

Government and Public Sector

June 2007

# Scottish Ambulance Service Annual Report to Members



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27 June 2007

Our ref: CDR/MW/LM

Ladies and Gentlemen

**Annual Report to Board Members 2006/07**

We have completed our audit of the Scottish Ambulance Service and its financial statements for the year ended 31 March 2007.

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2006/07 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully

PricewaterhouseCoopers LLP

# 1. Executive Summary



## Our Audit Opinion

- 1.01 Our audit opinion concerns both the true and fair statement of the Scottish Ambulance Service (“the Service’s”) financial results for the year ended 31 March 2007 (2006/07) and the regularity of its income and expenditure in the year.
- 1.02 We are pleased to report that our opinion on the true and fair view on the financial statements is unqualified.
- 1.03 Our regularity opinion on income and expenditure is also unqualified.
- 1.04 We also provide a view as to whether those parts of the Remuneration Report 2006/07 subject to audit have been properly prepared. Our opinion on the Remuneration Report 2006/07 is unqualified. Our audit opinion does not extend to any other part of the Directors’ Report.

## Financial Targets and Performance

- 1.05 The Service’s performance against its three financial targets was as follows:

Financial Targets	Achievement
Net resource limit should not exceed the Revenue Resource Limit (“RRL”)	The Service spent £169.321 million against its RRL of £169.453 million, resulting in a surplus of £132,000.
Capital Resource Limit (“CRL”)	Total capital spend was £17.013 million against a CRL of £17.028 million.
Cash Requirement Target	The Service spend during 2006/07 was £19.208 million; remaining within the cash requirement target of £19.208 million.

- 1.06 The Service achieved a £0.132 million surplus for the year compared to the predicted break-even position reported in the financial plan at the beginning of the year. It should be noted that the Board carried forward only £1,000 of funding from 2005/06 and so in-year expenditure was £0.131 million below the in-year allocation.
- 1.07 The Service is again projecting a break-even position in 2007/08 with a total cash releasing savings target for the year of £1.17 million and productivity gains savings of £0.612 million.
- 1.08 The Service experienced increased demand during 2007/08 with emergency demand increasing at 12% year-on-year – this contributed to the Service’s mixed performance against its Ministerial performance targets. At the year end, the Service reported that it

had missed its performance targets regarding patients with life threatening emergencies (category A) and also for responding to other emergency cases (category B). The Service is expected to respond to 64% of category A calls within 8 minutes, its performance for 2006/7 was 55.7%. Response to category B calls is expected to be 93% within 14, 19 or 21 minutes (depending on the geography and demographics of the caller) and performance for 2006/07 was 88.2%.

- 1.09 The Service did achieve its performance targets for appointment and pick-up for Priority 1 Patient Transport Services patients for the year 2006/07 and two of the five headline clinical performance indicators were within target range with the remaining three (cardiac arrest on arrival, reducing hospital admissions and patients thrombolysed) falling below planned performance.
- 1.10 The Service remains focused on the achievement of performance targets, particularly Category A and B. Members of the Board and Senior Executive are also in regular and detailed communication with the Scottish Executive regarding the performance targets.
- 1.11 These discussions are based on extensive and robust research to explore and quantify the underlying increases in demand and the impact of NHS Scotland wide service modernisation.
- 1.12 This research, which involved the Service's key partner organisations, has also informed a bid for additional funding from the SEHD and negotiation over amending the targets to make them more realistic. The Service is currently awaiting the outcome of these discussions.
- 1.13 The NHS Quality Improvement Scotland (QIS) standards for clinical governance, patient safety, and risk management cover the full range of standards in the field. Performance against the standards is measured via self-assessment (with a portfolio of evidence) plus inspection and peer review. The Service was one of the few NHS Boards in Scotland to achieve Level 3 at the interim assessment during the year under review.
- 1.14 The achievement of Ministerial performance targets continues to present a major challenge for the Service. The risks associated with achievement have been exacerbated by the temporary appointments in place within the Executive team, the proposed decrease in relative terms in annual uplift allocations from the SEHD, and the changing political landscape and uncertainty around modernisation programmes.
- 1.15 Clear and strong leadership will be required to drive the organisation forward and achieve its strategic objectives. This will involve co-ordinating and delivering on current improvement projects and programmes, whilst avoiding "initiative overload" or excessive focus on Category A targets at the expense of other areas of performance.
- 1.16 Further detail about financial results in 2006/07 and the 2007/08 forecast is given in **Sections 4 and 5** of this report, with further detail about performance outlined in **Section 10**.

### **The Audit Process and Accounting Issues**

- 1.17 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by management were of a good standard.
- 1.18 We are required to report any unadjusted errors to those charged with governance. Adjustments identified from the audit process have been agreed and adjusted by management in the final set of Annual Accounts.

### **Systems of Internal Control**

- 1.19 The Code of Audit Practice requires us to review and report on the Statement of Internal Control given in the accounts. Based on our normal audit procedures, we do not disagree with the disclosures contained within the Statement of Internal Control.
- 1.20 Details of those relatively more significant control matters noted during the course of our audit are set out in **Section 7**.

### **Governance Arrangements**

- 1.21 A summary of the work we have performed in the year in relation to the Service's Governance arrangements is set out in **Section 8**. There were no significant areas arising from our work.

### **Prevention and detection of fraud and irregularities**

- 1.22 Our work on the prevention and detection of fraud and irregularities is noted at **Section 9**, along with one recommendation to formalise the National Fraud Initiative arrangements within the Service.

### **Other Business Matters**

- 1.23 As part of our audit, we have commented on certain other aspects of the Service's business such as succession planning and the position of the senior management team, the shared services plan and the equal pay issue.
- 1.24 Details of these issues are set out in **Section 10**, along with a number of recommendations for further action.

### **Audit Scotland Performance Work**

- 1.25 Audit Scotland's local performance work undertaken in the year is outlined in **Section 11**.

## 2. Introduction



- 2.01 Our overall responsibility as external auditor of the Scottish Ambulance Service is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007.
- 2.02 In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources.
- 2.03 It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving not only the “appointed auditor”, but importantly the Auditor General for Scotland and other auditors such as Audit Scotland’s Health Performance and Public Reporting Group.
- 2.04 Our audit has been planned and conducted to take account of these wider perspectives.
- 2.05 The Scottish Ambulance Service and the Chief Executive are, together with other matters, responsible for:
- Ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
  - Maintaining proper accounting records; and
  - Preparing financial statements which give a true and fair view or present fairly, depending on the financial reporting framework, their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (e.g. the Financial Reporting Manual or an Accounting Code of Practice).
- 2.06 In this regard, we are responsible for issuing an audit report (opinion) on:
- Whether the financial statements give a true and fair view of the financial position and expenditure and income;
  - Whether the financial statements have been properly prepared in accordance with relevant legislation, accounting standards and other reporting requirements; and
  - The regularity of expenditure and income.

- 2.07 Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260: "*Communication of audit matters to those charged with governance*", we are required to communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity.
- 2.08 This Annual Report to Members summarises key aspects of our work throughout the audit year, highlighting any matters which we believe should be brought to your attention. Therefore this Report, together with previous reports to the Audit Committee throughout the year discharge the requirements of ISA 260.

#### **Acknowledgements**

- 2.09 We would like to thank all Scottish Ambulance Service managers and staff involved for their assistance throughout the audit process.



# 3. Independent Auditors' Report and Key Financial Targets

## Our Audit Opinion

- 3.01 Our audit opinion concerns both the true and fair statement of Scottish Ambulance Service ("the Service's") financial results for the year ended 31 March 2007 (2006/07) and the regularity of its income and expenditure in the year.
- 3.02 We are pleased to report that our opinion on the true and fair view on the financial statements is unqualified.
- 3.03 Our regularity opinion on income and expenditure is also unqualified.
- 3.04 We also provide a view as to whether those parts of the Remuneration Report 2006/07 subject to audit have been properly prepared. Our opinion on the Remuneration Report 2006/07 is unqualified. Our audit opinion does not extend to any other part of the Directors' Report.
- 3.05 Our opinion is set out in full in **Appendix 3**.

## Financial Targets

- 3.06 The Service's performance against its three financial targets were as follows:

Financial Targets	Achievement
Net resource limit should not exceed the Revenue Resource Limit ("RRL")	The Service spent £169.321 million against its RRL of £169.453 million, resulting in a surplus of £132,000.
Capital Resource Limit ("CRL")	Total capital spend was £17.013 million against a CRL of £17.028 million.
Cash Requirement Target	The Service spend during 2006/07 was £19.208 million; remaining within the cash requirement target of £19.208 million.

- 3.07 The Service's achieved a £0.132 million surplus for the year compared to the predicted break-even position reported in the financial plan at the beginning of the year. It should be noted that the Service carried forward only £1,000 of funding from 2005/06 and so in-year expenditure was £0.131 million below the in-year allocation.
- 3.08 The 2006/07 Capital Resource Limit was set at £17.028 million which included £1.1 million of brought forward funding. The reported out-turn within the 2006/07 Annual Accounts is £17.013 million.

# 4. Financial Performance 2006/07



- 4.01 The Scottish Ambulance Service is responsible for conducting its affairs and for putting in place proper arrangements to ensure that its financial position is soundly based.

## Financial Performance in the Year

- 4.02 It is emphasised that we do not express a specific audit opinion on the figures on the following pages – these have been extracted in agreement with management from various reports, supporting papers and detailed discussions with management.
- 4.03 The table below identifies the difference between recurring expenditure and income, the difference between non recurring expenditure and income, and corporate savings achieved in 2006/07.

<b><u>The Service's Overall Financial Out-turn Reported for 2006/07</u></b>	<b>£'m</b>	<b>£'m</b>
	<b>Actual</b>	<b>Actual</b>
Recurring income	171.635	
Recurring expenditure	<u>(173.225)</u>	
Recurring difference		(1.590)
Corporate savings programme		1.632
		<hr/> 0.042
Non-recurring income	1.577	
Non-recurring expenditure	<u>(1.487)</u>	
Non-recurring difference		0.090
		<hr/> 0.132
<b>Surplus for 2006/07</b>		<b>0.132</b>

- 4.04 The above table highlights the £0.132 million surplus and shows that the Service was successful in containing costs within revenue limits, particularly in the face of increased activity, rising fuel costs and the continued implementation of Agenda for Change.
- 4.06 This was principally achieved by implementing a cost containment exercise in the year, which successfully delivered the target £1.6 million of savings.

- 4.07 These savings were top-sliced from budgets at the start of the year and were achieved in the following areas:-

Description	2006/07 Saving £000s
Telecommunications Networks	300
Fleet Services best value review	200
Energy Management	30
Procurement initiatives	100
Capital Charges/Leases review	650
Vehicle accident reduction programme	50
Absence Management	100
Other schemes	202
<b>TOTAL</b>	<b>£1,632</b>

- 4.08 Non-recurring income of £1.487 million was received from the SEHD and matched to training and equipment expenditure in relation to a Chemical and Biological, Radiological and Nuclear Preparation programme. Other non-recurring monies of £0.090 million were received and were carried forward to 2007/08.

#### **Financial Planning 2006/07**

- 4.09 The Service approved its Annual Financial Plan for 2006/07 in March 2006, predicting a break-even position for the year.
- 4.10 Within the plan, the Board agreed that the priority for investment for any new monies in 2006/07 should be around initiatives which supported improvements in response times to life threatening incidents and which would positively impact on Category A performance.

### Actual out-turn Against the Plan

- 4.11 The following table and paragraphs explain the in-year financial performance and why the predicted break-even position became a £0.132 million surplus by the year-end.

<u>Projected versus Actual Financial Position</u> <u>2006/07</u>	£'m	£'m
<b>Initial projected financial position for 2006/07</b>		<b>0</b>
<b>1. Additional Cost Pressures:</b>		
Agenda for Change (refer to paragraph 4.12)	(0.423)	
Air Ambulance (refer to paragraph 4.15)	(0.344)	
Aviation and Diesel (refer to paragraph 4.18)	(0.121)	(0.888)
		<hr/>
<b>2. In-year Cost Savings:</b>		
Reduction in Depreciation and Capital Charges (refer to paragraph 4.19)		1.047
<b>3. Miscellaneous Overspends</b>		(0.027)
		<hr/>
<b>Actual financial position for 2006/07 (per Annual Accounts) – surplus</b>		<b><u>0.132</u></b>

#### *Agenda for Change – back-fill costs (£0.423 million overspend)*

- 4.12 In terms of Agenda for Change, all staff were assimilated by October 2006 (although this included 12 provisional assimilations). The accrual in the 2005/06 Annual Accounts of £21 million was utilised to settle back-dated claims.
- 4.13 However, 2006/07 produced additional cost pressures through an increased overtime requirement to cover additional annual leave which was awarded as part of the revised terms and conditions and as a result of changes in the rates of pay for “stand-by” working.
- 4.14 The total overspend attributable to these factors was £0.423 million

#### ***Air Ambulance (£0.334 million overspend)***

- 4.15 The Air Ambulance contract with Gama Aviation was signed in May 2005 and took effect from 1 April 2006. It became apparent shortly after the commencement of the contract that usage had increased rapidly resulting in a corresponding overspend.
- 4.16 This increased the cost of this service and in response management implemented additional controls to minimise any unnecessary usage. This action has resulted in activity falling into line with expected contract levels, and budgetary control reports highlight that the overspend reduced towards the year end (demand for 2006/07 was 3,136 missions, an increase of 4.8% on 2005/06 levels).
- 4.17 Management also conducted an early post procurement review of the air ambulance service and concluded that the new service was meeting its objectives in terms of performance standards and patient and staff satisfaction. The review identified five development recommendations for the service going forward. The new Service was further reviewed by the Service's internal auditors in March 2007.

#### **ACTION POINT 1**

#### ***Increase in fuel costs (£0.121 million overspend)***

- 4.18 With almost 1300 vehicles, the increasing cost of fuel, together with increased levels of activity, resulted in an unplanned cost pressure in the year and an overspend of £0.121 million.

#### ***Reduction in Depreciation and Capital Charges (£1.047 million underspend)***

- 4.19 A new digital radio system, to replace the current analogue radio system, was due to be implemented during the year. This would have resulted in analogue radios being fully depreciated with an anticipated charge of £0.842 million through the 2006/07 Operating Cost Statement.
- 4.20 However, the replacement was delayed until 2008/09 as a result of protracted negotiations with the supplier resulting in an extension of the useful life of the analogue system. This resulted in a charge in the year of only £0.604 million and resultant saving of £0.238 million.
- 4.21 The budget also assumed purchases of new vehicles would occur evenly throughout the year with resultant capital charges and depreciation.
- 4.22 However, the Fleet Services Best Value Review resulted in the majority of purchases being delayed into the latter part of the year - resulting in approximately £0.809 million savings on depreciation and capital charges.

### In-year Capital Spend

- 4.23 The 2006/07 Capital Resource Limit was set at £17.028 million; this included £1.1 million of brought forward funding.
- 4.24 The reported out-turn within the 2006/07 Annual Accounts is £17.013 million and spending on key areas can be summarised as follows: -

Description	2006/07 Spend £000s
New build schemes (Edinburgh and Dumfries)	2,710
Building Refurbishments	835
Communications and IT	681
Medical Equipment	82
Vehicle Procurement	8,883
CAB Based Terminals	4,117
Disposals	(295)
<b>TOTAL</b>	<b>£17,013</b>

- 4.25 As outlined in paragraph 10.15, implementation of the CAB Based Terminal project has been delayed, although expenditure has continued in 2006/07 in line with the seven year programme.

# 5. Forecast Financial Position for 2007/08



5.01 For the purposes of this report, the projected position of the Service for 2007/08 has been summarised in the table below.

<b><u>The Service's Overall Projection for 2007/08</u></b>	<b>£'m</b>	<b>£'m</b>
Recurring income	180.234	
Recurring expenditure	<u>(182.012)</u>	
Recurring difference		(1.778)
Corporate savings programme		1.778
		<hr/>
		0
Non-recurring income	0.080	
Non-recurring expenditure	<u>(0.080)</u>	
Non-recurring difference		0
		<hr/>
<b>Projected Out-turn for 2007/08</b>		<b>0</b>

5.02 The Service is again predicting a break-even position for 2007/08.

### **Recurring Income 2007/08**

5.03 The projected out-turn position includes a 6% increase in indicative allocation.

5.04 In addition to the revenue funding from the SEHD, 2% of Service funding is generated from other sources e.g. repatriation of patients, private hires etc. Capacity to deliver in these areas is reducing as core service activity is increasing. Therefore the Service has not budgeted for any increase for such income.

### **Planned Expenditure and Commitments**

- 5.05 The Service has agreed that, as in 2006/07, the priority for new monies in 2007/08 should focus on investing in initiatives that attempt to support Category A performance in line with the Operational Performance Improvement Plan. It is therefore proposed that £1.193 million will be invested in additional Accident & Emergency and Emergency Medical Dispatch Centre staff.
- 5.06 The 2007/08 budgets also include:
- Inflationary and incremental increases in pay costs of £3.55 million; and
  - The full-year effect of 2006/07 improvements in response times initiatives totalling £2.23 million, predominantly an additional 95 whole time equivalent staff in the West Central Division.

### **Cost Pressures and Risks**

- 5.07 To achieve the projected break-even position, a number of additional challenges and pressures exist. These have been identified within the Service's 2007/08 financial plan and can be summarised as follows :
- Agenda for Change – this continues to create a risk of additional unplanned recurring expenditure, particularly around the back-filling of additional annual leave, "stand-by" working and the current appeals process (all noted previously in relation to 2006/07);
  - Increases in diesel and aviation fuel prices being higher than anticipated;
  - The continued achievement of savings targets (refer to paragraph below); and
  - Increases in demand (refer to paragraphs below).



## Savings Targets

- 5.08 The Service has a target of achieving savings of 1% in each of the next three years. As outlined in the previous section, this level has been achieved in 2006/07. The areas identified for 2007/08 are as follows:

Savings Description	2007/08 £000s
Telecommunications Networks	426
Energy Management	30
Procurement initiatives	200
Leases review	400
Compensation Recovery Scheme	100
Other	10
Absence Management	110
A&E, PTS Productivity	502
<b>TOTAL SAVINGS</b>	<b>1,778</b>

### ACTION POINT 2

#### Increasing Demand

- 5.09 The Service achieved its financial targets in 2006/07 and is again predicting financial balance in 2007/08. Financial planning and management within the Service has historically been good.
- 5.10 However, there are likely to be continued and significant increases in demand for the Service, resulting from NHS Scotland-wide service redesign and modernisation, in accordance with the recommendations in *Delivering for Health*.
- 5.11 The Board and Management are very aware of these shifting demand patterns and have taken steps to address them – outlined in greater detail in **Section 10**.
- 5.12 However, funding to match the prospective increases in demand and enable delivery of the Service's strategic objective and performance targets has yet to be formally agreed with the Scottish Executive Health Department. Management (both executive and non-executive) are in regular communication with the Scottish Executive regarding the achievability of performance targets and the current discussions include an application for additional funding.
- 5.13 This is particularly important when set against the proposed decrease in relative terms in the Service's annual allocation uplifts (expected to be down from current levels of 6% to 4% from 2008/09) and the changing political landscape and uncertainty around modernisation programmes.

### ACTION POINT 3

## Capital

5.14 The Service's initial capital allocation for 2007/08 has been budgeted as £12.72 million. This is earmarked to cover: -

- Completion of the Edinburgh station and workshop replacements;
- Commencement of the Glasgow station and workshop property strategy;
- Implementation of the cab based terminals over the three years; and
- Replacement of 1/7 of the A&E fleet and 1/10 of the Patient Transport Service within the year.

# 6. The Audit Process and Accounting Issues



## **Audit Process**

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

## **Preparation of Financial Statements**

- 6.02 The Financial Statements were prepared in accordance with the accounting requirements contained in the NHS Accounts Manual for Annual Report and Accounts of Unified NHS Boards, and supplementary guidance, as issued by the Scottish Executive Health Department (SEHD) and approved by the Scottish Ministers.
- 6.03 These financial statements have been prepared under the accounting policies set out within them.

## **Financial Statements Approval**

- 6.04 The Financial Statements were submitted to the Board's Audit Committee on the 14 June 2007 and approved and adopted at the Board meeting on 26 June 2007.

## **Accounting Issues**

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

### *Discount rate for provisions*

- 6.06 The pension and injury benefits provisions included within the financial statements are discounted because the period in which the outflow of cash is expected to occur is some years in the future. The value of money will change in that period of time and applying a discount rate accounts for that change. The discount rate prescribed by HM Treasury for 2006/07 was 2.2%, compared to 2.8% in 2005/06.

- 6.07 However, guidance issued during the year by the Scottish Executive Health Department (SEHD) has led to some inconsistency in the application of the new discount rate across Scottish Health Boards. As a result, the Scottish Ambulance Service sought written clarification from the SEHD regarding the correct rate and, in common with certain other Health Boards, were informed to use the previous discount rate of 2.8%.
- 6.08 The Scottish Ambulance Service has followed this advice and used the discount rate of 2.8% to calculate the provision within its 2006/07 Annual Accounts.

#### ***Sale of Edinburgh South Ambulance Station***

- 6.09 The Service made the decision to dispose of the Edinburgh South Ambulance Station in 2002, and permission was received to proceed from the SEHD in 2003.
- 6.10 Negotiations with the buyer continued until the missives were concluded (upon the granting of planning permission) in April 2006 and the Service received £1.5 million proceeds in June 2006. The proceeds have been earmarked to partly fund the costs of building a new Edinburgh Station in Prestonfield.
- 6.11 A Property Transaction Certificate was signed by the District Valuer in March 2006 confirming that 'the proceeds and condition of disposal are the best obtainable for the public interest'.
- 6.12 In line with the requirements of the Capital Accounting Manual, the Service has accounted for the transaction as a disposal and removed the asset from its accounting records. Due to the requirement to revalue the property to market value at the point of sale, there is no gain on sale reflected in the Operating Cost Statement. Rather the difference between historic net book value and proceeds have been accounted for through the Revaluation Reserve.

#### ***Creditors and Accruals***

- 6.13 External and Internal audit have previously reported that at any time, a large number of invoices are outstanding as a result of difficulties matching Goods Received Notes (GRNs) to Purchase Orders (POs).
- 6.14 In response, management have taken a number of actions to resolve the situation (such as training sessions, reminder emails) and performed a comprehensive review of outstanding invoices at the year end.
- 6.15 This year-end exercise appears to have captured the outstanding invoices at 31 March 2007, although an audit adjustment was identified to move a £2.625 million balance from accruals into creditors.
- 6.16 This adjustment has been processed through the final 2006/07 Annual Accounts.

#### **ACTION POINT 4**

### **Significant Audit Adjustments**

- 6.17 Following the introduction of ISA 260 we are required to report all unadjusted differences to management and to invite management to adjust them. In the event that management believe the amounts are insufficiently material to adjust, we require specific representation to this effect and report any non-adjustments to those charged with governance (Audit Committee and the Board).
- 6.18 As a result of our work to date, we proposed a number of audit adjustments and all of these have been processed by management and represented in the final 2006/07 Annual Accounts.

### **PFI/PPP contracts**

- 6.19 The Service does not have any PFI/PPP arrangements in place at present, and does not at this stage anticipate their use in future periods.

### **Agenda for Change**

- 6.20 In common with other NHS bodies in Scotland, the Service is currently facing a number of appeals with regards to gradings following the assimilation process. An amount of £1.75 million has therefore been provided for within the 2006/07 accounts to cover these appeals and the five staff yet to formally complete assimilation.

### **Equal Pay Claims**

- 6.21 Article 141 of the Treaty of Rome requires member states to ensure and maintain "the application of the principle that men and women should receive equal pay for equal work". This was expanded on in the Equal Pay Directive which made it clear that all such discrimination should be eliminated from all aspects of remuneration.
- 6.22 The National Health Sector in Scotland has received a number of claims for backdated pay increases, arising from this required pay parity between these different categories of employees.
- 6.23 As at 31 March 2007 the Scottish Ambulance Service had not received any claims. However, in order to recognise the issue, a statement has been included within Note 21 – Contingent Liabilities within the 2006/07 Annual Accounts.
- 6.24 For 2006/07 we have accepted this position because of its stage of development and as a result of the Service including within its annual accounts, a contingent liability note setting out relevant details on the matter. Nevertheless, we would have expected further details to have been available to management beyond those currently received from the Central Legal Office, including a reasonable estimate of the Service's liabilities determined in accordance with financial reporting standards.
- 6.25 We would encourage the Service's management, working with the Scottish Executive Health Department, to resolve this matter in advance of compilation of next year's financial statements.

### **ACTION POINT 5**

# 7. Systems of Internal Control



## Statement on Internal Control

- 7.01 The Code of Audit Practice requires us to review and report on the Statement of Internal Control given under the relevant code before its publication.
- 7.02 The Service has used the correct format for its Statement as prescribed in the Manual of Accounts and has outlined the processes designed to identify and evaluate risks. In addition, key elements of the Service's control framework have been highlighted including the work of the Risk Management Steering Group, internal audit, the various governance committees, and the performance and financial reporting to the Board.
- 7.03 The Statement also outlines areas where the Service plans to improve internal control. These include adoption of the Australian/New Zealand risk scoring system, development of the clinical performance reporting and further development of business continuity arrangements.
- 7.04 Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

## Follow Up Report on previous control matters raised for action

- 7.05 We followed up the Service's progress in implementing recommendations made by the previous external auditors. Our Follow Up report was considered at the Audit Committee meeting in March 2007.
- 7.06 Of the 11 agreed recommendations made in the reports issued in 2005/06 progress was reported as follows:

Status	Annual Report to Members 2005/06	Interim Management Report 2005/06	Total
Action Implemented	1	2	3
Partially Implemented	4	4	8
Little Action to Date	-	-	-
<b>Total</b>	<b>5</b>	<b>6</b>	<b>11</b>

- 7.07 Overall, the Scottish Ambulance Service had fully implemented 3 out of the 11 recommendations from the reports issued in 2005/06. However, action has been taken on all of the recommendations and full implementation is anticipated shortly.
- 7.08 In addition, it should be highlighted that for three of the recommendations in the “partially implemented” category, full implementation could only be assessed at the year end as part of the final accounts process. An update of these three matters are as follows:
- Long Outstanding Debts. Issue related to large amount of outstanding debt over 90 days old. Management has taken various action to improve controls and there are no issues with the profile of debt at the year-end.
  - Completion of Goods Received Notes. Issue related to a large number of invoices being outstanding. This was as a result of difficulties matching Goods Received Notes (GRNs) to Purchase Orders (POs). Management has taken various action to improve controls and whilst the situation has improved, there needs to be taken, principally relating to the Service’s financial systems, to wholly resolve this matter.
  - Monitoring Expenditure Against Budget. Issue related to two of the Service’s divisions reporting significant unplanned overspends in 2005/06. Management has taken various action to improve controls and the situation has improved, although 5 out of the 6 Divisions reported deficits in 2006/07 due to the cost of overtime incurred to cover backdated annual leave resulting from the implementation of Agenda for Change.

### **Financial Systems and our 2006/07 Internal Controls Report**

- 7.09 Our Internal Controls Report was presented to the Audit Committee in March 2007. The report contained a number of recommendations to improve controls, two of which were graded as high risk:
- The Service should continue to ensure it is involved in reconfiguration plans both nationally and locally and that subsequent changes to demand patterns are assessed both operationally and financially; and  
**ACTION POINT 3**
  - Management should continue to review progress with response times and take appropriate action; however, they should also ensure that actions are balanced so that other areas of performance are not compromised.  
**ACTION POINT 3**
- 7.10 The Service has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. We will follow up the action plan during our 2007/08 audit.

### **Control Weaknesses identified**

- 7.11 A number of other control matters were identified during the course of the final audit. The majority were of a minor nature and have been reported in a Financial Management Letter to the Director of Finance.

### **ACTION POINT 6**

### **Internal Audit – Audit Plan 2007/08**

- 7.12 As recommended by the International Statement of Auditing Standard (ISA) 610, “Considering the Work of Internal Audit”, we continually consult with Internal Audit during the year to discuss their programme of work, to establish progress against their plan and review their completed reports to determine the main issues being reported.
- 7.13 We have been engaging with Internal Audit regarding their 2007/08 Audit Plan to ensure appropriate input and sharing of knowledge. It is our intention to place more reliance on Internal Audit in the forthcoming financial year if increased financial systems work is undertaken and completed at the time of our interim audit visit.

### **Internal Audit’s Report on the Board’s Internal Controls**

- 7.14 The extract of the Internal Auditor’s opinion for 2006/07 is reproduced below:

*“On the basis of the work undertaken in the year ended 31 March 2007 we consider that the Service generally has an adequate framework of control over the systems we examined as summarised within this report (subject to implementation of the report recommendations). In providing such an opinion we would draw to your attention our summary findings as presented in our individual reports issued throughout the year.”*



# 8. Governance Arrangements



8.01 Through good governance, NHS bodies are able to improve services for patients and the working lives of staff that care for them. Governance means setting the strategic direction within the parameters laid down by the Scottish Executive Health Department's policies, providing leadership, setting the tone for the whole organisation, overseeing the control of the Service's work and reporting activities and progress to stakeholders. NHS board members are, therefore, collectively responsible for the success of their organisation.

8.02 Governance within the NHS can be considered under four main headings:

Financial and Performance Governance	The proper management of resources and a sound financial standing will enable the organisation to achieve its aims and objectives to meet its obligations as and when they fall due.
Clinical Governance	The Board should have an established clinical governance framework which supports and monitors standards for care, creates an environment for the continuous improvement of services, supports strategic planning and facilitates service delivery.
Risk Management	Responsibility is placed on the Board and primarily the Accountable Officer in the Statement of Internal Control to maintain a sound system of internal control and comply with all applicable laws and regulations.
Staff Governance	NHS employers are expected to have systems in place to identify areas that require improvement and to develop action plans that describe how improvements will be made. The underlying principal is that NHS Boards should recognise that investing in staff will allow them to deliver services to the best of their ability in modern healthcare settings.

8.03 The Scottish Ambulance Service has established Board and Committee structures which have been developed over a number of years. The Board monitors financial, clinical and performance management, through the following committees:

- Audit;
- Staff Governance and Remuneration;
- Clinical Governance; and
- Service Redesign and Unscheduled Care.

8.04 The Governance structure of the Scottish Ambulance Service and its key functions are outlined in the diagram below.



8.05 As this is our first year of audit we have set out, in the following pages, key features of the services governance arrangements. In our view, these represent comprehensive arrangements.

### Financial and Performance Governance

8.06 The Board meetings are chaired by a Non-Executive. The Board meets 10 times a year moving round the Country and has a standard structured agenda which involves papers from the Chief Executive and the Directors covering financial, clinical and performance issues. Board related duties are the responsibility of the Board Secretary/Corporate Affairs Manager.

8.07 As part of the performance section at each meeting, a comprehensive report is produced covering current and projected achievement against each of the key HEAT targets as set out in the Delivery Plan. Other performance against Key Performance Indicators such as sickness absence are also reported.

8.08 A financial report is presented detailing the financial position compared with budget, achievement of savings, progress against the capital plan, and highlighting any areas of perceived financial risk.

8.09 During 2006/07, the Chairman reviewed the format of Board meetings, considering the views of all the members and having an analysis undertaken on compliance with the Langlands Report "the Good Governance Standard for Public Services". He concluded that the current structure and format of Board meetings was compliant with good governance.

8.10 The Board also hold Development Sessions on the day prior to the public Board meeting with the purpose of informing the Board about various issues affecting them and NHS partners; discussing general development issues for the future of the NHS in Scotland; hearing a report from the local General Manager; and receiving a report on the Chairs' meeting with the Minister for Health and Community Care. The Management Team also meet before every Board Meeting.

- 8.11 The Board also receives reports and updates on the key staff governance, clinical governance and risk management issues.
- 8.12 The Board has also established the Service Redesign Committee. It meets four times per year to consider the delivery of national change and innovation and service redesign targets set by Ministers, co-ordinate the various components of the Service's modernisation programme, and develop and monitor the Performance Improvement Plan. This is done through seven Project Boards responsible for different work streams to ensure that the criteria for change and innovation set out in "Partnership for Care" is complied with.

### **Clinical Governance**

- 8.13 The Clinical Governance Committee meets at least four times each year to monitor standards of care and measure the effectiveness of pre-hospital treatment.
- 8.14 The Clinical Governance Committee has two key roles:
- Systems assurance – to ensure that clinical governance mechanisms are in place and effective throughout the Scottish Ambulance Service System; and
  - Public health governance – to ensure that the principles and standards of clinical governance are applied to the health improvement activities of the NHS Board.
- 8.15 Regular reports provided through the use of a core agenda that includes:
- Clinical Performance – reports on performance against indicators and milestones, including analysis on a Divisional basis
  - Governance Issues – reports such as Internal Audit reviews, Clinical Effectiveness Audit Reports and updates on Infection Control clinical risk.
- 8.16 The Committee membership was expanded within the last year to include members of the Service's senior management team and they provide regular updates to the Committee on clinical progress at a National and Divisional level.
- 8.17 The Clinical Governance Committee produces an annual report and a detailed programme of projected activity.
- 8.18 The NHS Quality Improvement Scotland (QIS) standards for clinical governance, patient safety, and risk management cover the full range of standards in the field. Performance against the standards is measured via self-assessment (with a portfolio of evidence) plus inspection and peer review. The Service was one of the few NHS Boards in Scotland to achieve Level 3 at the interim assessment during the year under review.

## **Risk Management**

- 8.19 Risk management is often defined as a systematic process for identifying, assessing, controlling, monitoring, reviewing and auditing risk. Effective risk management is of critical importance to the health service as adverse consequences of risk could place limitations on the quality of health care delivery, and put a strain on staff and financial resources.
- 8.20 Health bodies are required to implement a robust and effective framework for the management and understanding of risk. The framework should be developed by building on existing good practice and should be used to facilitate planning and decision making processes.
- 8.21 The Service has a well established and comprehensive Risk Management process, with the top-ten risks identified, monitored and updated regularly. A Risk Management Steering Group and a corporate risk register exists for each Division, department and Project Board.
- 8.21 The Service also has a well-established Risk Management Strategy. To complement this Strategy, the Service approved and began rolling out a Patient Safety Strategy to focus on minimising the risks to patients in the Service's care.
- 8.22 An annual risk identification exercise is conducted each year to develop and update the strategic risk register. The workshop was facilitated by Internal Audit and attended by both executive and non-executive members of the Board, as well as operational and general managers.
- 8.23 The Service are currently rolling out the Datix system for Risk Management and a training package has been developed and uploaded onto the Service Intranet for user access.

## **Staff Governance**

- 8.24 The NHS Reform (Scotland) Act amended the National Health Service (Scotland) Act 1978, making it a legal requirement for Health Boards to have in place arrangements for good governance of staff. It is the duty of every Health Body to put and keep in place arrangements for the purposes of:
- improving the management of the officers employed by it;
  - monitoring such management; and
  - workforce planning.
- 8.25 The Staff Governance and Remuneration Committee established by the Board has an important role in ensuring consistency of policy and equality of treatment of staff across the Board. The Committee meets four times per year to ensure effective monitoring of the machinery for effective staff governance and includes staff-side representation.

- 8.26 A draft workforce plan has been developed and was submitted to the SEHD at the end of May 2007. In addition, an Equality and Diversity Strategy is under development.
- 8.27 The Committee also set and receive reports on the key performance indicators for Health and Safety. Progress with the 32 point action plan on the subject is reported to the Board and it was noted that good progress had been made.
- 8.28 The Service continues to strive to reduce assaults on staff. The Staff Governance and Remuneration Committee receive and monitor the statistics and have established a Working Group which produced an action plan to combat the problem.
- 8.29 The Service has also rolled out management of aggression training to all staff and commissioned a consultant to look at how the staff deal with violence.

# 9. Prevention and Detection of Fraud and Irregularities



## **Responsibility with respect to Fraudulent and/or Illegal acts**

- 9.01 The preparation of the financial statements is the responsibility of management. Our responsibility as auditor is to express an opinion on those financial statements.
- 9.02 Effective internal control reduces the likelihood that errors, fraud or illegal acts will occur and remain undetected; however, it does not eliminate that possibility. Our responsibility regarding fraud is to obtain reasonable assurance that material misstatements resulting from fraud will be detected.
- 9.03 Accordingly, while we cannot guarantee that all errors, fraud or illegal acts, if present, will be detected, we will design our audit to provide reasonable, but not absolute, assurance of detecting errors or fraud that would have a material effect on the financial statements as well as illegal acts having a direct and material effect on the financial statements.

## **Fraud and Corruption Reviews**

- 9.04 As part of our rotational plan to review the key mechanisms for the prevention and detection of fraud and corruption, we have reviewed the Board's fraud and corruption internal policy and regulations for members and staff conduct.
- 9.05 As part of our audit, we examine journal entries and accounting estimates for biases and add an element of unpredictability in audit procedures year to year.
- 9.06 Our enquiries of management and our testing of financial records for the purposes of our normal audit responsibility did not reveal any illegal or possible illegal acts. However, improper conduct is usually carefully concealed and consequently, the probability is not high that our regular audit work, however diligently performed, will bring it to light.

## **National Fraud Initiative**

- 9.07 In 2006/07 the Service took part in the National Fraud Initiative (NFI) in Scotland. The Health Department and NHS Counter Fraud Services has strongly supported the involvement of health bodies in the exercise, which is undertaken as part of the audits of the participating bodies.
- 9.08 NFI brings together data from health bodies, councils, police and fire and rescue Boards, and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. Health bodies provided payroll data for the exercise.
- 9.09 The NFI 2006/07 results (data matches) were made available to health bodies on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the Service's involvement in NFI 2006/07 during the course of the audit.
- 9.10 The Service ensured accountability for the process by delegating the detailed work of clearing matches to the Payroll Manager. There were 262 matches, of which 130 related to National Insurance numbers.
- 9.11 At the time of this review, SAS had cleared 138 of these matches in total, including 129 of the National Insurance number matches (these were mainly due to the last letter missing on the payroll system as this is not actually needed for this purpose).
- 9.12 The Payroll Manager prepares and provides regular updates to the Director of Finance, who subsequently updates the information on the web-based monitoring system.

## **ACTION POINT 7**

### **Fraud Guidance**

- 9.13 We have reviewed the fraud and irregularities guidance issued by Audit Scotland during 2006/07 and certain HDLs issued by SEHD, and undertaken work accordingly. No matters for reporting has arisen from this work.

### **Fraud Submission**

- 9.14 A return has been made to Audit Scotland of the reported frauds that have occurred within the Service during the year. The return made note of one fraud, a second tier payroll fraud with an estimated total loss to the organisation of £600.

# 10. Other Business Matters



## Priorities and Risks Framework

10.01 Audit Scotland publishes an annual Priorities and Risks Framework (PRF), a planning tool for auditors that sets out key high level risks facing Health Boards in Scotland. For 2006/07, the identified risk areas were categorised into the following areas:

- Service sustainability
- Financial management
- Governance
- Performance management
- People management
- Partnership working
- Information management

10.02 During the course of our audit, we considered each of the key risk areas highlighted within the PRF, the impact these areas have on the Service and planned our audit work accordingly. Financial management and governance have been detailed previously in separate sections (see sections 3 and 7). The significant points noted from the remaining sections have been detailed below.

## *Service Sustainability*

10.03 Delivering for Health set out the Scottish Executive's vision for the future of health services in Scotland. It was the response to the findings of the Kerr Report, which forecast increasing levels of centralisation of acute service and more community based treatment of patients. The Scottish Ambulance Service therefore faces changes to the demand for its services over the coming years.

10.04 In response, the Service has completed The Health Plan 2007/08 to 2009/10 (incorporating the Delivery Plan 2007/08 to 2009/10) which contains the HEAT targets. It has been drafted following consultation with a variety of partners across the Public Sector including NHS24, NHS Boards and the SEHD and reflects the increasing demand particularly around Out of Hours.



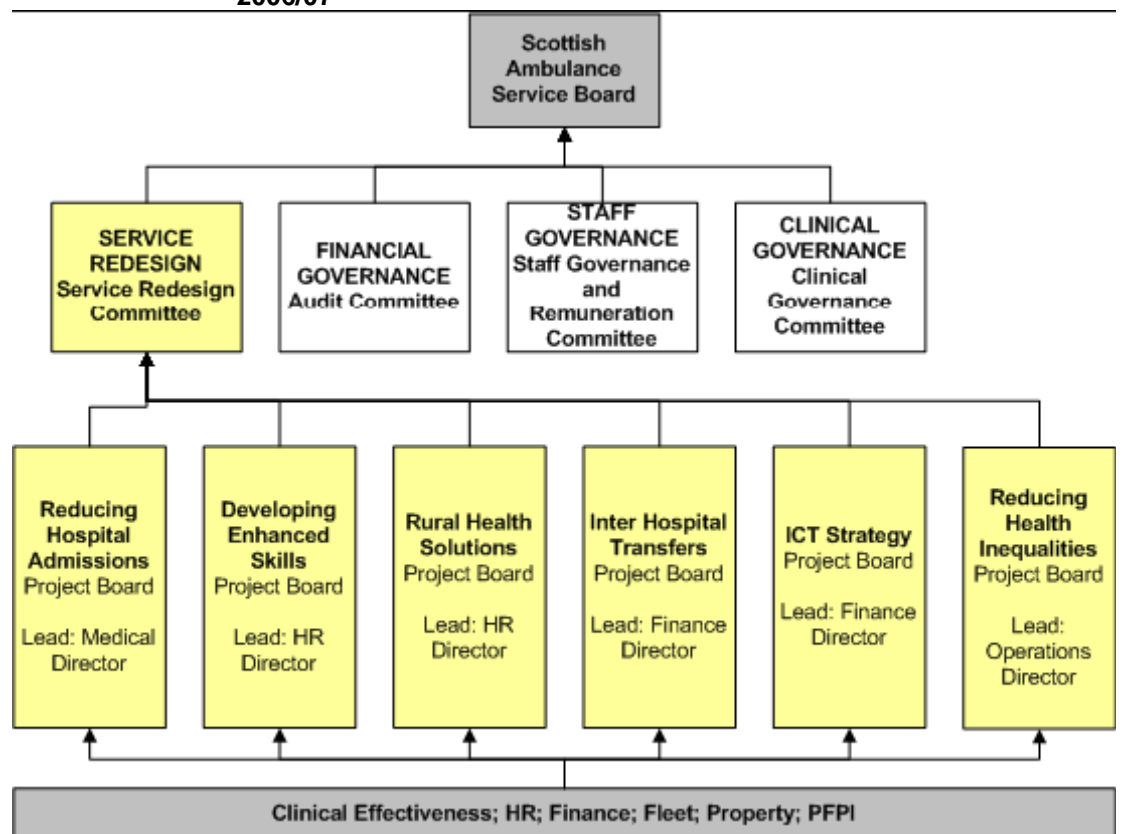
10.05 This Health Plan sets out the Service's planned objectives and performance over the three year period of 2006/07 to 2008/09. It is designed to:

- Clarify the organisation's strategic direction;
- Set out the contribution that the Scottish Ambulance Service will play in meeting the requirements of Delivering for Health;
- Enable the Board to fulfil its corporate governance role within NHS Scotland;
- Allow the Board to be specific about its implementation and performance plans for the forthcoming years;
- Promote a robust planning process, including the involvement of stakeholders in the development of the Plan;
- Promote accountability by enabling progress against the Plan to be measured;
- Stimulate action by Service management.

10.06 The Health Plan will be implemented through the "Delivering for Health Programme", which includes six projects that will provide the framework for the strategic development of the service. Each of the six projects is carrying through a major workstream associated with implementing *Delivering for Health* in Scotland. The programme is co-ordinated by the Service Redesign Committee.

10.07 Each project is project-managed using PRINCE2 project management methodology. Each project has a Project Board, a Project Director and one or more Project Teams; each project has a clear set of "deliverables" which have been programmed into an outline timetable.

**Service Redesign/ Delivering for Health Programme Structure 2006/07**



- 10.08 In addition, the Service is also in ongoing dialogue with territorial Health Boards concerning the Scottish wide changes to acute service delivery and the impact this has on activity levels and services provided by the Service, both in terms of patient transport and “blue-light” services. The Service is also undertaking certain projects to manage demand jointly with NHS24.
- 10.09 The Service remains focused on the achievement of performance targets, particularly Category A and B. Members of the Board and Senior Executive are in continual communication with the Scottish Executive regarding the performance targets.
- 10.10 These discussions are based on extensive and robust research to explore and quantify the underlying increases in demand and the impact of NHS Scotland wide service modernisation.
- 10.11 This research, which involved the Service’s key partner organisations, has also informed a bid for additional funding and negotiation over amending the targets to make them more achievable. The Service is currently awaiting the outcome of these discussions.
- 10.12 A joint working group has been established, led by the SEHD’s Director of Primary Care and including the Chief Executives of the Service and NHS24, aimed at examining and reacting to demand changes and achievement of targets, ensuring the appropriate clinical outcome and improvement in patient experience. The group will focus more on recent patterns of demand and whether there are various whole system changes that can be made across the wider NHS to reduce demand.
- 10.13 The achievement of Ministerial performance targets continues to present a major challenge for the Service. The risks associated with achievement have been exacerbated by the temporary appointments in place within the Executive team, the proposed decrease in relative terms in annual uplift allocations from the SEHD, and the changing political landscape and uncertainty around modernisation programmes.
- 10.14 Clear and strong leadership will be required to drive the organisation forward and achieve its strategic objectives. This will involve co-ordinating and delivering on current improvement projects and programmes, whilst avoiding “initiative overload” and excessive focus on Category A targets at the expense of other areas of performance.
- 10.15 The Service is also progressing with the introduction of cab based terminals, including satellite navigation technology, in its ambulance fleet, following a pilot in the East Central Division. This project will help modernise the Service and assist it in meeting its performance targets.
- 10.16 This project is expected to cost £11 million in revenue expenditure over seven years and £4.8 million capital costs, £4.2 million of which will be met by the SEHD.

- 10.17 The scheme was due to be fully operational by November 2006, however it was delayed due to a more concentrated focus on performance targets and to implement the terminals at the same time was viewed by management as too high risk. At the time of this report, the system had gone live in North East and North and West Divisions and lessons learned would be taken into account as the system is rolled out further. Regular updates have been provided on project progress throughout the year.

## **ACTION POINT 8**

### *Performance Management*

- 10.18 Key Performance Indicators (KPIs) are reported to the Board as a standing agenda item at each of its meetings. The majority of the performance report focuses on the targets within the Delivery Plan.
- 10.19 As outlined above, the Development Plan sets out key HEAT targets and the levels of performance required by the Service to achieve these targets. Although they include financial break-even and managing sickness absence rates, the SAS targets are primarily focused on response times. SAS is currently underachieving on some of their HEAT targets.
- 10.20 At the year end, the Service reported that it had missed its performance targets for treating patients with life threatening emergencies (category A) and also treating other emergency cases (category B). The Service is expected to respond to 64% of category A calls within 8 minutes, its performance for 2006/7 was 55.7%. Response to category B calls is expected to be 93% within 14,19 or 21 minutes (depending on the geography and demographics of the caller) and performance for 2006/07 was 88.2%.
- 10.21 The Service did achieve its performance targets for appointment and pick-up for Priority 1 PTS patients for the year 2006/07 and two of the five headline clinical performance indicators were within target range with the remaining three (cardiac arrest on arrival, reducing hospital admissions and patients thrombolysed) falling marginally below planned performance.
- 10.22 The Service also implemented an Operational Performance Improvement Plan in August 2006 which reviewed the components of operational performance, analysed current and required effectiveness and identified areas for improvement action together with the key risks to achievement.
- 10.23 This initiative has contributed to response time improvements in the latter part of the year – the March 2007 monthly Category A performance was 60%, compared to the annual average of 55%.

- 10.24 Another key performance target is the NHS wide sickness absence target of 4% by 31 March 2008. The Service did improve its performance in 2006/07 to 5.6%. A sickness absence management project was initiated during the year to support structured efforts already being made to reduce lost hours through the Operational Performance Improvement Project. Targeted personnel resources were deployed in poorer performing areas and a revised Occupational Health Strategy for the Service was signed off in-year.
- 10.25 Discussions were initiated with the SEHD for an amended target of 5% for sickness absence by 31 March 2008 to more accurately reflect the method of operation and service provision of the Ambulance Service. The results of these discussions were on-going at the time of this report.
- 10.26 The Service also implemented the CITISTAT performance management system - the only "special" NHS Board in the first wave of early adopters across the Country. CITISTAT is designed to build upon the Service's existing performance management and data systems to ensure that operational data is collected, analysed and reported to ensure maximum impact on performance.

#### *People Management*

- 10.27 People play the key role in the delivery of high performing services and the Scottish Ambulance Service must ensure that it has skills, in the right place, at the right time – both through a period of significant change for NHS in Scotland and for the Service itself. Successful delivery of organisational objectives is dependent on staff capacity, capability and competency. The shift from acute to community based care models, envisaged in *Delivering for Health*, also presents challenges for the Service and in response it will need to develop appropriate workforce plans.
- 10.28 The Service has responded to *Delivering for Health* in its local delivery plan and it recognises the challenge that workforce planning presents, particularly determining the role of paramedics and matching its staff resources to changing patterns of demand.
- 10.29 The Board submitted a workforce plan to the Scottish Executive Health Department (SEHD) in April 2006 which aligned the key workforce objectives of the Service to the SEHD's HEAT targets.
- 10.30 The Board's information capability is sufficient to meet the requirements of staff governance and to ensure that the SWISS database is kept up to date. The information generated through SWISS is kept under review to ensure that it meets the Board's information needs and contingency plans are in place to address any deficiencies.
- 10.31 In addition, all staff have a personally held continuing professional development (CPD) portfolio and CPD is linked with the SAS's appraisal system. All operational staff attend a mandatory annual training post-proficiency programme.

- 10.32 Agenda for Change is a major change programme in the NHS, designed to modernise pay structures, assist service delivery of patient care, aid recruitment and retention and allow for personal development of staff. The new pay structure will consist of nine pay bands and several pay points within each pay band. Individual posts will be mapped to a pay band by either matching the job to the national profile or through a local job evaluation.
- 10.33 The original national timetable for two key elements of Agenda for Change (AfC) was for all staff to be transferred to a new pay grade ("assimilated") and have a validated Knowledge and Skills outline as part of the Knowledge and Skills Framework by October 2006.
- 10.34 All Ambulance staff were assimilated by October 2006 (although this included 12 provisional assimilations). At the time of this report, all 3842 staff under AfC terms and conditions had been assimilated to the new scales.
- 10.35 A further part of the process involves processing requests for a review from staff not satisfied with their placement on the new salary structure. The Board has received requests from various groups of staff, both past and present, and has yet to complete the review process. A provision has been included within the 2006/07 Annual Accounts to cover any costs should these appeals prove successful.

#### **ACTION POINT 9**

- 10.36 The Service is currently implementing the Knowledge and Skills Framework (KSF) and the Board has identified training needs and budget requirements in relation to KSF and redesign of services.

#### ***Partnership Working***

- 10.37 The Service is dependent on effective partnership working to deliver services that meet the needs of patients now and in the future.
- 10.38 The Service continues to work with NHS 24 to audit the emergency calls transferred from NHS 24 to the Service. Both organisations agreed actions to reduce the number of inappropriate Category A calls to the Service and to improve the handling of Category C calls by NHS 24. This is aimed at improving the Service's performance against ministerial targets.
- 10.39 The Service is expected to respond to 64% of category A (life-threatening) calls within 8 minutes. Response to category B (serious, but not life-threatening) calls is expected to be 93% within 14,19 or 21 minutes (depending on the geography and demographics of the caller). Category C claims (non-life threatening) are expected to be responded to on 95% of occasions within the time agreed with the caller.
- 10.40 As outlined above, the Service continues to work with the SEHD and regional Boards and input to service redesign programmes.

### **Information Management**

- 10.41 The Service previously agreed an ICT Strategy 2005-2010 and the Board receive an annual ICT Strategy Update document. For the year under review, this was presented in March 2007.
- 10.42 In terms of ICT Governance, the Service has established an ICT Strategy Board which in turn reports directly to the Ambulance Service Board. A representative from the SEHD IM&T Strategic Planning Department forms part of the Board membership and this representative ensures that the Service's ICT Strategy is fully aligned with the National NHSiS IM&T Strategy.
- 10.43 The Audit Scotland Report 'Informed to care: Managing IT to deliver information in the NHS in Scotland' indicates that the SEHD is establishing new national governance and organisational structures for IM&T, to ensure standardisation of developments and good practice across the IM&T development programmes.
- 10.44 The Service's ICT Development Programme Governance structure ensures close links with the SEHD IM&T Governance Board, particularly for the delivery of the National e-Health Development Programmes and the implementation of ICT Projects to the nationally agreed standards.
- 10.45 A third party report was recently provided to the Board stating that each of the ICT Development Programmes were being appropriately managed, will be delivered on time, within budget and safely, with all known risks fully mitigated wherever possible throughout the life of the specific programme.

### **Shared Services Project**

- 10.46 The Shared Support Services Project has been reviewed following the outcome of the consultation exercise with Health Boards and Trade Unions, and the Full Business Case will not be submitted at this stage. The Project Team now intends to develop an alternative implementation plan building on the support expressed for common systems and processes and the principle of shared services.
- 10.47 A twin-track approach incorporating two main concurrent activities is being developed. These activities are being termed Foundation and Pathfinder.
- Foundation: All boards are expected to implement common systems and processes including migrating to the same finance system version (Cedar eFinancials version 3.4) and implementing a common chart of accounts. This will build on the State of Readiness Assessment (SORA) plans that have already been developed with boards.
  - Pathfinder: Individual boards (or consortia of Boards) are invited to volunteer to test, prove and implement the new ways of working proposed in the Shared Services Final Business Case. The idea is to prove the benefits and address the range

of risks identified by Boards in their FBC responses.

10.45 Impact on SAS:

- Foundation: the Service will be migrating to the required version of the finance system in autumn 2007, as a standard upgrade, regardless of the project.
- Pathfinder: the Service could benefit from some of the proposed systems/ways of working, with more efficient, effective and economic ways of working.

10.46 The Interim Director of Finance and the Board Lead for Shared Services will meet with the Shared Services Project Team to clarify foundation activities and potential Pathfinder involvement.

**ACTION POINT 10**

**Executive Team**

10.47 Changes were made to the Executive team at the commencement of the year under review. An Interim Chief Operating Officer (current Director of Finance) was appointed, with a subsequent Interim Director of Finance being appointed from outwith the Scottish Ambulance Service.

10.48 In addition, the Medical Director is on secondment to National Services Scotland and an interim Medical Director is being shared with NHS24. The Chief Executive and Board Secretary/Corporate Affairs Manager have both announced their retirement from the Service with effect from 30 September 2007.

10.49 Whilst the performance of the Service over the last year has shown signs of improvement, we remain concerned over the lack of a complete and consistent Executive team, with permanently appointed people in post to ensure focus, clarity and achievement of the key strategic objectives of the Service.

10.50 The Board and Audit Committee are aware of this issue and are focused on resolving the matter. It has been decided that the priority for the Service is to appoint a Chief Executive, prior to addressing other Executive vacancies.

10.51 The post of Chief Executive has been advertised and interviews are scheduled for July. In addition, the Board's Standing Orders have been amended to limit vacancies in Executive posts to six months.

**ACTION POINT 11**



# 11. Audit Scotland Performance Work



## **Audit Scotland**

- 11.01 Audit Scotland delivers the independent audit of governance, financial stewardship and performance on behalf of the Auditor General and Accounts Commission. Audit Scotland operates under the Public Finance and Accountability (Scotland) Act 2000.
- 11.02 Audit Scotland has particular interest in studies that examine the quality of public services from the user's perspective. The programme of local performance work also takes account of the views expressed by the Scottish Parliament, the Scottish Executive and other main organisations they work with.
- 11.03 For the 2006/07 financial year, the following reports were published:
- Planning ward nursing – legacy or demand? A follow up report;
  - Overview of the financial performance of the NHS in Scotland;
  - Catering for patients: a follow up report;
  - Managing IT to deliver information in the NHS in Scotland;
  - How the NHS works: Governance in Community Health Partnerships – Self Assessment Tool; and
  - Health and community care bulletin.
- 11.04 Copies of Audit Scotland reports are presented to the Audit Committee on their publication for consideration and discussion.
- 11.05 Audit Scotland has recently finalised their programme for 2007/08, and this programme has been detailed below:
- Primary care out of hours services;
  - NHS performance and financial overview;
  - Palliative care;
  - New General Medical Services contract;
  - Diagnostic services;
  - NHS asset management; and;
  - Using medicines in hospitals follow-up.



11.06 The Audit Committee should be presented with each of these reports on their publication.

**ACTION POINT 12**

# Appendix 1: Action Plan

Ref	Recommendation	Risk Category	Management Response	Responsible Officer	Date of Implementation
1	Management conducted a procurement post project review on the air ambulance service and concluded that the new service was meeting its objectives. However, the review did make 5 key recommendations for the service going forward and Management should ensure these are implemented, reported and monitored over the coming year.	Medium	Covered by recent Internal Audit report	As specified in the Internal Audit Report	As specified in the Internal Audit Report
2	Management have identified and monitor savings targets in order to achieve financial balance. Management should continue to ensure robust monitoring, reporting and early action to ensure achievement of these savings, particularly against the current back-drop of increasing demand.	Medium	Regular monitoring and review of financial risks undertaken and planned to continue	Director of Finance	Monthly review
3	<p>The achievement of Ministerial performance targets continues to present a major challenge for the Service.</p> <p>Clear and strong leadership will be required to drive the organisation forward and achieve its strategic objectives. This will involve co-ordinating and delivering on current improvement projects and programmes, whilst avoiding “initiative overload” and excessive focus on Category A targets at the expense of other areas of performance.</p>	High	Board and SEHD have agreed delivery plan which recognises challenges facing the Service. Will continue to engage with SEHD around delivery and funding	Board	Ongoing

Ref	Recommendation	Risk Category	Management Response	Responsible Officer	Date of Implementation
4	Management should continue with the previous actions concerning unmatched GRN's to ensure year – end work and accounting adjustments are kept to a minimum.	Medium	Agreed	Director of Finance	Ongoing
5	We would encourage Board management, working with the Scottish Executive Health Department, to resolve the issue of Equal Pay in terms of likelihood and quantification of potential liabilities.	Medium	Remains on Finance and HR agendas	Directors of Finance and HR	Ongoing
6	Management should ensure that an appropriate action plan is put in place to address the control weaknesses raised in our final management letter and that progress is reported to the Audit Committee on a regular basis.	Medium	Management responses previously agreed and being progressed	Director of Finance	As per responses to management letter
7	The Board should adopt a formal policy and procedure in relation to the National Fraud Initiative. This should detail the various stages of the process, including accountabilities, deadlines and reporting mechanisms.	Medium	Agreed	Directors of Finance	Nov 2007
8	The CAB Based Terminal project will require to be delivered on time and to budget to ensure planned performance improvements are realised and prevent excessive implementation costs.	Medium	Agreed, detailed implementation plan in place	ICOO	As per implementation plan

Ref	Recommendation	Risk Category	Management Response	Responsible Officer	Date of Implementation
9	Management should ensure that there is appropriate resource within the HR Agenda for Change Team to manage the resource intensive process involved in processing the review requests currently being received.	Medium	Budget agreed which reflects estimated resourcing levels	Head of Personnel	Ongoing
10	Management should ensure that they continue to engage with the SSS Project Team to clarify the most efficient and effective methods of involvement in the project for the Service.	Medium	Agreed	Finance Director	Ongoing
11	The Board should seek the appropriate candidates and make permanent appointments to the posts of Chief Executive, and the other vacancies, to ensure focus, clarity and achievement of the key strategic objectives of the Service.	High	Recruitment process underway. New Chief Executive will agree structure of top team with Board	Chairman	July 2007 for chief Executive
12	All Audit Scotland performance reports should be presented to the Audit Committee for consideration	Medium	Agreed	Finance Director	As they arise

# Appendix 2: Responsibilities of External Audit and the Board and its Management



The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of the Scottish Ambulance Service and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility, we evaluate significant financial systems and associated internal controls and, where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist the Scottish Ambulance Service regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with The Scottish Ambulance Service and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to the Scottish Ambulance Service or any other party.

The prime responsibility for the prevention and detection of fraud and irregularities rests with the Scottish Ambulance Service. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach, we consider these arrangements but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of the Scottish Ambulance Service and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of the Scottish Ambulance Service to put in place proper arrangements to ensure the proper conduct of its financial affairs and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal financial control; and
- Standards of financial conduct and the prevention and detection of fraud and corruption.

It is the responsibility of the Scottish Ambulance Service to put in place proper arrangements to manage its performance in order to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that the Scottish Ambulance Service has put in place to secure economy, efficiency and effectiveness in its use of resources.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to the Scottish Ambulance Service during the year as listed at **Appendix 4**.

### **Materiality**

Materiality is defined by the International Accounting Standards Board in the following terms:

*“Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends upon the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”*

Overall audit risk and materiality are significant concepts used in determining the extent of audit work.

Guidelines for this organisation suggest that preliminary materiality be set at approximately 1% of total expenditure. However, materiality is not simply a quantitative figure. Qualitative aspects also need to be considered in assessing whether something would be significant to a user of the financial statements.

The final assessments as to what comprises a material error in the financial statements is a matter of judgement and has been made in accordance with ISA320 “Audit Materiality”.

## **Management's Judgments and Accounting Estimates**

Management has the responsibility for applying judgment in preparing the accounting estimates and disclosures contained within the financial statements.

## **Audit independence**

As external auditors of the Scottish Ambulance Service we are required to be independent in accordance with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants and by the Ethical Standards established by the Auditing Practices Board.

These standards require that we disclose to the members all relationships that, in our professional judgment, may reasonably be thought to bear on our independence.

We confirm that no issues have arisen to impair our independence, objectivity and integrity. We further confirm that we are not presently aware of any relationship or non-audit services that would impair our audit independence.

# Appendix 3: Audit Opinion



## **Independent auditor's report to the members of the Scottish Ambulance Service, the Auditor General for Scotland and the Scottish Parliament**

We have audited the financial statements of the Scottish Ambulance Service for the year ended 31 March 2007 under the National Health Service (Scotland) Act 1978. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses and the related notes, but excluding the Directors' Report. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

## **Respective responsibilities of the board, Chief Executive and auditor**

The board and Chief Executive are responsible for preparing the Annual Report and the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. The Chief Executive is also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of the Chief Executive's Responsibilities as the Accountable Officer of the Health Board.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report 2006/07 to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. We also report whether in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. We also report if, in our opinion, the Directors' Report is not consistent with the financial statements, if the body has not kept proper accounting records, if we have not received all the information and explanations we require for



our audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

We review whether the Statement on Internal Control reflects the board's compliance with the Scottish Executive Health Department's guidance. We report if, in our opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements; the financial statements being the only part of the Annual Report which we have audited. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements and the part of the Remuneration Report 2006/07 to be audited. It also includes an assessment of the significant estimates and judgements made by the board and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the body's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report 2006/07 to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report 2006/07 to be audited.

## **Opinion**

### ***Financial statements***

In our opinion

the financial statements 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 affairs of the board as at 31 March 2007 and of its net operating cost position, total recognised gains and losses and cash flows for the year then ended; and

the financial statements and the part of the Remuneration Report 2006/07 to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

### ***Regularity***

In our opinion in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

**PricewaterhouseCoopers LLP**  
**Glasgow**  
**27th June 2007**

# Appendix 4: Other Formal Reports Submitted During the 2006/07 Audit Process



**Reports submitted by PricewaterhouseCoopers LLP during the 2006/07 audit process**

## **Planning visits**

Annual Service Plan

## **Interim Visit**

Follow up of 2005/06 Audit Recommendations

Internal Controls Report 2006/07

## **Final Accounts Visit**

Audit Opinions

Annual Report to Board Members

Final Management Letter

### **Freedom of Information (Scotland) Act 2002**

*This report is intended solely for the information of the Members of the Board of the Scottish Ambulance Service and the Auditor General for Scotland. In the event that, pursuant to a request which these parties receive under the Freedom of Information (Scotland) Act 2002, they will notify PwC promptly and consult with PwC prior to disclosing such External Audit Report. The Scottish Ambulance Service agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the Scottish Ambulance Service shall apply any relevant exemptions which may exist under the Act to such External Audit Report. If, following consultation with PwC, the Scottish Ambulance Service discloses this External Audit Report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed. PricewaterhouseCoopers LLP does not accept any responsibility to any other party to whom this report may be shown or into whose hands it may come.*

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