated with the running costs of the Emergency Service Network running costs. In addition, the Board has recognised a significant risk around the financial impact of failing to achieve its efficiency savings plans.

We are satisfied that the financial plans in place are based on reasonable assumptions and appropriate based on our understanding of Scottish Ambulance Service. However, with £1.3 million of savings to be identified for 2019/20 it will be critical the board can identify and deliver these on a recurring basis to support the Board's underlying financial sustainability.

Capital plan

For 2019/20 the Board have planned capital expenditure of £28.334 million. This relates to £17.334 million to support the vehicle replacement programme and £11 million on defibrator replacement. Over the medium term the vehicle replacement programme remains the predominant area of capital expenditure with a range of lower value capital investment projects in plan. This includes investment to support the Digital strategy and Enhanced Capability programme.

Governance and transparency



Scottish Ambulance Service has undertaken a self-assessment against NHS Scotland's Blueprint for Good governance. The assessment, completed by non-executives and executive directors, identified opportunities for improvement around assessing risk, stakeholder engagement and influencing culture. An action plan is in place for Scottish Ambulance Service to enhance governance arrangements.



Scottish Ambulance Service recognise that the delivery of *Towards 2020: Taking Care to the patient*, can not be achieved in isolation and requires the Board to work with a range of strategic partners, including health boards, social care partnerships, patients and communities. Scottish Ambulance Service continues to explore options for partnership working including current pilots with Police Scotland and Scottish Fire and Rescue for co-responses in rural and remote areas.

Within our audit plan we identified risk around governance and transparency at Scottish Ambulance Service. In accordance with the Code of Audit Practice, we have undertaken appropriate procedures to allow us to form a conclusion around the organisation's governance and transparency arrangements. This includes review of governance structures and committee and Board minutes.

Strategic vision and tone from the top

Towards 2020: *Taking Care to the patient*, articulates the Board's strategic goals. We observed that decisions, including financial planning, align to the strategic goals and there is continuous reference to these in Board and committee papers.

On 1 June 2018, the Cabinet Secretary for Health and Sport appointed Tom Steele as the Chair of Scottish Ambulance Service. The Chair plays a critical role in both shaping and leading the strategic direction of the organisation. The Chair brings previous NHS experience having previously served as a non-executive director at NHS Lanarkshire.

There appears to be commitment from both non-executive and executive members to delivery the organisation's strategic goals. Committee meetings are well attended and there is a good level of debate, based on our review of minutes.

Blueprint for Good Governance

Scottish Ambulance Service recognises the importance of continued reflection and self-evaluation of governance arrangements. During 2018, the Board completed a self-assessment against NHS Scotland's: Blueprint for Good Governance, as well as the self-assessment, the board regularly review effectiveness through Board development events to identify opportunities for improvement.

The evaluation against the Blueprint for Good Governance was completed by both executive and non-executive directors. This evaluated the board against the five functions of good governance: setting the direction; holding to account; assessing and assuring risk; engaging stakeholders; and, influencing culture.

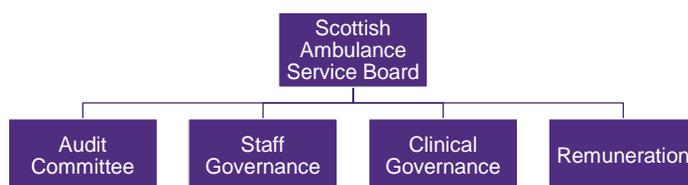
The assessment concluded that overall the governance arrangements were sound however it identified opportunities for improvement including:

- Risk assessment – assessing risk and agreeing risk tolerance;
- Stakeholder engagement, including communication of priorities; and
- Influencing culture, including meaningful engagement between Board members and staff.

An action plan is in place with lead group / individuals responsible for delivering over the coming year. Based on cumulative knowledge and understanding of Scottish Ambulance Service, in our view the action plan appears reasonable and achievable.

Governance arrangements

Scottish Ambulance Service has a relatively stable governance structure with the Board and its committees well established. The Board meets regularly during the year to both set and monitor the delivery of the Board's strategic priorities. We found the level of reporting to the Board and its committees to be appropriate with key performance reports are transparent and reports are aligned to the Boards strategic priorities. We did not find any material weaknesses in the governance arrangements in place during 2018/19 but have recommended the Board continue to review financial governance arrangements.



Risk management

In line with the Scottish Public Finance Manual, the Board has established a risk management strategy and underlying framework to support the identification and management of risks.

The corporate risk register is monitored through the Audit Committee and was presented to the Scottish Ambulance Service Board throughout the year. The register has been subject to scrutiny and development to ensure that the risks identified and mitigating actions are appropriate and reflects the strategic risks facing the service. Operational risks are monitored across the organisation through the Board's web based risk management system.

The Board's self-assessment against the Blueprint for Good Governance identified opportunities to further enhance risk assessment arrangements. This included clearly defining risk appetite and tolerance levels that the Board had to risks to the delivery of strategic objectives. In response to the self-assessment, the Board approved its risk appetite in May 2019 and in the processes of embedding this across the organisation.

Fraud and Irregularity

Scottish Ambulance Service has arrangements in place to help prevent, detect and mitigate the risk of fraud or irregularity, including anti-bribery and whistleblowing policies. While we consider these to be reasonable, no arrangements can fully prevent against the risk of fraud, theft or irregularity. We are not aware of any material frauds at Scottish Ambulance Service during the course of the year and have confirmed this with management.

The Board participates in the National Fraud Initiative (NFI), a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the National Audit Office to identify fraud and error.

We found Scottish Ambulance Service arrangements for participation in the NFI exercise during 2018/19 to be satisfactory. The Board has effective arrangements in place for the submission of data and investigation of potential matches.



Internal Audit

As set out in our external audit plan we have not placed formal reliance on the work of Scott-Moncrieff, the internal audit provider, during 2018/19. We have reviewed the internal audit plan and individual reports issued to date to consider if they have any impact on our audit approach, with none being noted. We are satisfied that internal audit findings, including the annual audit opinion, has been considered by the Accountable Officer when concluding on the annual Governance Statement.

Partnership Arrangements

Scottish Ambulance Service recognise that the delivery of *Towards 2020: Taking Care to the patient*, can not be achieved in isolation and requires the Board to work with a range of strategic partners, including health boards, social care partnerships, patients and communities. Scottish Ambulance Service Person-Centred Health and Care plan promotes patient and staff participation in the development of services and continuous improvement. Scottish Ambulance Service monitor a range of information, including patient feedback, service performance and complaints to continue to monitor quality of service and patient care. Scottish Ambulance Service continues to explore options for partnership working including current pilots with Police Scotland and Scottish Fire and Rescue for co-responses in rural and remote areas.



Openness and transparency

There is an increased focus on how public money is used and what is achieved. This includes the extent to which the Scottish Ambulance Service keeps pace with public expectations and good practices in this area. Including: increased public availability of papers, insight into why any business is conducted in private and development of the form and content of annual reporting.

We considered Audit Scotland's guidance around openness and transparency as we consider the Board's governance arrangements during 2018/19. We found that Board minutes and papers were readily accessible on the board's website and produced in a timely manner. Scottish Ambulance Service's key corporate publications including annual report and accounts. We found that there was redaction to some board papers including the Corporate Risk Register but found that this was in areas considered sensitive or potentially expose Scottish Ambulance Service to undue risk. We did note that the link on the Board's website to the 2017/18 Annual Report and Accounts does not work (**Action Plan Point - 2**). The Annual Report and Accounts are an important document to report performance of the Board and enable public scrutiny.



EU Withdrawal

There is considerable uncertainty around the potential impact of Brexit. Likely areas to impact the Board are: workforce implications; funding; and regulation. We have used Audit Scotland's planning guidance to evaluate the Board's readiness for EU withdrawal across workforce (People and Skills); Finance; and Regulations. Audit Scotland require auditors to conclude on whether audited bodies are 'underprepared', 'partly prepared' or 'well prepared' for EU Withdrawal.



We found that Scottish Ambulance Service has incorporated the risk of EU withdrawal into its risk management arrangements and monitored across Management and the Board. This includes a 'Brexit' risk register. Overall we found that while Scottish Ambulance Service had clearly considered the potential consequences of EU Withdrawal, particularly the potential implication of a 'no-deal' withdrawal from the EU. However, Scottish Ambulance Service recognise that there is considerable residual risk around some of the areas of uncertainty around EU withdrawal, particularly around uncertainty of future funding or service demand pressures due to the risk of wider health and social care issues that may result from EU Withdrawal.

Overall, we conclude that Scottish Ambulance Service is well prepared for EU Withdrawal. However, Management recognise that there remains considerable risk and uncertainty around the full potential implications. It is therefore critical that the Board and Management keep these risks under focus.

Dependency on key suppliers

The collapse of Carillion and the subsequent impact across the public sector, has brought into focus the risk of key supplier failure and underperformance. Scottish Ambulance Service key suppliers are split across three areas: medicines; clinical consumables; and vehicles. While arrangements with suppliers are difficult to fully de-risk, Management have taken reasonable steps to mitigate potential exposure with regards ongoing provision of services. With regards medicines, the Service has engaged with suppliers over ongoing discussions around potential stockpiling in the event of a supply shortage following EU withdrawal. While instruction was received from Scottish Government not to stockpile, Management kept regular dialogue and engagement with suppliers to ensure medicine needs would continue to be catered for.



For clinical consumables, Scottish Ambulance Service has a range of suppliers. There is continuous engagement and dialogue with supplier to ensure that services and demand will continue to be met. Contractual arrangements with vehicles are kept under continuous scrutiny through detailed monitoring of programme of capital spend and delivery. Should supplier issues be identified then there is visibility within procurement to act accordingly. During 2018/19, the capital programme was reprofiled to ensure vehicle contracts were completed in advance of the initial EU Exit date to help de-risk and contractual issues

Value for money



In the context of significant financial pressures, service delivery and performance will come under increasing pressure. While we recognise that frontline service delivery is the priority for the Scottish Ambulance Service, it is important that there is continued focus on long term strategic priorities to support medium to long term performance improvement.



To ensure that resources are used efficiently, effectively and economically, the Executive Leadership team receive weekly updates on best value arrangements and the Audit Committee on a quarterly basis. Scottish Ambulance Service has introduced a new suite of performance dashboard reports. This allows Management and the Board graphical presentation of performance. We found these reports to be clear and concise and would encourage Management to consider incorporating these into the annual report.



The National Emergency Services Network programme has been delayed and as such the Board has continued to operate under the Airwave contract. Scottish Ambulance Service has been working through the preparation and planning for transition to the GB-wide Emergency Services Network (ESN) in line with the delayed GB programme, currently scheduled for completion in 2022.

During our audit planning we did not identify any significant risks in relation to Scottish Ambulance Service's arrangements for effectively utilising its resources and improving services. During our audit planning we identified a significant wider scope risk around effective decision making. We conclude on this and other aspects of Scottish Ambulance Service's value for money arrangements below.

Identified audit risk at planning

Effective decision making

Given the financial and operational pressures facing the Board, the efficient and effective use of resources is critical. In particular, ensuring there is effective performance management arrangements in place is critical to ensure a quality of patient care.

Managing these pressures can divert focus and resources on strategic use of resources and longer term financial planning. With emphasis on short term deliverables, decisions may fail to consider longer term implications and value to the organisation.

Given the nature of Scottish Ambulance Services operations, the quality of service performance is critical. Performance information focuses on both service delivery and patient care. Ensuring there is clear, timely and transparent reporting and monitoring of performance is essential to ensure resources are prioritised.

Our Response:

As part of our overall rolling review of Scottish Ambulance Service's wider scope areas, we will consider the Board's performance management framework and how they capture and measure performance and outcomes. In particular, we will consider the content of performance reports presented to Board and committees and how this is aligned to the Board's strategic objectives and the timeliness of the information presented. Further, we will consider the extent to which there is a clear evidence trail demonstrating challenge of key decisions taken.

Conclusion

The 2015/16 Scottish Ambulance Service launched a five year strategy *Towards 2020: Taking Care to the Patient*. The strategy defines a range of strategic priorities over the period, with an overarching principle that care should be appropriate to need, and where care is delivered it should also be appropriate.

The strategy recognises the need for the Board to develop an operating model that is financially sustainable and fit for purpose in 2020. The Board's Financial Plan 2019-20, reflects this principle through focusing on how the board can develop efficient and effective ways of delivering services. To deliver these, Scottish Ambulance Service has established a Best Value Programme. The work is overseen by the Best Value Programme Board, Chaired by the Director of Finance. Progress is monitored through the Audit and Risk Committee as well as feeding into financial performance reports to the Board. The Best Value Programme aims to deliver efficiencies without adversely impacting on service delivery. This includes exploring new ways of working and delivering services.

While the Best Value Programme has already identified areas of planned efficiency savings over the next three years totally £30.6 million recurrently by 2021/22, there is still a budget shortfall of £10.3 million by the end of the three year period. During 2018/19 the Board utilised slippage (deferred investment) on strategic investment projects of £2.9 million with a further £6 million of slippage planned over the next two years. While we recognise Scottish Ambulance Service incorporates routine slippage and non-recurring savings into future years financial plans, there is a risk that Scottish Ambulance Service put managing short term financial pressures ahead of longer term strategic benefits. While we recognise the challenges faced by the Scottish Ambulance Service, it is important that there is a sound understanding of the implications of deferring expenditure and the potential impact, including cost pressures on future years. See **Action Plan point 1** for recommendation.

Scottish Ambulance Service demonstrate a focus on ensuring that resources are used efficiently, effectively and economically. Updates on best value are provided to the Executive Team on a weekly basis and the Audit Committee on a quarterly basis.

Emergency Services Network Programme

The National Emergency Services Network programme has been delayed and as such the Board has continued to operate under the Airwave contract.

The Board has made progress during the year in readiness for the decommissioning of the Airwave system. This has included establishing an internal emergency service network programme and engagement with the Scottish Government, Police Scotland, Scottish Fire and Rescue and other partners. The capital and revenue consequences associated with the new Emergency Services Programme have been included as part of the Emergency Services Network Programme. Scottish Ambulance Service has been working through the preparation and planning for transition to the GB-wide Emergency Services Network (ESN) in line with the delayed GB programme (currently scheduled for completion in 2022). Management have worked with existing suppliers to secure continued provision of Airwave services beyond the original contract end date in line with delays to the Emergency Services Mobile Communications Programme.

Performance management

The Board continues to develop and enhance its performance management arrangements. Along with the Scottish Government's HEAT (health improvement, efficiency, access to treatment and treatment) targets, the Board has incorporated a range of service performance measures and during 2018/19 these were incorporated into dashboard performance reporting. The reports are clear and concise bringing together measurement for improvement as highlighted by the Scottish Government's Quality improvement and Measurement for Non Executives guidance. It include performance against our Clinical, Operational, Scheduled Care and Staff Experience Measures. The table below summarises Scottish Ambulance Service's performance against HEAT measures:

HEAT Performance



The main areas where performance was below target was in relation to targeted response times and sickness absence levels. Scottish Ambulance Service are in the process of implementing a new targeted response model and both existing target and performance is expected to be reviewed in light of the new model. For sickness absence rates the current target of less than 5% continues to represent a challenge for Management. Absence management continues to be an important area of focus for Scottish Ambulance Service. We recognise that the information and reporting continues to be developed by management. This include graphical dashboard reporting to senior management and the Board of operational performance. There is an opportunity to enhance the readability of the annual report and accounts through greater usage of this analysis tools. This could provide a more holistic view of Scottish Ambulance Service performance during the year.

Action plan point 3

New clinical response model

Following a review of nearly 500,000 patient records, a New Clinical Response Model (NCRM) pilot programme was introduced in November 2016. The model focuses on improving patient outcomes, rather than simply a measure of response times. Resources are now allocated on confirmation of the severity of the incident, rather than the location of the incident with a focus on time-critical, immediately life-threatening conditions.

The NCRM programme has progressed over the last two years. In February 2019, the Scottish Ambulance Service, in conjunction with the University of Stirling, published a report on the evaluation of the model as it operated over an initial trial period. The report found that the NCRM more accurately identifies patients with immediately life threatening symptoms, with a number of patient groups being re-triaged to the highest priority purple response category based on the high probability that resuscitation will be required. Over the pilot period the service has seen an almost 100% increase in patients receiving a multi-resource/clinician response in highest priority response category, providing a greater chance of survival. The response model focuses on improving patient outcomes rather than simply measuring the time it takes to respond. The pilot demonstrated that response times have been maintained to our most acutely unwell patients who require a time-critical response. While there has been a slight increase in response times to patients that are less acutely unwell, there has been no increase in clinical deterioration of these patients and the outcomes for these patients have remained stable. The Board will continue to monitor and review the impact of the new model on patient outcomes in line with clinical governance arrangements. This will inform any future improvements to the model.

Appendices

Audit adjustments

Action plan and recommendations

Follow up of 2017/18 recommendations

Fees, independence and fraud arrangements

Communication of audit matters

Audit adjustments

Uncorrected and corrected misstatements

We are pleased to report that there were no uncorrected misstatements to the financial statements arising during our audit.

The adjustments made are detailed below:

Item	Dr (£'000)	(Cr) (£'000)	Description
1	633	(633)	Being adjustment to reverse WTR accrual. The Scottish government are funding this accrual centrally and therefore no accrual is required in Scottish Ambulance Service's financial statements

Note that the draft accounts were prepared on the assumption that the Scottish Ambulance Service Revenue Resource Limits (RRL) would include an allocation to fund this accrual. As the Scottish government confirmed that this accrual was being funded centrally, the final year end RRL allocation did not include this amount and therefore the RRL included in the accounts was also reduced. Consequently, the adjustment above had no impact on the outturn position against RRL.

Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow Audit Committees to evaluate the impact of these matters on the financial statements.

Disclosure omission	Detail	Adjusted
Correction of bandings within Remuneration and staff report as well as FTE figures	We recommended disclosure adjustments to bandings within the remuneration report to reflect total remuneration paid	✓
Correction of Financial information within Performance Report	We identified inconsistencies between the financial information presented in the Performance Report and the draft accounts.	✓
Performance Report – key risks and issues	Under the NHS Accounts Manual the Performance report - Overview section should include the key risks and issues that could affect the Board in delivering its objectives.	✓
Directors' report - indemnity	Directors' Report needs to include a statement if a qualifying third party indemnity provision (made by the Board or otherwise) has been in place for one or more of the Directors at any time during the financial year.	✓
Trade Union disclosures	Trade Union disclosure required in accordance with NHS Accounts Manual	✓

Audit adjustments

Disclosure omission	Detail	Adjusted
References between the Accounting Policies and notes to the accounts	We identified a number of notes referenced within Accounting policies that required updating in the final accounts	✓
Casting error	2019 Board Expenditure Column does not cast correctly for other operating expenditure - appears to be 2017/18 figure	✓
Governance statement	There is no information of corporate governance performance and any self-assessment of Board performance undertaken during the year. I would have anticipated reference to the Blueprint for Good Governance self-evaluation and any other self-assessment exercise undertaken.	✓
Pension disclosures	Within the table for Pension Values there is a requirement to include 'Total accrued lump sum at age 65 at 31 March 2019 (In bandings of £5,000). Likewise there is a requirement to include the Real increase in lump sum at age 65 at 31 March 2019 (Bands of £2,500)	✓
Capitalisation thresholds	To be reviewed and updated to reflect Scottish Ambulance Service policy	✓
Key sources of judgement and estimation uncertainty:	The disclosure should be expanded to demonstrate the board's consideration of a) the nature of the assumption or estimations uncertainty/ b) the sensitivity of carrying amounts to methods, assumptions and estimates underlying their calculation, c) expected resolution of the uncertainty and range of possible outcomes and d) explanation of changes to past assumptions concerning those assets and liabilities if it remains unresolved i.e. provisions etc	✓
Classification adjustments	<p>There were two classification adjustments to the primary financial statements:</p> <ul style="list-style-type: none"> - Recognition of the cash movement on property, plant and equipment acquisitions within the cash flow statement; and - Reclassification of prepayments and other receivables. <p>Note neither of these reclassification adjustments had an impact on the net operating costs or reserve balance of the Board.</p>	✓

Action plan and recommendations

We have set out below, based on our audit work undertaken in 2018/19, those risks and recommendations we consider are of a higher risk to Scottish Ambulance Service that Management may wish to consider in the future.

Recommendation

Agreed management response

1. Financial management

Scottish Ambulance Service's outturn position was achieved through the delivery of £9.9 million of efficiency savings. This included a number of Directorate Savings delivered across the board's service lines including those plans identified and delivered through Best Value initiatives. The outturn position includes £2.9 million of project slippage. The Scottish Government invested an additional £6.7 million in 2018/19 to support the delivery of "Towards 2020: Taking Care to the Patient". The £2.9 million relates to the elements of the funding received that was used to support the Scottish Ambulance Service's outturn position in year through slippage on the strategic project. While we recognise Scottish Ambulance Service continued to deliver its outcomes, it demonstrates the board's reliance on non-recurring savings and funding. It is critical that the board develop a sustainable operating model that delivers financial balance while supporting strategic investment. As part of this process there is an opportunity to review financial scrutiny arrangements to ensure these continue to provide oversight and scrutiny of financial performance.

Management response:

The Board has developed a 3 year financial plan that demonstrates a sustainable financial position by 21/22. This plan will be implemented over the next three years with monitoring against progress reported monthly to the Board and weekly to the Executive Team. Any variations to the plan will also be highlighted and corrective action taken. This will be formally reviewed and updated on an annual basis.

Action owner: Director of Finance and Logistics

Timescale for implementation: From April 2019

2. Annual Report and Accounts on website

Health boards are required to publish the annual report and accounts on the board's website. This supports public scrutiny and transparency of the board's performance. We found that the 2017/18 annual report and accounts link on the Scottish Ambulance Service does not work. We recommend that the link is updated to ensure that the accounts are publicly accessible through the website.

Management response: Accepted and has been corrected

Action owner: Head of Communications

Timescale for implementation: June 2019

Action plan and recommendations

Recommendation

Agreed management response

3. Performance monitoring

The Performance Report in the accounts has an important role in allowing users of the accounts, including the public, scrutinise and understand Scottish Ambulance Services performance during the year. For internal reporting, Management has developed a graphical dashboard report to senior management and the Board of operational performance. There is an opportunity to enhance the readability of the annual report and accounts through greater usage of this analysis tools. This could provide a more holistic view of Scottish Ambulance Service performance during the year.

Management response: The use of tableau dashboards has been agreed for implementation by March 2020. A dedicated resource has been in place and is working to a project plan and project group is in place

Action owner: Information Services and Governance Manager

Timescale for implementation: March 2020

Follow up of 2017/18 recommendations

We set out below our follow up of our 2017/18 recommendations and this is reflected below for information.

Recommendation

Financial sustainability

Scottish Ambulance Service faces significant financial pressures over the coming years. While the Board met its financial targets for 2017/18, this was only delivered through deferment of expenditure. Management have identified that for 2018/19, the Board requires savings of £9.9 million to meet its financial targets. The Board has made progress in identifying potential areas for achieving its financial targets and there is a clear acknowledgement that there needs to be effective engagement and working with strategic partners. It is critical that for 2018/19 and subsequent years the Board identify and deliver the required level of recurring savings and do not rely in one off costs to manage performance, ultimately deferring the pressures to future years.

Initial management response

The Board acknowledge this risk and has whilst recognising the challenges has presented a financial plan with actions in place to deliver a balanced budget for 2018/19. Work through the newly established best value group will work to deliver recurring savings over this period

Follow up

Scottish Ambulance Service faces significant financial challenges over the next three years. Management have identified a funding gap of £30.6 million. While we recognise the work underway in identifying efficiencies through the Best Value Programme, a key challenge will be both the delivery of these savings as well as identifying the additional levels of savings required to meet financial pressures. The Board has established a three year financial plan aimed at delivering financial balance.

Fees, independence, fraud arrangements

External Audit Fee

Service	Fees £
External Auditor Remuneration	64,210
Pooled Costs	7,510
Contribution to Audit Scotland costs	3,860
Contribution to Performance Audit and Best Value	0
2018-19 Fee	75,580

The audit fee was calculated in accordance with guidance issued by Audit Scotland and agreed with Management.

The above fee has not changed and our final fee was £75,580.

Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2018/19 financial year	Nil

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.

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.

Fraud arrangements

In assessing our audit risks, the audit team was 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 relation 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. We did 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. – None were identified in-year

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 managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

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 worked with Scottish Ambulance Service to review specific areas of fraud risk, including the operation of key financial controls.

We also examined certain policies in place, strategies, standing orders and financial instructions, as relevant to the fraud framework, to ensure that they provide a reasonable framework of internal control.

No suspected frauds or irregularities have been identified by Management and reported in-year.

Communication of audit matters

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
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	•	•
We are independent of Scottish Ambulance Service and have not identified any conflicts of interest		
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	•	•
We have not incurred any non-audit fees during the year and no threats to independence identified		
Significant matters in relation to going concern	•	•
No significant going concern matters identified		
Views about the qualitative aspects of Scottish Ambulance Service accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Set out in the Financial statements Section		
Significant findings from the audit		•
No significant findings from our audit		
Significant matters and issues arising during the audit and written representations that have been sought		•
Letter of representation will be shared and signed by the Chief Executive when signing the financial statements. This is our standard, unmodified letter of representation.		
Significant difficulties encountered during the audit		•
No difficulties encountered		
Significant deficiencies in internal control identified during the audit		•
None identified		
Significant matters arising in connection with related parties		•
None identified		
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
None identified. We report to Audit Scotland on the progress made by Scottish Ambulance Service with regards participation in the National Fraud Initiative included within this report.		
Non-compliance with laws and regulations		•
None noted		
Unadjusted misstatements and material disclosure omissions		•
None noted. Minor disclosure amendments only and these were not material in nature		
Expected modifications to the auditor's report, or emphasis of matter		•
None, an unqualified opinion		

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.

We 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.

