

Scottish Ambulance Service Annual Report to Members and the Auditor General for Scotland 2008/09



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

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

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

1. Introduction

Purpose of this report

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2008/09 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

Scope of the Audit

Our overall responsibility as external auditor of the Scottish Ambulance Service (SAS or 'the 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.

In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources.

It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving the "appointed auditor", the Auditor General for Scotland and other auditors such as Audit Scotland's Health Performance and Public Reporting Group.

Our audit has been planned and conducted to take account of these wider perspectives.

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260: "*Communication of audit matters to those charged with governance*", we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This Annual Report to Members, together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA 260.

Acknowledgment

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

PricewaterhouseCoopers LLP
68 – 73 Queen Street
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15 June 2009

2. Executive Summary

Audit Opinion and Accounting Issues (Section 3)

Our audit opinion addresses both the true and fair statement of the Service's financial results and balances for the year ended 31 March 2009 (2008/09) and the regularity of its income and expenditure in the year.

We are pleased to report that our opinion on the true and fair view on the financial statements is **unqualified**.

Our regularity opinion on income and expenditure is also **unqualified**.

We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is **unqualified**.

Our audit opinion does not extend to any other part of the Directors' Report.

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

- The revaluation of Land and Buildings resulted in an impairment charge of £12.858 million. This arose from a change in valuation method from Depreciated Replacement Cost to Existing Use Value.
- The accuracy of the Fixed Asset Register. Equipment was found within assets under construction that had been purchased in 2007/08. The equipment had not been matched to vehicle additions and was not transferred to operational vehicles meaning no depreciation was

charged during the year. Also, testing of land and building additions revealed instances where additions were being added without appropriate supporting documentation, which resulted in incorrect values being added to the fixed asset register. Both these items were adjusted prior to the financial accounts being prepared.

- A prior year adjustment to the injury benefit provision was processed by management to correct an error of £251,000.
- An emerging accounting issue has been highlighted regarding the Airwave contract for the Digital Radio network. This will require complex calculations to determine the annual expense of the contract from 2009/10 onwards. In addition, the financial stability of the Airwave parent company is also raised as an area that requires continuous assessment to help safeguard advance payments made to date and to ensure future payments are supported by informed due diligence.

Financial Management and Performance (Section 4)

The Service reports a surplus for the year of £0.025 million. The Service achieved all 3 of its key financial targets: revenue resource limit; capital resource limit; and cash requirement.

Overtime costs incurred in the year were £8.7 million against an original budget of £2.7 million. Although total pay costs were below budget for the year, this suggests that difficulties exist in the budgeting process for overtime.

Financial Forecasts for 2009/10 (Section 5)

The Service has prepared detailed financial forecasts as part of its financial planning. The financial forecasts for 2009/10 include a break even position and savings of £3.953 million. Particular cost pressures in respect of continuing dependence overtime and Air Ambulance are anticipated.

Governance and Business Risks (Section 6)

The findings from our consideration of the Service's governance arrangements were reported in our 2008/09 Interim Management Letter. In overall terms, the Service has expected arrangements in place and is taking steps to implement changes to further enhance the governance environment.

The Service is still operating with an Executive team that includes a number of interim positions and shared roles. This follows the resignation of both the Chief Executive and Director of Operation in November 2008; the posts of Chief Executive and Director of Finance remain covered by interim appointments, with the post of Director of Operations continuing to be covered by the Director of Human Resources.

It is important that a full, permanent and appropriate Executive team is appointed as soon as possible.

Good arrangements exist for partnership working, financial management and performance management.

The Service currently only has one equal pay claim and has included an appropriate disclosure by way of Contingent Liability Note in its financial statements.

Systems of Internal Control (Section 7)

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

Audit Scotland require us to review progress being made and systems in place regarding the National Fraud Initiative (NFI). A review of progress made to the year end 31 March 2009 revealed that payroll matches are all being investigated and good progress has been made to clear all matches. The Creditors matches, which were voluntary in nature, were not however found to have been considered at this point.

Recommendations

Where appropriate, we have made recommendations for improvement. These are summarised in Appendix A along with management's responses.

3. Audit Opinion and Accounting Issues

Audit opinion

Our audit opinion concerns both the true and fair statement of the Service's financial results for the year ended 31 March 2009 and the regularity of its income and expenditure for the year.

We are pleased to report that our opinion on the true and fair view on the financial statements is **unqualified**.

Our regularity opinion on income and expenditure is also **unqualified**.

We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is **unqualified**.

Our audit opinion does not extend to any other part of the Directors' Report.

Audit Process

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

Preparation and Approval

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

The Financial Statements were submitted to the Service's Audit Committee on the 15 June 2009 and are to be approved and adopted at the Board meeting on 24 June 2009.

Unadjusted misstatements

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

As a result of our work, we proposed a number of audit adjustments and all of these have been processed by management in the finalised version of the 2008/09 financial statements.

Accounting Issues

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

Revaluation of Land and Buildings

The majority of SAS's Land and Buildings estate was re-valued at the 1st April 2008. The valuation method used was changed from Depreciated Replacement Cost (DRC) to Existing Use Value (EUUV). The change in valuation method to EUUV was to reflect the non-specialised nature of the majority of SAS buildings, e.g. stations and workshops.

The revaluation resulted in a significant reduction in the carrying value of Land and Buildings in the accounts. This was reported in the 2007/08 Financial Statements and Annual Report to Members as a post balance sheet event. The carrying value of these assets fell from £43.1 million at 31 March 2008 to £24.4 million at 1 April 2008 with an impairment of £18.7 million recorded.

During 2008/09 further valuations were performed on properties completed during the period. Again the change in valuation method from DRC to EUUV has resulted in significant reductions in value. The fall in valuation of the properties was also influenced by current market conditions with capital costs, largely on refurbishment, not adding to the final existing use valuations.

The overall impact on the 2008/09 Accounts is a total reduction in carrying value of £24.674 million. This has resulted in an impairment charge of £12.858 million and reduction in the Revaluation Reserve of £8.2 million.

SAS has received confirmation from the Scottish Government Health Directorates that the impairment is to be treated as Annually Managed Expenditure, and that additional funding will be provided to cover the fall in value.

The fall in value of the estate has resulted in significantly lower depreciation charges and cost of capital charges than in prior years, allowing SAS to reinvest in developments while still meeting its financial targets.

Accuracy of the Fixed Asset Register – Transport Equipment

Vehicles purchased by SAS require a degree of alteration prior to becoming operational ambulance vehicles. During this time they are held as Assets under Construction (AUC). Once vehicles are fully operational they are added to the FleetPlus system. A vehicle addition form is then sent to Finance for the Fixed Asset Register to be updated. To ensure the Fixed Asset Register is updated accurately with the correct vehicle, cost and useful life details, the addition forms should be supported with details from all invoices relating to the vehicle.

Testing revealed that a significant amount of spend relating to vehicles purchased in 2007/08 was still included within AUC at 31 March 2009. This was because the Fleet team had passed insufficient information to Finance with the vehicle addition forms to enable the equipment additions to be matched to individual vehicles. Effectively, elements of vehicles in use were still being classed as Assets Under Construction.

The impact on the financial statements was that £347,438 of equipment purchased in 2007/08 was still held within AUC and had not been depreciated in the year. Through our understanding of the time required to convert vehicles into operational assets it was deemed reasonable to assume this spend should have been transferred to Tangible Fixed Assets during the year and depreciation charged. Management acknowledged this and the equipment was transferred to the Vehicle Additions and an appropriate adjustment was made to depreciation in the year.

Accuracy of the Fixed Asset Register – Land and Buildings

Additions in respect of Land and Building follow the same control process as vehicles, with addition forms completed by Estates and forwarded to Finance for the Asset Register to be updated.

Testing of this process revealed timing issues and inaccuracies in information provided by Estates to Finance. This made it difficult for Finance to accurately code these assets.

Management should ensure that all additions are supported with detailed information (invoices) in particular relating to Fleet and Estates, to allow Finance to accurately update the Asset Register throughout the year and in turn make appropriate revenue charges during the year. ACTION 1

Creditors – Unmatched Invoices

The Annual Report to Members for both the 2006/07 and 2007/08 audits included details of issues concerning the receipting of goods and matching of purchase orders to invoices. This had resulted in the build up of numerous unmatched invoices as payments are not processed on the system until a three way match; purchase order, receipt note and invoice, is complete.

Management and the Creditors Department have taken action to enhance the controls in this area and the success of this is evident in the reduction in number and value of invoices unmatched at the year end. This has seen a reduction from £2.6 million unmatched invoices at 31 March 2007 to just £166,000 at 31 March 2009. This is a significant improvement and management are continuing to have a focus on maintaining low levels of creditor balances, especially in the current economic climate.

Injury Benefit Provision

The 2008/09 Financial Statements include a prior year adjustment to restate the 2007/08 balance relating to the injury benefit provision. The closing 2007/08 injury benefit provision, included within 'Other Provisions' has been increased by £0.251 million to £3.573 million.

This prior year adjustment was to reflect the correction of a situation whereby an incorrect discount factor of 2.8% had been communicated and applied instead of the correct figure of 2.2%. The impact of this adjustment was large enough to potentially push the Service from a break even position to a deficit, thus rendering it fundamental. This treatment has been agreed with the Scottish Government and allows the Service to show a true picture of in year and previous years' performance.

International Financial Reporting Standards (IFRS)

Government bodies, including NHS Boards, are required to adopt IFRS for 2009/10, including the restatement of 2008/09 comparatives. The objective is to bring the public sector into line with the private sector, and to introduce greater comparability and consistency across public sector accounting.

In order to prepare IFRS compliant accounts in 2009/10, the Scottish Ambulance Service will need to revise its accounting policies, change the format of its financial statements and include a significant number of additional disclosures. It will need to restate its 2008/09 comparative figures and report these together with its 2009/10 figures on an IFRS basis.

In order to restate the 2008/09 closing balances under IFRS, the Scottish Ambulance Service was required to recalculate its opening balance sheet as at 1 April 2008 on an IFRS basis and submit it to the Scottish Government Health Directorates by 28 November 2008.

We were required to report on the processes adopted by management to prepare the IFRS opening balance sheet as at 1 April 2008. The results of our findings have been reported separately in a letter to the Director of Finance. One particular recommendation was in relation to the accounting

treatment of intangible assets due to a change in government policy, which was addressed by management.

The next stage of the process is that a full set of IFRS accounts will be prepared for 2008/09 by the end of September 2009. These will be subject to audit review by end November 2009.

Digital Radio Network - Airwave

The Service is involved in a significant project to replace the current analogue radio network with a digital equivalent.

A UK-wide NHS procurement exercise was undertaken to select a single secure digital radio network to replace the various analogue systems in use. As part of this procurement process, the SAS Board agreed a managed service contract with Airwave O2 in July 2006 for a ten year period at a cost of £51.263 million (including indexation). The managed service contract includes a payment profile which involves substantial payments in advance as the service is implemented.

Payments are triggered by Ready for Service (RFS) notifications signed off by the Service's implementation team when they are satisfied that a number of conditions have been met. In addition annual payments have been made in 2007/08 and 2008/09, and will continue to be made throughout the course of the contract.

The service was initially scheduled to be operational from 1 April 2008. However, a number of technical difficulties have been encountered that have delayed the start date to 1 April 2010.

The impact of the technical issues and contract change notices is that the total cost of the contract is now expected to be around £56 million (including indexation) over a ten year period.

To date payments made in respect of the contract have been recorded as long term prepayments, reflecting the delayed start date of the contract. This balance at 31 March 2009 is £5.59 million.

Key milestone payments are expected to be made during 2009/10 which will increase the balance of the prepayment significantly for the year to 31 March 2010. Should the Network become operational on 1 April 2010, part of the prepayment at that time will have to be reclassified as being short term in nature. This will require detailed calculations and will include a range of assumptions not only in relation to payments made but also the release of the existing prepayment in future years. Management has stated that they will contact us to discuss this matter prior to the year end to agree the proposed approach.

Concerns have been raised by us previously that significant payments, £5.59 million at 31 March 2009, have already been made for a service that is yet to become operational. The concerns focus on whether, given the technical difficulties to date, the product will function as expected and stated benefits will be realised. Concerns also remain, especially in the current economic climate, regarding the payments made in advance over the potential financial exposure associated with such payments, heightened by recent takeover activity of the Airwave parent company.

Management should recognise the heightened risk of making these payments and ensure that due diligence is performed to ensure that the payments which are being made will result in the delivery of service. ACTION 2

4. Financial Management and Performance 2008/09

	£m	£m
Recurring income	194.142	
Recurring expenditure (before savings)	(197.805)	
Recurring savings	<u>3.663</u>	
Underlying recurring surplus / (deficit)		0.000
Non-recurring income	2.549	
Non-recurring expenditure (before savings)	(2.664)	
Non-recurring savings	<u>0.140</u>	
Non-recurring surplus/(deficit)		0.025
Financial surplus/(deficit) for the year		0.025
Underlying recurring surplus / deficit as a percentage of recurring income		0.01%

Figures confirmed by Pamela McLauchlan, Interim Director of Finance

Performance against Key Financial Targets

The Service is required to meet three targets each year as set by the Scottish Government Health Directorates (SGHD). The performance of the organisation is as follows.

	Limit set by SGHD £m	Actual Outturn £m	Variance (over)/under £m
Revenue Resource Limit	188.675	188.650	0.025
Capital Resource Limit	14.151	14.143	0.008
Cash Requirement	196.499	196.487	0.012

The Service has achieved all three of its financial targets in the year.

The Service also achieved efficiency savings in the year above the 2% Scottish Government target. An additional £0.135 million, or 0.37%, of efficiencies were achieved in the year, totalling £3.8 million. The efficiencies have been used for front line Accident & Emergency and Emergency Medical Dispatch Centre staff.

Performance against Budget 2008/09

The table and narrative below set out in summary form, the main under and overspends against budget for the year to 31 March 2009.

Actual Out-turn versus Original Plan	£m
Projected breakeven for 31 March 2009	0
Underspends:	
Pay	£0.315
Capital Charges	£0.033
Income (over recovery)	£0.269
Total Underspend	£0.617
Overspends:	
Non Pay (excluding capital charges)	£(0.592)
Actual Surplus Reported 31 March 2009	£0.025
Agreed carry forward to 2009/10	£0.025

Pay costs

The overall pay costs were under budget for the year by £0.315 million. The Service has however, as in 2007/08, overspent on overtime. Overtime in 2008/09 reached £8.7 million against an original base budget of £2.7 million. This overspend was offset by a significant underspend in basic pay and Non-recurring funding was received in the year to assist with additional staffing requirements, to ensure the service could continue to deliver against operational HEAT targets and for new initiatives to ensure double crewed vehicles were available in remote and rural areas.

The overtime outturn against budget is a significant variance and suggests difficulties exist in the budgeting of overtime.

Management should carry out a review of the overtime budgets for 2009/10 to ensure they are realistic and that current levels of overtime represent good value to the Service. ACTION 3

Overtime - Authorisation

The management of overtime and key controls in operation surrounding overtime were considered at both the interim and final audit.

We reported in our Interim Management Letter that detailed audit sampling had identified instances when controls, including the approval of over time, were not found to be operating effectively, e.g. Overtime claims approved by personnel not authorised to do so. As a result of these weaknesses we performed additional testing at the final visit. This found one instance from a sample of sixty where the overtime had been processed based on a self authorised claim form.

Through discussion with management it was highlighted that a new electronic time recording system is planned for all staff however, this is still at an early stage and is unlikely to be fully operational until March 2010. Until that time, the existing controls should be fully enforced.

Overtime should only be processed if supported by a complete form, signed as reviewed by an authorised signatory. In particular, no one should be able to self-authorise overtime claims. All claims not properly authorised should be rejected. ACTION 4

Income

The Service recorded a net over recovery of income of £0.269 million. Over the year income from territorial health boards and community health partnerships was over budget due to increased demand for services. This included over recovery on rechargeable Air Ambulance income.

Non Pay (excluding capital charges)

Additional maintenance was required for the fleet of operational vehicles. This resulted in an overspend of £0.335 million. The increased size of the fleet following the purchase of new vehicles in the year also resulted in additional expenditure on tyres and additional mileage costs of £0.207 million.

Creditors – Creditors Payment Days

The Financial Statements at 31 March 2009 report an increase in creditor payment days to 38 days, from 33 days in 2007/08.

Government guidance was issued in 2008/09, as a result of the economic downturn stating that suppliers should be paid within 10 days. SAS processes invoices and releases them for payment as soon as they are matched to purchase orders and receipts on the ledger meaning that in the absence of issues, these targets will be achieved. However, as noted above, problems regarding the receipting of goods and investigation of differences still occur and as a result this target has not been met for all suppliers during the year.

In addition, the steps taken by management to resolve issues in this area and to investigate unmatched invoices from previous years have resulted in the payment of some invoices that were outstanding from 2003/04 to 2006/07. These invoices are included in the calculation of payment days and have contributed to the higher payment days figure.

Asset Additions and Disposals

In total 125 leased vehicles and 48 purchased vehicles were disposed of in the year. These were replaced by 251 new purchased vehicles. The book value of vehicle additions and disposals in the year was £11 million and £8 million respectively.

£4.6 million of property building and refurbishment work was completed in the year. Subsequent revaluation of the sites during the year resulted in an impairment of £1.5 million being applied to these refurbishments.

No new land was acquired during the year and no Land & Buildings with net book values over £1 million were disposed of.

5. Financial Forecasts for 2009/10

2009/10 Projected Outturn	£m	£m
Recurring income	201.678	
Recurring expenditure (before savings)	(205.061)	
Recurring savings	<u>3.383</u>	
Underlying recurring surplus		0.000
Non-recurring income	6.617	
Non-recurring expenditure (before savings)	(7.187)	
Non-recurring savings	<u>0.570</u>	
Non-recurring surplus		0.000
Financial break even for the year		0.000
Underlying recurring surplus as a percentage of recurring income		0.00%

Figures confirmed by Pamela McLauchlan, Interim Director of Finance

Cost Pressures

Pay Costs – Unsociable Hours

The agreement of new terms for unsociable hours payments will increase pay costs for SAS. Included in the 2008/09 accounts is a provision of £645,000 for arrears payments for those working under the new pay agreement from 1st May 2008. These terms are being extended to a wider number of staff from 1st May 2009 and this will see the cost of the new arrangements rise significantly. SAS has secured non-recurring funding from the SGHD for 2009/10 and 2010/11 of £5.4 million and £2.5 million respectively. This non-recurring funding will help address these increased costs but long term costs to SAS will have to be incorporated into future budgets.

Pay Costs – Overtime

SAS continues to require significant levels of overtime to operate and to achieve required targets. This remains an area that the Service finds very difficult to budget for due to the nature of overtime. In 2008/09 the Service recorded an over budget spend on overtime of £8.7 million against an original base budget for overtime of £2.7 million. Additional funding was received in 2008/09 for developments to help SAS address single crewing issues in remote and rural areas and to achieve category A targets. Non-recurring funding is again available for pay costs in 2009/10 but as noted above the majority of this is earmarked for unsociable hour payments.

Air Ambulance

Demand for Air Ambulance Services from the territorial Boards continues to rise, especially in relation to retrieval services. As the costs relating to Air Ambulance Services are paid in US dollars or Euros, the current exchange rates are adding to the cost of pressures.

Digital Radio Network – Airwave

The Service has identified a £1.2 million training requirement relating to the new digital radio network. Funding was made available for this in 2008/09. The technical issues with the digital radio network resulted in this training being delayed until 2009/10. The cost of £1.2 million will now be met through non-recurring funding which will also cover the additional costs of running the service.

The funding of the Airwave contract will have a significant impact on the 2010/11 accounts if the planned operational date of 1 April 2010 is met as the annual cost of the contract will begin to be released. This is anticipated to be around £5.2 million per year, although this will be offset against savings made by discontinuing the current radio system.

Planned Savings

The Service has identified savings to meet its financial targets for 2009/10. These have been assisted by the revaluation to land and buildings in 2008/09 that has reduced depreciation charges and the cost of capital. This could account for reduced spend of £1.6 million, including reduced cost of capital of around £0.7 million.

In total £3.953 million of efficiency savings have been identified for 2009/10. SAS have stated that £2.764 million of these are achievable from the start of 2009/10 and plans are in place to achieve the remaining £1.189 million.

Efficiency savings of £1.3 million have been identified against reducing expenditure associated with aborted and cancelled calls. This is acknowledged as a high risk efficiency saving that could be hard to achieve.

Financial Plan

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

6. Governance and Business Risks

We comment on the following areas throughout this section of the report:

- Overall Governance Arrangements
- Partnership Working
- Service Sustainability
- Financial Management
- Performance Management
- People Management
- Information Management

We have also reported in detail on a number of these areas in our Interim Management Letter (IML) for 2008/09 submitted to the Audit Committee on 11 March 2009.

Overall Governance Arrangements

Through good governance, NHS Boards are able to improve services for patients and the working lives of those staff that care from them.

The established Committee framework at the Service, incorporating Audit, Staff Governance, Remuneration and Clinical Governance Committees remains in place.

As reported in our Interim Management letter (February 2009) the former Chief Executive and Director of Operation both resigned from the Service in November 2008. We have considered the financial cost of their departure as part of our audit, the details of which have been reported separately in a letter to the interim Director of Finance.

The posts of Chief Executive and Director of Finance remain covered by interim appointments, with the post of Director of Operations continuing to be covered by the Director of Human Resources. We highlighted in our Interim Management letter the importance of appointing a full, permanent and appropriate Executive team as soon as possible and would reiterate this point. We acknowledged that the service appears to be functioning as intended and delivering on its objectives, but emphasise that the planned implementation date of summer 2009 for these permanent appointments to the interim posts should be adhered to.

The Service should ensure that appropriate permanent Executive appointments are made in summer 2009, as planned. ACTION 5

QIS Review

The NHS Quality Improvement Scotland (QIS) Standards for Clinical Governance, Patient Safety, and Risk Management cover the full range of standards in the field. A QIS Clinical Governance and Risk Management

monitoring visit is scheduled to be carried out in early August 2009 and management has been preparing for this.

Partnership Working

The Scottish Ambulance Service as a special health board has a close working relationship with all territorial Health Boards to ensure services are delivered effectively.

The Service continues to participate and contribute to a number of partnership agreements including being part of the NHS Tayside Consortium for shared payroll and Cedar efinancials managed technical services, allowing efficiencies to be gained for the NHS as a whole.

NHS24 is also considered to be a key partner in delivering services to the public. This relationship has been enhanced with the completion of the move of the Emergency Dispatch Centre to the Cardonald location, including the sharing of resources and development of systems for the sharing of information with NHS24.

The Tripartite agreement between SAS, Police and Fire is also now in place. This involves collaboration in terms of fleet services, including the sharing of vehicle workshops, which has helped to generate savings for the Scottish Government.

No significant issues or areas for development were noted in the area of partnership working.

Service Sustainability

The Service has in place a Strategic Health Plan covering the period 2007/08 to 2009/10 setting out the Service's performance objectives over the 3 year period together with a strategic development programme. The Service has adopted an integrated approach to developing the plan, involving stakeholders through a series of workshops. Underpinning the plan is the local "Delivering for Health Programme", which outlines projects which are in place for the strategic development of the Service.

The Local Delivery Plan for 2009/10 to 2011/12 has been produced. This reviewed the Service's performance against the previous Local Delivery Plan and includes required action to continue to develop performance and achieve key performance indicators. It is aligned to the Scottish Government objectives and includes the Service's HEAT targets.

The Service plans to develop a detailed revised Strategy document in August 2009.

A joint approach will continue to be taken with regard to service redesign, working in contact with the territorial health boards and regional planning groups. This is seen as key to implementing innovative new ways of working to achieve patient focused modernisation and efficiency objectives.

Financial Management

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

The reporting arrangements were considered in detail during the year and reported in the Interim Management Letter reported to the Audit Committee on 11 March 2009.

The Service has an updated Financial Plan covering the period to 2011/12. This is included within the Local Delivery Plan 2009/10 to 2011/12, approved by the Board.

Performance Management

Performance Management is a standing agenda item at all Board meetings. Detailed reports are provided for HEAT targets showing results against targets for the period and year to date. The reports are scrutinised by the Board and actions developed where targets are not being achieved. The target of improving the response time to Category A emergency incidents of 75% for March 2009 was surpassed with an actual performance of 77.4% in the month.

Reporting is also undertaken in relation to Service Quality Improvements to inform the Board of developments impacting the Local Delivery Plan and wider Strategic objectives, as well as detailed clinical performance. This enables performance wider than the HEAT targets to be considered.

People Management

Staff Governance

During 2008/09 we undertook a review of the Service's staff governance action plan as part of a national Audit Scotland Study. The purpose of the review was to confirm that action plans address previously reported issues, and they include timescales and responsibilities for delivery. The work was performed in April 2009 and reported directly to the Director of Human Resources. No action points were identified in this review.

Pay Modernisation

Progress continues to be made in relation to the pay modernisation programme with SAS reporting that 70.3% of staff having a Personal Development Plan (PDP) in place at the year end, up from just 6% at the time of our interim visit. The roll out of e-KSF is also in progress but the deadline of 31 March 2009 has not been achieved. This deadline has now been extended for all Boards to 31st May 2009 and progress continues to be made.

The service should continue to progress with the implementation of PDPs to ensure all staff are provided with one as soon as possible and in line with future government targets. ACTION 6

Agenda for Change

The implementation of Agenda for Change, including the appeals process, has been completed by the Service. The provision of £605,000 included in the 2007/08 accounts has been utilised with just £4,000 remaining at the year end. This payment is expected to be settled in June 2009.

Equal Pay

The National Health Service in Scotland has received a number of claims for equal pay including related back pay. The NHS Central Legal Office (CLO) has been instructed by the Management Steering Group of NHS Scotland in this regard and is co-ordinating the legal response of NHS Scotland to this issue.

By the end of May 2009 there was one grievance and employment tribunal claim registered against SAS, with over 12,000 registered across the country.

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

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

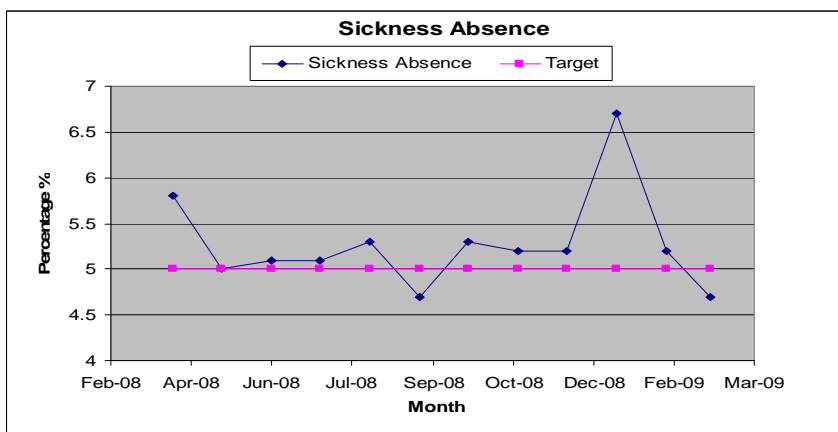
Sickness Absence

The Service continues to be proactive in addressing sickness absence and a range of actions are included in the Staff Governance Action Plan to help reduce the levels arising. This include actions such as the introduction of

return to work interviews. In addition SAS is taking steps to improve communication channels with staff and the relationship between divisions and central management.

The Action Plan is an essential step to reduce sickness absence as the Service continues to record levels of sickness absence above agreed national targets. The average sickness absence rate for 2008/09 was 5.3% against a target level of 5%.

The graph below illustrates the levels of sickness absence during 2008/09 against the target level of 5%, agreed with the Scottish Government. This demonstrates that the service has not achieved the target in the majority of months and across the year despite a sharp improvement in the last three months. Review of recent statistic shows that this improvement has continued and at 31 May 2009 the rate was 4.3% - within the target.



Information Management/ICT

Best Value audits are being carried out across the public sector to help protect taxpayers interests by examining the use of resources and to report on the delivery of outcomes for people who use services. The Best Value

audits are being carried out in a cycle focusing on distinct areas each year. In 2008/09 the Use of Resources Best Value audit focused on Information Management.

Information Management Best Value Audit involved the completion of a toolkit prepared by Audit Scotland, covering areas such as: Information Governance and Leadership; Information for Decision Making; Service Delivery; Compliance and Control; and Knowledge Management. The conclusions from the toolkit provide an assessment of current performance as well as assisting a judgement on the capacity of the service to improve.

A summary of the Service's assessment against the 5 key areas of the toolkit is summarised below:

Information Management Toolkit Module	Evaluation
Information Governance and Leadership	Better Practice
Information for Decision Making	Better Practice
Service Delivery	Better Practice
Compliance and Control	Better Practice
Knowledge Management	Basic Practice

The evaluation for each module is classed as: does not meet basic requirements; basic practices; better practices; and advanced practices.

The detailed findings will be reported to management and the Audit Committee at the next meeting. Within the context of the Service operating Better Practices for most modules, some areas for development were identified:

- There was basic evidence of the service demonstrating leadership by setting the tone at the top, whereby information management and security is taken seriously, ensuring that managing information risk strategy is clarified within the culture and behaviour of the organisation.

- Awareness of information held was at a basic practice level.
- The process for producing information is only measured and improved in line with basic practice.
- The Service has basic practices in place in respect of the capture and communication of information.
- Reporting on information management performance could only be demonstrated to basic practices.

With reference to e-health, Information Communication and Technology (ICT) are currently in the process of reviewing their strategy for the service with a view to establishing alignment with National e-health strategies.

7. Systems of Internal Control

Systems of Internal Control

The results of our work on systems of internal control were communicated to Audit Committee in our Interim Management Letter on 11 March 2009.

The report contained 5 recommendations to improve controls, 2 of which were graded as higher risk. The higher risk recommendations were in relation to the appointment of an appropriate and permanent executive management team and the authorisation of overtime. However, there were no risks identified that could be considered business critical in nature.

The Service has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. We will follow up this action plan during our 2009/10 audit.

Statement on Internal Control

The Code of Audit Practice requires us to review and report on the Service's Statement on Internal Control.

The Service has used the correct format for its Statement and has outlined the processes it has employed to identify and evaluate risks. In addition, key elements of the Service's control framework have been highlighted.

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

Follow up of outstanding recommendations

We followed up the Service's progress in implementing recommendations made in the prior year. Our Follow Up Report was considered at the Audit Committee meeting on 11 March 2009.

At the time of reporting, of the 30 agreed actions, progress was as follows:

Status	Follow Up of 2006/07 Reports	Interim Management Report 2007/08	Annual Report to Members 2007/08	Total
Action Implemented	3	1	6	10
Action in Progress	12	2	4	18
Limited/Little Progress to Date	-	-	-	0
Not Yet Due	-	1	-	1
No Longer Applicable	1	-	-	1
Total	16	4	10	30

A further detailed report on the percentage completion of partially implemented follow up points was taken to the Audit Committee on 15 June 2009.

National Fraud Initiative

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

NFI in Scotland is now well underway following the release of the identified possible matches in February 2009. The service has been investigating the matches since February to consider if any instances of fraud have been identified.

Good progress has been made in investigating Payroll to Payroll matches. SAS policy is to investigate all matches. To date of 75 payroll to payroll matches 23 have been processed and 52 are progressing through further investigation. A meeting has been scheduled for July 2009 to consider progress and the findings from the exercise.

At the date of reporting it was noted that the Creditor matches, which were voluntary in nature, have yet to be opened and investigations are yet to commence. This will enhance controls in this area and may return some financial benefits to the Service, steps must continue to be taken to investigate the recommended matches from the NFI process.

SAS should make arrangements for the Creditor matches on the NFI database to be investigated and cleared. ACTION 7

Internal audit

The role of internal auditing is determined by management and therefore its objectives differ from ours. It is part of our approach to gain an understanding of the internal audit function to determine if it would be effective and efficient to use their work.

During 2008/09 Deloitte continued to act as the Service's internal auditors. We have reviewed the work of internal audit and have, where appropriate, placed reliance on their work.

Appendix A – Action Plan

Ref	Issue and Recommendation	Management Response
1	Management should ensure that all additions are supported with detailed information (invoices) in particular relating to Fleet and Estates, to allow Finance to accurately update the Asset Register throughout the year and to enable accurate depreciation and capital charges to be made.	<p>Management Response:</p> <p>Finance will have discussions with Fleet/Estates departments to ensure they implement a robust process whereby Fleet and Estates are required to pass the information needed to Finance in a timely manner every month.</p> <p>Responsible Officer:</p> <p>General Manager Fleet/Head of Estates</p> <p>Due Date:</p> <p>31 July 2009</p>
2	Management should recognise the heightened risk of making advance payments to Airwave O2 and ensure that due diligence is performed to ensure that the payments which are being made will result in the delivery of service.	<p>Management Response:</p> <p>Management will continue to meet regularly with the Airwave Management team and take appropriate legal advice to ensure that the payments which are being made in relation to Airwave will result in the delivery of service.</p> <p>Responsible Officer:</p> <p>General Manager Finance</p> <p>Due Date:</p> <p>31 March 2010</p>

Ref	Issue and Recommendation	Management Response
3	Management should carry out a review of the overtime budgets for 2009/10 to ensure they are realistic and that current levels of overtime represent good value to the Service.	<p>Management Response:</p> <p>In the budget setting process for 2009/10 management have reviewed budgets and provided divisions with appropriate levels of overtime that are able to be controlled.</p> <p>Management will continue to work with divisions throughout the year to ensure control is maintained.</p> <p>Responsible Officer: General Manager Finance/Interim Director of Finance</p> <p>Due Date: Implemented/ 31 March 2010</p>
4	Overtime should only be processed if supported by a complete form, signed as reviewed by an authorised signatory. No self-authorisation of overtime claims should be permitted and all claims not properly approved should be rejected.	<p>Management Response:</p> <p>Agreed. Management will continue to reinforce, with divisions, the importance of overtime controls.</p> <p>Responsible Officer: Payroll Manager</p> <p>Due Date: 31 August 2009</p>
5	The Service should ensure that appropriate permanent Executive appointments are made in summer 2009, as planned.	<p>Management Response:</p> <p>The SAS Board will act as promptly as possible to recruit and substantively fill the existing and new executive posts.</p> <p>Responsible Officer: Chairman</p> <p>Due Date: 30 September 2009</p>

Ref	Issue and Recommendation	Management Response
6	The Service should continue to progress action on PDP's to ensure all staff are provided with one as soon as possible, and in line with future government targets.	<p>Management Response:</p> <p>The first target was to have 100% of adjusted baseline staff with an agreed PDP in place. 98% were in place on 3 June 2009. The next target is for 80% of AFC staff to have a KSF PDP reviewed by March 2011.</p> <p>Responsible Officer:</p> <p>Director of Human Resources</p> <p>Due Date:</p> <p>March 2011</p>
7	SAS should make arrangements for the Creditor matches on the NFI database to be investigated and cleared.	<p>Management Response:</p> <p>Management are in the process of working through all NFI data matches. Creditor matches are significant in number and in progress of being investigated and cleared.</p> <p>Responsible Officer:</p> <p>Financial Services Manager</p> <p>Due Date:</p> <p>31 August 2009</p>

Appendix B – Communications to Management

International Standards on Auditing (“ISA”) (UK&I) 260 – Reporting to those charged with Governance, requires that the External Auditor communicates certain matters to those charged with governance.

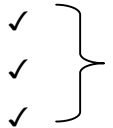
Those charged with Governance is taken to be the Members of the Audit Committee with responsibility discharged through the regular meetings of the Audit Committee during the year. Summarised below are the requirements set out within ISA 260 together with reference to the relevant communication with you during 2008/09 or comments as appropriate.

Communication Required under ISA 260	Reference/Comment
Engagement letters	Signed Engagement Letter with Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	Audit Planning document reported to 2 December 2008 Audit Committee and confirmed no member of audit team has any direct interest, financial or otherwise, in the Scottish Ambulance Service.
Audit Approach and Scope	Audit Planning document (reported to Audit Committee 2 December 2008).
Accounting Policies/Practices with a Material Effect on the Financial Statements	Section 3 of our Annual Report to Board Members and the Auditor General for Scotland.
Potential Effects of Material Risks and Exposures	Audit Planning document (2 December 2008).
Audit Adjustments	Section 3 of our Annual Report to Board Members and the Auditor General for Scotland.
Material Uncertainties relating to Going Concern	None identified.

Communication Required under ISA 260	Reference/Comment
Disagreement with Management about Matters that could be Significant to the Financial Statements	Not applicable.
Expected Modifications to the Auditor's Report	No modifications identified. A true and fair opinion provided.
Letter of Representation	Signed by Management 24 June 2009.
Material Weaknesses in Internal Control	Internal Controls findings reported separately in our Interim Management Letter (11 March 2009), Section 7 of our Annual Report to Board Members and the Auditor General for Scotland.
Fraud	Discussed fraud arrangements with the Chair of the Audit Committee (2 December 2008), Management throughout audit process.
Laws and Regulations	We have not identified any material breaches of laws and regulations in the period which impact on the 2008/09 Financial Statements.
Audit Materiality	Audit Planning document – presented to Audit Committee in 2 December 2009.
Fair Value Measurement and Disclosure	Included in representation letter, signed by management dated 24 June 2009.
Related Parties	Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.

Formal Reporting to Management during 2008/09

During the year we have presented a number of formal reports to Management and the Audit Committee and produced certain outputs. Our principal outputs during 2008/09 are summarised below:

Formal Output	Timing
Audit Plan	2 December 2008
Detailed Timetable for 2008/09 Financial Audit	2 December 2008
IFRS Opening Balance Sheet Letter	26 February 2009
Follow-up of 2007/08 Recommendations	11 March 2009
Interim Management Letter	11 March 2009
Letter to Director of Human Resources regarding the process for preparation of the Staff Governance Action Plan	30 April 2009
Annual Report to Board Members and the Auditor General for Scotland	24 June 2009
Audit Opinions 1. True and fair view on the financial statements ✓ 2. Regularity of income and expenditure ✓ 3. Remuneration Report (sections) ✓  Unqualified Audit Opinions	24 June 2009

Freedom of Information Act (Scotland) 2002

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

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