

## Scottish Ambulance Service

### Our Final Report to the Audit Committee on the 2012 Audit

Dear Sirs

We have pleasure in setting out in this document our report to the audit committee of Scottish Ambulance Service (SAS) for the year ended 31 March 2012 for discussion at the meeting scheduled for 20 June 2012. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2012.

In summary:

- The major issues, which are summarised in the Executive Summary, have now been largely addressed and our conclusions are set out in our report.
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the course of our audit work.

A handwritten signature in black ink, appearing to read 'D. J. G. G.', is positioned above the title of the signatory.

Senior Statutory Auditor

# Contents

Executive summary	1
Financial statements and corporate governance	7
1. Significant audit risks	7
2. Liaison with internal audit	13
3. Our observations on your financial statements	14
4. Our observations on the 'front half' of your annual report	18
Best value, use of resources and performance	23
5. Financial performance and outlook	23
6. Other issues	25
7. Best value toolkit	36
8. National performance reports	37
9. Risk management and internal control systems	38
10. National fraud initiative (NFI)	42
Other	43
11. Independence	43
12. Responsibility statement	44
Appendices	45
1 - Audit adjustments	45
2 - Representation letter	46
3 - Additional resources available to you	50

# Executive summary

Status	Description	Detail
<b>Completion of the audit</b>		
<p><b>Our audit is largely complete</b></p>	<p>The status of the audit is as expected at this stage of the timetable agreed in our audit plan</p> <p>The following are the remaining areas we are required to complete to finalise the audit:</p> <ul style="list-style-type: none"> <li>• Our review of events since 31 March 2012;</li> <li>• Receipt of RBS bank confirmation;</li> <li>• Work on operational impact of airwave; and</li> <li>• Receipt of signed management representation letter.</li> </ul>	<p>N/A</p>
<b>Overall view</b>		
<p><b>Anticipated unmodified audit opinion</b></p>	<p>On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements.</p> <p>The matters that we have taken into account in forming our overall view are described in the following sections.</p>	<p>N/A</p>

# Executive summary (continued)

Status	Description	Detail
--------	-------------	--------

Significant audit risks		Status	
<b>We are satisfied with the treatment adopted for key audit risk areas</b>	<p>We discuss within <b>Section 1</b> the results of our work in relation to the key audit risk which have been identified as being significant for the current year accounts. These include:</p> <ol style="list-style-type: none"> <li>1. Management override of controls;</li> <li>2. Recording of provisions;</li> <li>3. Revenue recognition;</li> <li>4. Property, plant and equipment valuation;</li> <li>5. Accuracy of release of capitalisation costs relating to Airwave through the SOCNE; and</li> <li>6. Core expenditure resource limit.</li> </ol>	<p>● ● ● ● ● ●</p>	Section 1

● Risk appropriately addressed.

● Risk satisfactorily addressed but with unadjusted errors identified.

● Material unresolved matter.

Our observations on your financial statements		
<b>Disclosures agreed as in line with the FReM and the NHS Board Accounts Manual</b>	<p>We have performed a review of the financial statements against the requirements of the NHS Board Accounts Manual issued by the Scottish Government Health Directorate (SGHD) and The Government Financial Reporting Manual (the FReM). We have made comments in this report on the following:</p> <ul style="list-style-type: none"> <li>• Disclosure of critical accounting judgements and key sources of estimation uncertainty;</li> <li>• Hutton disclosures on median pay;</li> <li>• Related party disclosures; and</li> <li>• Pension disclosures.</li> </ul>	Section 3

# Executive summary (continued)

Status	Description	Detail
<b>Our observations on the “front half” of your annual report</b>		
<p><b>Disclosures agreed as in line with the FReM and the NHS Board Accounts Manual</b></p>	<p>We have performed a review of the financial statements against the requirements of the NHS Board Accounts Manual issued by the SGHD and the FReM. We have made comments in this report on the following:</p> <ul style="list-style-type: none"> <li>• Annual governance statement;</li> <li>• Reporting of key performance indicators;</li> <li>• Corporate governance disclosures;</li> <li>• Reporting on sustainability and equality; and</li> <li>• Going concern.</li> </ul>	<p>Section 4</p>
<b>Financial performance and outlook</b>		
<p><b>Surplus against core revenue resource limit of £23,000 and surplus against non core resource limit of £18,000</b></p>	<p>Scottish Ambulance Service (SAS) budgeted for a break even position for the year to 31 March 2012. The final outturn was a surplus against the core revenue resource limit of £23,000 and surplus against non core resource limit of £18,000, representing a net surplus of £41,000.</p> <p>Capital expenditure was under spent by £8,000 against a core capital resource limited of £13.9 million.</p> <p>In addition to their financial target SAS had made progress towards the achievement of its key performance targets. 5 of the 15 targets reported on in 2011/12 had been met or exceeded during the period, and plans were in place to ensure progress towards achievement of the remaining targets.</p> <p>For 2012/13 the baseline budget has been increased by 0.8% or £1.583 million along with an additional £3.7 million to cover rest break costs which may rise further.</p> <p>The 2012/13 capital programme includes committed and previously approved business cases, including the capital vehicle programme and upgrades to defibrillators. The total 2012/13 capital budget has been set at £14.3 million.</p>	<p>Section 5</p>

# Executive summary (continued)

Status	Description	Detail
--------	-------------	--------

Other issues		Status	
<p>We are satisfied with management's procedures in place over other issues which have not been assessed as financial statement risks.</p>	<p>Other issues which have not been assessed as financial statement risks, but were considered as part of our audit in line with compliance with the Code of Audit Practice and work on Best Practice are:</p> <ol style="list-style-type: none"> <li>1. Compliance with outcomes based approach and quality ambitions for public sector bodies;</li> <li>2. Operational impact of Airwave;</li> <li>3. Sickness absence rates;</li> <li>4. Efficiency targets;</li> <li>5. Energy consumption targets;</li> <li>6. Achievement of HEAT targets;</li> <li>7. Procurement of next generation air ambulance;</li> <li>8. Volatility of fuel costs;</li> <li>9. Instability of key suppliers;</li> <li>10. Overtime costs;</li> <li>11. Organisational capacity for change;</li> <li>12. Response to emergency calls;</li> <li>13. Disaster recovery and IT systems resilience; and</li> <li>14. Community engagement.</li> </ol>	<p>●</p> <p>●</p> <p>●</p> <p>●</p> <p>●</p> <p>●</p> <p>●</p> <p>●</p> <p>●</p> <p>●</p> <p>●</p> <p>●</p> <p>●</p> <p>●</p> <p>●</p>	<p>Section 6</p>

● Issue reviewed & procedures deemed appropriate.
 ● Issue reviewed and minor recommendations raised.
 ● Issue reviewed and significant recommendations raised.

# Executive summary (continued)

Status	Description	Detail
<b>Best value toolkit</b>		
<p><b>We have highlighted recommendations to the Board's current community engagement processes</b></p>	<p>In line with our planning paper we have completed our work on the Community Engagement Toolkit. <b>Section 7</b> includes a summary of our findings.</p> <p>Our report concluded that the SAS applies a number of areas of advanced practice around community engagement. In terms of continuous improvement SAS should continue to develop the partnership arrangements in place to ensure that community engagement is led, planned and managed collectively at a partnership level.</p>	<p>Section 7</p>
<b>National performance reports</b>		
	<p>In line with our planning paper we have completed our work on the National performance reports. <b>Section 8</b> includes a summary of our findings.</p> <p>We have reviewed how SAS have responded to the national performance report "Scotland's public finances: addressing the challenges" and in addition we have performed a focused follow up on '<i>The Role of Boards</i>'.</p>	<p>Section 8</p>
<b>Risk management and internal control systems</b>		
<p><b>We have not identified significant deficiencies in the financial reporting systems.</b></p>	<p>Our audit findings did not identify any significant deficiencies in the financial reporting systems. <b>Section 9</b> sets out the risk management and control observations arising from our audit procedures.</p>	<p>Section 9</p>
<b>Independence</b>		
<p><b>We are independent as stipulated by APB Ethical Standards of Auditors</b></p>	<p>Our reporting requirements in respect of independence matters, including fees, are covered in <b>Section 11</b>.</p>	<p>Section 11</p>



# Executive summary (continued)

Status	Description	Detail
<b>Identified misstatements and disclosure misstatements</b>		
<b>No identified misstatements</b>	Audit materiality was £2,000,000 as set out in our audit plan. There were no misstatements identified as part of our audit procedures. We have also not identified any disclosure deficiencies within the accounts.	Appendix 1
<b>Significant representations</b>		
<b>No non-standard representations</b>	A copy of the representation letter to be signed on behalf of the board is included at <b>Appendix 2</b> . There are no non-standard representations.	Appendix 2

# Financial statements and corporate governance

## 1. Significant audit risks

The results of our audit work on significant audit risks are set out below:

### Understanding the subjective judgements and estimates

The table below shows, on a range of acceptable outcomes from less prudent to more prudent, where management's key assumptions and valuations relating to significant estimates lie. Where appropriate we have made use of industry averages or other relevant information on "peer group" companies available from public sources.

		← Acceptable range →													
		Less prudent						More prudent							
Recording of provisions							✓								Provisions based on advice from Central Legal Office.
Revenue recognition							✓								Revenue recognised agrees to the final allocation per the Scottish Government.
Property, plant and equipment valuation							✓								Regular revaluations performed.
Accuracy of release of capitalisation costs relating to Airwave through the SOCNE													✓		Prudent approach taken to delay deductions ahead of final settlement being agreed with Airwave.
Core expenditure resource limit							✓								Expenditure within resource limits.

Current year position ✓

# Financial statements and corporate governance (continued)


## 1. Significant audit risks (continued)

Management override of controls		Status ●
<b>Background</b>	Management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent Financial Statements by overriding controls that otherwise appear to be operating effectively. The risk of management override of control is present in all entities. This risk cannot be pinpointed to an account balance or potential error.	
<b>Deloitte response</b>	<p>We have obtained an understanding of the design and implementation of the key controls in place in relation to the posting of journal entries. We have performed year end procedures on a judgemental sample of journal entries posted in the year and confirmed the appropriateness of the journals posted.</p> <p>In addition, we have also conducted a review of significant accounting estimates in order to assess the reasonableness of managements' judgements in relation to these estimates. We have not noted any transactions that appear to be outwith the course of normal business.</p>	

---

# Financial statements and corporate governance (continued)

## 1. Significant audit risks (continued)

Recording of provisions	Status 
<b>Background</b>	<p>At the year end SAS has provisions totalling £5.0 million (2011 - £6.6 million) relating primarily to injury benefit provision with a significant reduction in the clinical and medical provision from £1.2 million to £0.1 million and with the radio provision from £1.0 million to £nil. Due to the nature of these there is a risk that the position at year end is incomplete or inadequate.</p> <p>The significant reduction in the clinical and medical provision was due to the closure of two large claims (totalling £1.0 million for nil consideration during the year) while the reduction in the radio provision due to the completion of decommissioning in the year.</p>
<b>Deloitte response</b>	<p><b>Clinical and medical provision</b></p> <p>We obtained a direct legal confirmation from the Central Legal Office (CLO) in relation to ongoing litigation cases and recalculated and agreed the year end provisions against ongoing legal cases. SAS provide for 100% of category 3 cases and 50% of category 2 cases, with no provision against category 1 cases. This approach is standardised across all NHS Scotland bodies and we have recalculated to ensure that SAS comply with this policy. In addition, all contingent liabilities have been recalculated and agreed to disclosure through Note 19 of the financial statements. For the two large closed cases, the closure of the cases was agreed to the monthly confirmation provided by the Central Legal Office.</p> <p><b>Injury benefit provision</b></p> <p>A copy of the injury benefit provision was obtained and a sample of individuals was recalculated and agreed including agreeing the life expectancy back to the Office of National Statistics based on the individuals age and recalculating the discount factors. Assurance was gained over the completeness of the provision by agreeing back to confirmation from the CLO.</p> <p><b>Radio provision</b></p> <p>In respect of the radio provision we obtained a breakdown of costs and agreed a sample back to invoice and recalculated the release of the unutilised provision and agreed this into our work on the SOCNE.</p>

# Financial statements and corporate governance (continued)

## 1. Significant audit risks (continued)

Revenue recognition		Status ●
<b>Background</b>	<p>Under ISA (UK and Ireland) 240 'The auditor's responsibility to consider fraud in an audit of financial statements there is a rebuttable presumption that there is a risk of fraud in relation to revenue recognition'.</p> <p>For SAS we have considered this risk to be around the completeness of the Core and Non Core funding from the Scottish Government given the significance of this to the organisation.</p>	
<b>Deloitte response</b>	<p>Deloitte reviewed the treatment of income in the year to ensure that it was in line with IFRS guidance and the Code. We also obtained a copy of the year end funding statement received from the Scottish Government and agreed this to the amount recognised by SAS.</p>	

Property, plant and equipment valuation		Status ●
<b>Background</b>	<p>SAS has property, plant and equipment with a net book value of £75.7 million of which £25.9 million relates to land or buildings which are subject to annual revaluation. In the current year the District Valuer revalued £23.2 million of the land and buildings resulting in a net revaluation of £0.382 million of which £0.372 million was credited to the revaluation reserve and £0.08 million credited to the SOCNE. With changes in the economic environment and property markets, these assets can be subject to material changes in value and there is a risk that these changes are not appropriately recorded in the financial statements.</p>	
<b>Deloitte response</b>	<p>Deloitte obtained and reviewed the external revaluation performed on Land and Buildings to ensure that the valuations have been performed by suitably qualified individuals and that valuations have been made using a reasonable basis and have been performed in a timely manner. We have selected a sample of assets and reperformed the calculation agreeing that the correct charge or gain has been taken through the correct line of the financial statements (revaluation reserve or SOCNE), based on the valuations of buildings provided by the District Valuer and the NBV per the Fixed Asset register</p> <p>Our internal property specialists have reviewed the assumptions and methodology applied by the District Valuer and have not identified any issues.</p>	

# Financial statements and corporate governance (continued)

## 1. Significant audit risks (continued)

Accuracy of release of capitalisation costs relating to Airwave through the SOCNE		Status ●
<b>Background</b>	<p>In July 2006, SAS signed a managed service contract with Airwave, as part of a national agreement, for a digital radio network to replace the current analogue system. The total cost to SAS was £59 million and the radio network was scheduled to become operational from 1 April 2008. The contract involved significant levels of upfront payments to Airwave that is held on the Balance Sheet as a prepayment to be released through the SOCNE evenly over the period of the contract.</p> <p>The system was partially implemented during the prior year and became fully operational in May 2011. The contract has been complicated due to a number of Contract Change Notices (CCNs) as well as indexation on the initial cost price, errors on invoicing from Airwave as well as the operational delays.</p>	
<b>Deloitte response</b>	<p>Deloitte reviewed the assumptions underlying the Airwave contract in order to develop our understanding and assess the reasonableness of the key assumptions applied.</p> <p>We have recalculated the total cost of the contract, agreeing the original value to the signed contract, agreeing in a sample of CCNs and recalculating the indexation based upon the terms of the contract and independent indexation factors. We have reviewed the terms of the contract and challenged management in terms of the accounting for the delay deductions arising due to the delay in the operational effectiveness of the network.</p> <p>We recalculated our expectation of the release through the SOCNE based on the recalculated total cost and the term of the agreement per the original contract. We noted that not all of the CCNs have been signed and have noted this in <a href="#">section 9</a>.</p>	

# Financial statements and corporate governance (continued)

## 1. Significant audit risks (continued)

### Core expenditure resource limit

Status ●

#### Background

The SGHD sets three financial duties for all NHS Boards, on an annual basis. SAS has achieved all three of its financial targets in the year, as follows:

	Limit set by SGHD £m	Actual Outturn £m	Variance (over)/under £m
Revenue Resource Limit - Core	191.149	191.126	0.023
Revenue Resource Limit – Non Core	12.500	12.482	0.018
Capital Resource Limit	13.881	13.873	0.008
Cash Requirement	211.000	210.532	0.468

#### Deloitte response

We confirm that SAS has performed within the limits sets by the SGHD and therefore in compliance with the financial targets in the year.

We have reviewed the methods applied to monitor and report the compliance with these targets and any variances to the Board. The funding allocated to SAS has been confirmed via confirmation from The Scottish Government and have agreed the cash drawn down to the bank statements. We have concluded that, through the performance of our year end procedures, the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Minister and the expenditure is valid and correctly classified between revenue and capital spend.

# Financial statements and corporate governance (continued)

## 2. Liaison with internal audit

A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of International Standard on Auditing 610 (Considering the work of internal audit). We carried out an assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function and concluded that we could place reliance on its work.

We placed reliance on aspects of their work in a number of areas and in particular Key Financial Controls. This not only avoided duplication of effort but also enabled us to focus on other significant risks.

Our reliance upon the work of internal audit was in line with the position presented within our planning paper dated 14 December 2011.



# Financial statements and corporate governance (continued)

## 3. Our observations on your financial statements

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our comments on the quality and acceptability of the organisation's accounting policies and estimates are discussed below.

### Disclosure of critical accounting judgements and key sources of estimation uncertainty

#### Description

IAS 1 requires disclosure of:

- the critical judgements made in the process of applying accounting policies, which have the most significant effects on the amounts recognised in the financial statements; and
- major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Critical accounting judgements and key sources of estimation uncertainty identified by management are:

- provision costs associated with motor insurance liabilities;
- provision costs associated with ongoing legal cases;
- release of Airwave costs to the Statement of Comprehensive Net Expenditure and
- valuation of property, plant and equipment.

#### Deloitte response

We have assessed the above disclosures based upon our review of the accounts and understanding of the organisation and the specific risks we identified as part of our planning process. We have not identified any other critical accounting judgements or key sources of estimation uncertainty that require to be disclosed. In respect of motor insurance provisions, an estimate is recorded based on 50% of all known claims. We recommend that management seek to formulate a more detailed framework for calculating and monitoring the insurance provision. Provisions against ongoing litigation have been recorded in line with NHS policy. See [section 1](#) around our work on the release of Airwave costs to the SOCNE and valuation of property, plant and equipment.

# Financial statements and corporate governance (continued)

## 3. Our observations on your financial statements (continued)

### Hutton disclosures on median pay

#### Description

The Hutton Review of Fair Pay in the public sector concluded that “rather than complying with a cap, organisations delivering public services should track, publish and explain their pay multiples over time. The most appropriate metric for pay dispersion is the multiple of chief executive to median earnings. This will ensure public service organisations are accountable for the relationship between the pay of their executives and the wider workforce.” Following approval from the FRAB on 25 January 2012 the FReM was updated to reflect this requirement.

The following has been appropriately included within the Remuneration report in relation to this:

	2012 £000	2011 £000
Highest Earning Director	140 – 145	140 -145
Median Salary	30.6	29.4
Ratio	4.66	4.85

#### Deloitte response

We have reviewed a copy of the Hutton guidance and performed the following procedures:

- Agreed a breakdown of the gross pay by individual to payroll reports and identified the highest paid director and agreed the midpoint of this into the calculation.
- Selected a sample of employees and checked salary, length of service in the year and hours employed to the payroll system and agreed that these have been adjusted to be reported as full time and annualised in line with the guidance.
- Checked the calculation to identify the median salary and the ratio.

We are satisfied that the calculation has been performed in line with the guidance and has been appropriately disclosed. There has been no significant movement in the ratio year on year.

# Financial statements and corporate governance (continued)

## 3. Our observations on your financial statements (continued)

### Related party disclosures

#### Description

The FReM requires reporting of related party relationships, transactions and balances. The list of related parties for a Health Board is defined as including key management personnel of the management board, their close family members, and entities controlled or significantly influenced by these individuals.

The Board does not have processes or controls in place to ensure transactions with these individuals are identified and appropriately approved and disclosed.

#### Deloitte response

We have inquired of management whether there are any transactions that they are aware of with these parties, and have included a listing of DoH senior management in our work on related parties. SAS complete SFR30 returns in relation to related parties and obtain signed confirmations from all counterparties.

We have not identified any undisclosed related party transactions, and consider this to be a relatively low risk disclosure for the Board.

# Financial statements and corporate governance (continued)

## 3. Our observations on your financial statements (continued)

### Pension disclosures

#### Description

SAS participates in the National Health Service Superannuation Scheme for Scotland which is a multi-employer defined benefit scheme.

As insufficient information is available about the assets and liabilities attributable to each employer, this scheme is accounted for as if it was a defined contribution plan, with no pension liability shown on balance sheet and contributions payable recognised as an expense each period.

IAS 19 requires disclosure of:

- the fact that the plan is a defined benefit plan;
- the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and
- to the extent that a surplus or deficit in the plan may affect the amount of future contributions
  - any available information about that surplus or deficit;
  - the basis used to determine that surplus or deficit; and
  - the implications, if any, for the organisation.

#### Deloitte response

We have reviewed the disclosures within the accounts against the FReM noting that section 12.1.1 includes the NHS Superannuation Scheme as a multi employer public sector pension scheme and as such under section 12.2.5 should account for this as a defined contribution scheme.

Reference is made to the Scottish Public Pensions Agency where details of the most recent actuarial valuation can be found along with details of the shortfall that has to be met by future contributions from employing bodies.

# Financial statements and corporate governance (continued)

## 4. Our observations on the 'front half' of your annual report

We are required to read the "front half" of your annual report to consider consistency with the financial statements and any apparent misstatements. Here we summarise our observations on disclosures in a number of key areas for high quality reporting:

### Annual Governance Statement

*"All NHS organisations should aim to have all the risk management and review processes they consider necessary in place during each financial year. These processes should be reflected in the Governance Statement and where any necessary processes were not in place the statement should reflect the relevant deficiencies. Risk management should be an on-going process and NHS bodies should ensure that appropriate review and development arrangements are in place."*

In the current year the Governance Statement has replaced the Statement on Internal Control for all NHS organisations requiring the Chief Executive to sign off on her responsibility for maintaining an adequate and effective system of internal control.

We have reviewed the disclosures within the accounts against the requirements as set out in the NHS Accounting Manual and are satisfied that these have been reflected in the accounts.

# Financial statements and corporate governance (continued)

## 4. Our observations on the 'front half' of your annual report (continued)

### Key performance indicators

*Under the NHS Board Accounts Manual consideration needs to be given within the Operating and Financial Review around the disclosure of both financial and non financial targets*

We have reviewed the disclosures within the Operating and Financial Review against the requirements included within the NHS Accounting Manual. We note that consideration is given around both financial performance ([section 2](#)) and non financial targets ([section 3](#)) in line with the guidance.

#### Financial targets

These centre around the limits set by the SGHD and are discussed further within [section 1](#). These have been appropriately presented within the directors' report along with a comment on other specific requirements of the NHS Board Accounts Manual.

#### Non Financial targets

Each of the key Ministerial Objectives is separately and adequately disclosed summarising the individual targets against it along with the position of these as at the year end and we have agreed these into the Local Devlivery Plan and reporting of these to the Finance and Performance Management Committee. Performance against HEAT targets is discussed further within [section 6](#).

We have agreed that the targets specific to SAS as a special board are included and those omitted for example E2 through to E4 and T1 and T2 are only applicable to Territorial Boards. Against each target the accounts show the specific target as well as the performance for the year. We noted that an additional column detailing whether the target has been achieved could be beneficial and clearer to the reader of the accounts.

# Financial statements and corporate governance (continued)

## 4. Our observations on the 'front half' of your annual report (continued)

### Corporate governance disclosures

*“NHS Board directors are ultimately and collectively responsible as a board for all aspects of the performance of the Board. Therefore, they need to be able to deliver focused strategic leadership and effective scrutiny of the Board’s operations.”*

The Corporate Governance section of the Directors’ report includes details that the Board meet regularly to discuss the business of SAS with detail given around the key committees that the organisation has in place being:

- Clinical Governance;
- Audit;
- Staff Governance and
- Remuneration

The accounts then include specific details around the remit of each of these committees including their membership. Separate returns are prepared by SAS that include details of attendance by the non executive directors over the course of the year although this is not specifically included within the annual accounts.

# Financial statements and corporate governance (continued)

## 4. Our observations on the 'front half' of your annual report (continued)

### Sustainability and Equality

*“The Scottish Government has provided guidance on the preparation of a sustainability report which, in contrast with England, is not required to be included within the OFR, though it should cross-refer to it. The accounts manual encourages boards to develop their own sustainability and environmental reporting based on good practice examples and publish them separately.”*

In line with the requirements of the NHS Accounting Manual SAS has included a section within the Operating and Financial Review on Sustainability and Environmental Reporting. This includes commentary around energy efficiency, vehicle emissions, waste minimisation and management. Going forward the Board may wish to consider whether this should be expanded to include analysis of actual performance against targets for Greenhouse gas emissions, waste minimisation and water efficiency or to develop a separate sustainability report and direct the users of the accounts to this.



# Financial statements and corporate governance (continued)

## 4. Our observations on the 'front half' of your annual report (continued)

### Going concern

*“The purpose of the going concern assessment and disclosures should be to provide information to stakeholders about these matters and they should be designed to encourage appropriate business behaviours.”*

Lord Sharman November 2011

In line with the NHS Board Accounts Manual the Operating and Financial Review includes relevant disclosures around the basis of preparation.

In assessing the required disclosure we have obtained and reviewed a copy of the approved 2012/13 budget and assessed this in light of the agreed funding from the SGHD.

# Best value, use of resources and performance

## 5. Financial performance and outlook

	2011/12			2012/13
	Recurring £m	Non-recurring £m	Total £m	Total £m
<b>Income</b>	191.149	12.500	203.649	215.194
<b>Expenditure</b>	191.126	12.482	203.608	215.194
<b>Surplus/(deficit)</b>	0.023	0.018	0.041	0.00

### Current performance

SAS budgeted for a break even position for the year to 31 March 2012. The final outturn was a surplus against the core revenue resource limited of £0.023 million and surplus against non core of £0.018 million, representing a net surplus of £0.041 million.

### Significant variations from budget included:

- Basic Pay - £0.283 million over budget due to efficiency savings on staff pay not being accomplished.
- Unsocial Hours - £0.165 million under budget due to vacancies and thus less unsocial hour shifts being worked as part of normal routine shifts.
- Overtime - £0.692 million over budget due to insufficient number of staff to cover the required number of shifts.
- Injury benefit - £0.534 million under budget due to movement in provisions (see above).
- Patient Transport - £0.278 million over budget due to increased cost of medical gases and increased expense for the ambulance car service.
- Vehicle Maintenance Costs - £0.407 million over budget due to outsourced work costs linked with the Police force. In addition, the new fleet of 150 vehicles in the year had some issues which meant old fully depreciated vehicles were on the road for longer, requiring additional maintenance.
- Communications - £0.602 million under budget as a result of reversed decommissioning costs provision
- Office Running Costs - £0.312 million under budget due to general efficiency savings across SAS including reduced heat and lighting costs.

# Best value, use of resources and performance (continued)

## 5. Financial performance and outlook (continued)

### Outlook

Baseline budgeted revenue has been increased by 0.8% on prior year by £1.583 million. This is in line with all other NHS specialised health boards uplift in resource budget for 2012/13.

There is currently a £3.7 million increase in the budget for the rest breaks costs which will rise to £5 million. Discussions are ongoing with the Scottish Government for this to be increased further to a total £6.7 - £7 million. This includes training costs for additional staff currently going through the Ambulance College and incorporates an element of overtime costs for the moving over of staff from a 40 hour working week to a 37.5 hour. This is opening up more overtime costs to be incurred, as the vacancies are not being filled at a quick enough rate.

The capital expenditure budget has increased on the prior year by £0.4 million due to additional parts for all defibrillators, which SAS have a set aside budget for £0.7 million for. The additional parts are currently being piloted in Scotland and results are showing an improved diagnostic rate and increased resuscitation rate.

Capital expenditure also includes £10.1 million for year 2 of a 4 year capital expenditure plan for new vehicles. SAS predict an additional fleet of up to 100 vehicles, across modular built and vehicle conversions.

# Best value, use of resources and performance (continued)

## 6. Other issues

The results of our work on the other issues are set out below:

Compliance with outcomes based approach and quality ambitions for public sector bodies		Status - ●
<b>Background</b>	SAS, as a public body, is open to scrutiny in regards to its stated targets and quality ambitions which are common to all public bodies across Scotland. It is important that SAS complies with these ambitions and targets and is able to show how it has achieved these.	
<b>Deloitte response</b>	<p>SAS currently allocates budgets by directorate rather than by activity and outcomes achieved. This approach is likely to be increasingly challenged going forward as not being consistent with delivering priority outcomes in key policy areas in Scotland including health and social care and early years. The current approach also brings with it associated challenges including:</p> <ul style="list-style-type: none"><li>• The structure of the financial ledger based on directorate or functions makes it difficult to isolate costs of activities;</li><li>• Indirect relationships between activities and outcomes may not be considered;</li><li>• Performance indicators are not always outcome focused, rather they are often based on inputs and outputs; and</li><li>• Evaluation and causation analysis is not carried out to establish “what works” so that budget decisions can be made accordingly.</li></ul> <p>While it is accepted that this should be a medium term aspiration, an Outcome Planning approach should be considered to encompass planning, performance management and resource allocation in order to create a more rigorous approach. Over the medium term, this would assist in establishing the funding ‘what works’ in achieving key priority outcomes and ensuring budget decisions are made accordingly. An outcome planning framework would typically include the following stages:</p> <ul style="list-style-type: none"><li>• Define a set of outcomes;</li><li>• Identify key activities that deliver these outcomes;</li><li>• Identify the resources needed;</li><li>• Plan and prioritise the use of resources;</li><li>• Evaluation and causation analysis; and</li><li>• Make resource allocations based on what works.</li></ul>	

# Best value, use of resources and performance (continued)

## 6. Other issues (continued)

Operational impact of Airwave		Status - ●
<b>Background</b>	SAS has implemented a new digital communication system (Airwave) during the year which has been rolled out across the service. The operational impact of this has yet to be fully assessed and may have potential impacts on levels of service and budgeted costs if there are any issues with the implementation of the system.	
<b>Deloitte response</b>	We discussed the project with the Airwave In Life Manager, as the project has moved from the project delivery stage through to managing the project in life. Monthly analysis is performed against key deliverable metrics (for example voice communications being available 99.8% of the time in any location). The SAS delivery team (In Life Manager, Deputy In Life Manager and Senior Operational User) meet monthly with the Airwave Service Relationship manager to analyse performance. Where Airwave fail to meet any target, they must provide a detailed explanation of the reasons for the failure, and financial penalties are payable in the form of service credits. SAS recently agreed Year 1 Service Credits with Airwave and will continue to monitor this area closely moving forward. A meeting has been arranged between Airwave and the SAS In Life Manager, Procurement and the Finance General Manager to discuss some functionality which Airwave have so far been unable to deliver. Subsequent to this meeting, SAS will consider operational, contractual and technical factors to identify whether such functionality is required and identify a plan moving forward.	
Sickness absence rates		Status - ●
<b>Background</b>	Historically the rates of sickness absence in the Ambulance Service have been high when compared to the rest of NHS Scotland which can have potential impacts on staff provision and overtime costs. SAS have been set a target of achieving a sickness absence rate of less than 5% in the year to 2011/12.	
<b>Deloitte response</b>	Sickness absence rates are a key area of focus at Board Level, and Board Meetings includes presentation and discussion around Sickness absence rates. The Fast track Rehabilitation Scheme designed to facilitate a swift return to work after sickness continues to be well utilised by staff and is part of a strategy to reduce sickness absence rates. At year end, the final sickness absence rate was 5.7%. SAS continue to seek to improve against this metric as they strive towards a challenging 5% target. It is worthy of note that the SAS sickness absence rate compares favourably to the latest available data for the calendar year to December 2011 with English Ambulance Service at 5.8% and the Welsh Ambulance Service at 6.3%.	

# Best value, use of resources and performance (continued)

## 6. Other issues (continued)

Efficiency targets	Status - ●
<b>Background</b>	Given the increasing cost pressure on all public sector entities, there has been more focus placed on efficiency measures across the NHS. SAS has been set a 3% efficiency saving across the budget to be used to invest in frontline services.
<b>Deloitte response</b>	<p>We were able to place reliance on the Internal Audit Report 'Progress Against Efficiency Targets' published in January 2012. It was noted that SAS have been successful in delivering £13.3 million of efficiency savings in the 3 years to March 2011 and continue to focus on achieving further delivery. This report focussed around the controls monitoring progress against the achievement of its efficiency targets. This report identified 6 recommendations for SAS, 3 being graded as of limited risk exposure and 3 as moderate risk exposure.</p> <p>The efficiency targets are on a national scale, and savings are identified in 2 forms:</p> <ol style="list-style-type: none"><li>1. Non emergency services are subject to a 5 year roll out of the Patient Transport System (PTS) programme e.g. scheduled patient transport to outpatient appointments. Savings are made through better planning and reduction of staffing costs. Savings against this have equated to c. £2 million in 2010/11 and £1.5 million in 2011/12.</li><li>2. There is an amount of autonomy given to divisional and sub divisional areas to decide where the efficiency targets can be met from. Meetings are held with divisional managers and operational staff across the divisions where they can identify where cost savings can be made, as they know the service best and where to cut costs.</li></ol> <p>Efficiency targets and savings are reported to the board via the monthly financial reports which detail monthly performance against budget.</p>

# Best value, use of resources and performance (continued)

## 6. Other issues (continued)

Energy consumption targets		Status - ●
<b>Background</b>	There is a requirement to reduce energy consumption by 2.5% and there is an aim to reduce emissions in the current year. There is an increased focus on reducing costs due to budget constraints as well as environmental pressures to reduce carbon emissions.	
<b>Deloitte response</b>	<p>SAS monitor the energy consumption by site by taking meter readings for gas and electricity on a monthly basis, which they then send onto the energy provider for accurate monthly billing. SAS then collate quarterly consumption reports to review the energy consumption and feed the information into divisional reports. These figures are then reported back to Head Office for an annual review. Performance against the energy consumption target is then assessed on a quarterly basis.</p> <p>In addition, savings on energy are encouraged to all staff members through regular communications and notices, such as turning lights off etc.</p>	

# Best value, use of resources and performance (continued)

## 6. Other issues (continued)

### Achievement of HEAT targets Status - ●

#### Background

Performance indicators are reported on a monthly basis against HEAT targets and are reviewed by the Board with action plans developed where these are not being achieved. Summarised below is the status of each target:

	Target	● Status	● Status	● Status
Health Improvement of the people of Scotland	5	1	4	0
Efficiency and governance improvements	3	2	1	0
Access to services	4	0	4	0
Treatment of appropriate individuals	3	2	1	0

#### Deloitte response

Deloitte discussed progress against the HEAT targets with the Director of Service Delivery and this along with performance versus prior year is set out herein:

**Health improvement (1 of 5 achieved)** – Performance improved on prior year performance in 3 of the remaining targets. The organisation remain committed to meeting targets and continue to implement improvements to strive towards achieving these goals. The Optima system is currently being rolled out across the organisation and is expected to contribute to bridging the gap.

**Efficiency (2 of 3 achieved)** - The 1 target which was not met was in relation to sickness absence which continues to be an area of focus for the organisation (see above).

**Access (0 of 4 achieved)** – Overall performance deteriorated on prior year. These 4 targets were composed of 1 urgent calls target and 3 Patient Transport System (PTS) targets. The PTS is currently going through a transformation process through the Scheduled Care Programme Board and is moving to regional call handling and booking to improve efficiency. In addition, SAS are installing tracking on all vehicles to enable real-time tracking of performance. The urgent calls target was adversely affected by the rise in emergency demand in the year. The Medical Director is currently liaising with the GP Sub-committee to improve processes around the ordering of urgent doctor requests. In addition, there has been a focus in the control centre on ensuring that the focus is on urgent cases to ensure that the most vulnerable patients receive priority service.

**Treatment (2 of 3 achieved)** - In addition improvement was noted against each metric in the year. The Optima system is currently being rolled out across the organisation and is expected to help bridge the gap on the remaining target in relation to stroke patients.



# Best value, use of resources and performance (continued)

## 6. Other issues (continued)

### Procurement of next generation air ambulance

Status - ●

<b>Background</b>	There are currently plans to procure an air ambulance which will have a significant cost impact in a climate of increasing budget constraints.
<b>Deloitte response</b>	Deloitte have obtained and reviewed the Gateway Review of the Air Ambulance Procurement exercise. This has highlighted the process as an Amber Green rating, highlighting that 'successful delivery appears probable however constant attention will be needed to ensure risks do not materialise into major issues threatening delivery'. This is an area which SAS should continue to monitor and we will be happy to complete follow-up work as the procurement process progresses.

### Volatility of fuel costs

Status - ●

<b>Background</b>	SAS rely heavily on fuel in order to maintain their large fleet of vehicles. Fuel costs have fluctuated significantly which makes budgeting increasingly difficult
<b>Deloitte response</b>	Fuel price volatility is a key concern for SAS, and costs are monitored by the Finance General Manager on a monthly basis. Where a significant variance against budget is noted, this is escalated for consideration at monthly board meetings. Fuel prices have risen during the past financial year driven by a range of economic factors, and as a result SAS presented a case to the Local Delivery Plan Committee and received additional funding of £0.4 million in current year.

### Instability of key suppliers

Status - ●

<b>Background</b>	The current economic climate has been increasingly challenging. Due to this a risk has been identified in relation to the stability of key suppliers.
<b>Deloitte response</b>	<p>Deloitte have liaised with finance and procurement in relation to supplier management and contingency planning and we obtained a copy of the procurement work plan for 2012/13. Within this plan there are regular contract review meetings and performance management reviews with suppliers which also incorporate contingency planning.</p> <p>As part of the procurement process, SAS assess the financial stability of suppliers bidding for the contracts through obtaining the last 3 years accounts and performing ratio analysis on them. This area is currently being reviewed with view to further strengthening the financial stability analysis model.</p> <p>Deloitte have reviewed key suppliers and noted no over-reliance on any one supplier.</p>

# Best value, use of resources and performance (continued)

## 6. Other issues (continued)

Overtime costs	Status - ●
<b>Background</b>	Overtime costs are a significant cost given that SAS are down on expected headcount and the higher than average levels of absence within the service. SAS has stated that they will reduce their overtime costs publicly therefore there is increasing pressure on this going forward.
<b>Deloitte response</b>	<p><b>Processes to monitor overtime costs:</b></p> <p>The finance hold monthly performance planning meetings with general managers across all divisions in an attempt to identify what, why and where the overtime costs are being derived from. This way SAS can pinpoint areas where staffing issues can be resolved going forward in an attempt to cut down the overtime costs. In most cases the overtime costs are a result of vacancies. A tracker matrix has been implemented across the divisions and sub divisional station levels in an attempt to identify why there are gaps, such as staff being on long term sick, holidays, court duty etc, resulting in a need to cover shifts.</p> <p><b>Reporting processes for reporting the overtime information to the board:</b></p> <p>The figures for overtime are fed up on a divisional basis to the Director of Finance who collates and reports this to the Board. A cumulative perspective overtime report per station is also reviewed by senior management to identify trends in overtime and the needed for filling any vacancies.</p> <p><b>Long term plans to reduce overtime costs:</b></p> <p>An increased emphasis is being put on the use of the tracker matrix to identify where there are gaps in scheduling to cut down on overtime. In addition, monthly meetings are being held between finance team and heads of service across all divisions to ensure the tracker is being implemented and assess the effectiveness of the tracker matrix. The training college has also doubled the number of people currently attending in an attempt to fill the number of vacancies across Scotland. Rosters for staffing are being realigned with the use of new scheduling assistant software and using the matrix tracker in attempt to ensure there is the correct cover at the correct times. This is also in attempt to reduce the overtime costs as a result of the rest breaks that staff are not being able to take. In rural areas, there is an increased rollout of a Community resilience scheme, whereby members of the public in rural areas are given basic medical training. This rollout of the scheme has increasing numbers of the public joining, mainly in Fife and South West Scotland.</p>

# Best value, use of resources and performance (continued)

## 6. Other issues (continued)

Organisational capacity for change	Status - ●
<b>Background</b>	Given the scale of transformational change currently underway at SAS, organisational capacity for change is a key strategic risk with significant implications for delivery improved outcomes, benefits and cost targets.
<b>Deloitte response</b>	<p>We have had several discussions with the Director of Strategic Planning and attended the Strategic Programme Implementation Board and will follow this up with attendance at various individual Programme Boards going forward. This input will be used in an ongoing, and proactive basis, to assess and support SAS arrangements for managing organisational capacity for change, transformation, benefits realisation and securing improved outcomes for citizens and other key stakeholders.</p> <p>From these discussions, it is clear that there is currently a very significant transformation programme underway within SAS. Five strategic programme governance Boards are in place covering e-Health, Scheduled Care, Unscheduled Care, Engaging with Communities and “Doing the Right Thing” . A clearly defined governance model appears to be in place and this is supported by a substantial business change and stakeholder engagement approach which will be crucial enablers in securing the desired benefits and outcomes from these five strategic transformation programmes.</p> <p>Following discussions with the Director of Strategic Planning it appears there may be an opportunity to further formalise the change management arrangements in place, particularly for technology enabled business change, by applying a consistent but tailored approach, depending on the complexity of the change, to change management across all SAS programmes. Such an approach is often described as “hub and spoke” business change. The hub element of the approach provides for best practice, consistency and cost effectiveness while the spoke dimension allows for a tailored approach to business change as required depending on the complexity of the change. We have arranged to have further discussions with the Director of Strategic Planning on this. This consistency in approach should allow a more formal assessment of organisational capacity for change and would support benefits realisation and improved outcomes. We have also discussed the option of introducing Benefits Realisation scorecards with the Director of Strategic Planning. Scorecards represent a very comprehensive methodology for capturing and tracking the key process, system and organisational changes and enablers required to deliver business benefits and key outcomes from the strategic programmes.</p> <p>In overall terms, the scale of the change currently underway within SAS means that the Governance Model should be kept under constant review to ensure it remains fit for purpose. In particular any proposed changes to the model, a new Programme Board for example, should not be considered in isolation and should be evaluated in terms of the impact on the end to end Governance model.</p>

# Best value, use of resources and performance (continued)

## 6. Other issues (continued)

Response to emergency calls		Status - ●
<b>Background</b>	SAS are currently not making their 75% Government target for response to emergency calls and are running at 73%. Various initiatives including the rollout of the new optima system are being applied to identify cost effective measures to help bridge this gap.	
<b>Deloitte response</b>	<p>Deloitte discussed performance against emergency calls with the Director of Service Delivery. This target is a key focus for SAS, and an action plan has been formulated to help bridge the 2% gap and attain this target. In addition, two of the five divisions are already meeting the 75% target (South West and West Central), and the other three divisions have individual action plans in place to improve performance. SAS are proactive in seeking to identify and roll out best practice across the divisions.</p> <p>The key cornerstones of this approach are shift roster reviews, filling vacancies and improving turnaround times. The Optima system has cost £500,000 and went through a business case approval. This system is expected to be rolled out in Glasgow during summer 2012 and is expected to help bridge the 2% gap. Once the system has run live in Glasgow, there shall be analysis of performance by SAS and by Internal Audit ahead of rolling out the system across the country. Given the timeline for implementing the new system, generating empirical data and analysing performance, this is an area we would intend following up on in next year's audit.</p>	

# Best value, use of resources and performance (continued)

## 6. Other issues (continued)

### Disaster recovery and IT systems resilience

Status - ●

#### Background

A failure to develop business continuity and disaster recovery plans may result in a disruption to business processing, loss of data and services and loss of public and staff confidence. Where backup restore checks are not undertaken on a regular basis then there is a risk that SAS will be unable to completely recover their data in the event of an incident.

#### Deloitte response

The disaster recovery and IT system resilience for SAS's key financial systems are outsourced via the NHS Tayside consortium that manages and hosts the eFinancials system. An annual Service Auditor report has been completed and covers the eFinancials system and resilience arrangements in place. No significant issues were noted and we have taken assurance from this.

SAS is also part of the NSS national IT contract hosted by Atos Origin which manages the Payroll system. The Service Auditor provides assurance on the disaster recovery and IT system resilience arrangements in place. The Service Auditor's report noted that disaster recovery and business continuity planning arrangements are key features of all major contracts and are a fundamental part of the national IT Services contract. The Service Auditor's review of disaster recovery and business continuity planning arrangements for the national IT Services contract has concluded that there were two moderate risk issues, both of which arose from the same issue. No significant issues were noted and we can take assurance from the service auditor review. It was noted that Annual testing of Business Continuity Plans was not performed during the 2011 calendar year although this is expected to be completed by June 2012.

SAS has their own network in place for critical non-financial systems such as Computer Assisted Dispatch (CAD) and also file servers for staff documentation. In the year the Internal Auditors have carried out a review of Business Continuity Planning and Corporate Network Infrastructure. No significant issues were highlighted and SAS is currently in the process of actioning the recommendations in the report.

In addition, we noted during our meeting with the IT Manager that back-ups are created daily from the primary server and re-created on a secondary reporting server at each of the control rooms. The back-ups are then taken off site and stored in a fire proof safe. SAS IT does not currently have a backup test strategy to ensure that backups are able to be recreated in the event that there is an incident. SAS are commencing a project to mirror the servers at the control centres back to the Paisley site. The first stage of the project should be complete by late summer 2012 with the resilience further improved once the stage 2 of the project is completed during 2013. Deloitte will continue to monitor progress. In the interim period until the resilience project is completed, SAS IT has agreed to commence back-up testing on a regular basis.

# Best value, use of resources and performance (continued)

## 6. Other issues (continued)

Community engagement		Status - ●
<b>Background</b>	Effective Community Engagement is considered a key requirement for delivering best value in the public sector.	
<b>Deloitte response</b>	We have concluded that Community Engagement is well managed within SAS, and that the key challenge is around managing community engagement in remote and rural areas. Remote and Rural Implementation Group report in to Board Meetings on this issue. Community engagement was identified as a key area for best value analysis and is discussed further within <a href="#">section 6</a> .	

# Best value, use of resources and performance (continued)

## 7. Best value toolkit

As presented within our planning paper the Community Engagement toolkit was selected based on consideration of local circumstances and risks. This work has been completed and our detailed findings from this review are included in a separate report to the Audit Committee with a summary of these detailed below.

The objective of our review was to make an assessment of the Board's arrangements for community engagement and in particular review:

- how well the Board demonstrates a commitment culture to community engagement;
- how well the Board understands the needs and aspirations of communities;
- how well communities are involved in decision making;
- to what extent planning and monitoring arrangements reflect community engagement; and
- what community engagement has achieved.

Our report concluded that the SAS applies a number of areas of advanced practice around community engagement. It is not expected that all public sector bodies will be able to demonstrate that they are advanced or “market leaders” in all aspects of how they engage with their communities. However, in line with the core of Best Value, continuous improvement over time is expected. We have therefore highlighted some areas of advanced practice to be considered in order to help improve practice and achieve improved best value.

One of the key findings from this review is the need to continue to develop the partnership arrangements in place to ensure that community engagement is led, planned and managed collectively at a partnership level.

A key challenge to implementing the above is that there is only limited capacity within SAS to address this, given the financial pressures that the public sector faces. In addition, changes to service delivery within Health Boards can create a real concern in communities, and significant management time is needed to engage with stakeholders on this.

# Best value, use of resources and performance (continued)

## 8. National performance reports

As part of our audit we have completed our review of how the SAS have responded to the national performance report “Scotland’s public finances: addressing the challenges” assessing:

- The level of discussion of the report at Board Level;
- If the audited body completed a self assessment against the relevant findings;
- Details of any action plan flowing from this self assessment; and
- Form an opinion over the audited body response to the report findings.

In addition we have performed a focused follow up on ‘*The Role of Boards*’. This work has been completed and our detailed findings from this review are included in a separate report to the Audit Committee with a summary of these detailed below:

- Significant improvements have been made in terms of information provided and made available to the Board through the ability to extract information from a data warehouse with crystal reports and the introduction of the UK’s first electoral patient form along with patient walkthroughs and the patient experience.
- The Board are looking at the current performance indicators to develop these and make these more outcome based and are working with the Scottish Government to agree these.
- An area that was identified where the Board could improve upon was its ability to focus upon the key strategic risks of the organisation and hence the ability to develop the correct procedures to be put in place to mitigate this.
- The Board has undertaken a significant exercise to develop a strategy which involved consultation with over 1,200 stakeholders which has been endorsed by the Scottish Government Health Department as a very good model.
- An independent Board self assessment was undertaken just over 12 months ago and while there are no plans for an independent assessment at this time, Board Members are currently self assessing performance and will be developing action plans to ensure continuous improvement.
- The composition of the current Board is considered to be very good with a varied skill mix and no current gaps although this is continuously monitored based upon a matrix of key skills by member against the role.
- SAS have a detailed induction programme in place for all new non-executives tailored to each member and a formal review is conducted annually by the Chair on how they interact with the Board and to identify key development areas.



# Best value, use of resources and performance (continued)

## 9. Risk management and internal control systems

Our audit approach in relation to internal control was set out in our 'Briefing on audit matters' and our planning report circulated to you on 14 December 2011. Following the completion of our audit we will provide a separate management letter but raise matters of significance to your attention within this report.

### Key controls over significant risks

In **Section 1** we discussed the identified significant audit risks. For each of these significant audit risks we have assessed the design and implementation of internal controls in each of those areas, summarised below.

Risk 1 – Management override of controls	Deloitte observations	2012	
<p><b>Journal entries are approved and a detailed reviewed performed of monthly accounts</b></p>	<p>Controls are in place over financial reporting and closing procedures, recording and processing of journals, segregation of duties and related party transactions prevent the management override of controls. In addition a detailed review is performed each month on the results through the financial monitoring report.</p>	<p>We have tested a judgmental sample of journal entries posted in the year and confirmed the appropriateness of the journals posted including approval. No issues were noted as a result of these procedures performed.</p> <p>We have also reviewed the September 2011 financial monitoring report confirming that this is monitored and reviewed on a regular basis.</p>	<p>●</p>
Risk 2 – Recording of provisions	Deloitte observations	2012	
<p><b>Provisions are recorded based on information provided by external public sector organisations and reviewed internally</b></p>	<p>Each month a third party confirmation is obtained from the CLO reviewed by the Finance General Manager and adjustments made to provisions as required.</p> <p>The Scottish Public Pensions Agency provides SAS with a breakdown of the latest pension costs per individual on injury benefit. The Finance General Manager reviews this breakdown for any new individuals or changes and feeds this through his calculations spreadsheet.</p>	<p>We have obtained a copy of the third party confirmations and agreed that management have reviewed this and booked the necessary adjustments to record the position within the year end accounts.</p>	<p>●</p>

# Best value, use of resources and performance (continued)

## 9. Risk management and internal control systems (continued)

Risk 3 – Revenue recognition		Deloitte observations	2012
<b>The resource limit as determined by the Scottish Government is correctly recorded within the annual accounts.</b>	Management receives notification on a monthly basis from the Scottish Government confirming the resource limit for noncore revenue, core revenue and core capital. This is reviewed by the Director of Finance to ensure funding is correctly recorded.	We have reviewed the September 2011 financial monitoring report confirming that this is monitored and reviewed on a regular basis.	●
<b>Risk 4 – Property, plant and equipment valuation</b>		<b>Deloitte observations</b>	<b>2012</b>
<b>External revaluation reports reviewed and necessary adjustments processed</b>	Fixed asset valuations are considered on an annual basis. External valuations are regularly performed with carrying amounts being adjusted to reflect the value per revaluation report.	We have obtained a copy of the third party confirmation and agreed that management have reviewed this and booked the necessary adjustments to record the position within the year end accounts.	●
<b>Risk 5 – Accuracy of release of capitalisation costs relating to Airwave through the SOCNE</b>		<b>Deloitte observations</b>	<b>2012</b>
<b>Cost breakdown pulled together and term of contract calculated</b>	Costs on the Airwave contract are regularly reviewed. The term of the contract was determined pro rate based on the date of commencement of each EMDC to December 2020 (contract end date).	We have obtained latest costing workings during our planning and year end field work and noted evidence of regular monitoring and review. Airwave have made a number of errors in invoicing calculations to date, and we recommend that SAS continue to closely monitor costings.	●

# Best value, use of resources and performance (continued)

## 9. Risk management and internal control systems (continued)

Risk 6 – Core expenditure resource limit	Deloitte observations	2012	
<b>Monthly monitoring performed against SGHD financial targets</b>	Performance is reviewed on a monthly basis and presented to the Board against the core revenue, noncore revenue and core capital resource limits to ensure that these limits are not breached.	We have reviewed the September 2011 financial monitoring report confirming that this is monitored and reviewed on a regular basis.	●

● No issues noted    
 ● Satisfactory – minor observations only    
 ● Requires improvement    
 ● Significant improvement required

### Internal control observations

In addition to the recommendations provided in relation to significant audit risks, we also identified a number of risk management and control observations, the most significant of which are detailed below.

Insurance Provision Calculation		Priority – ●
<b>Description</b>	The insurance provision calculation is based on a judgemental percentage of outstanding claims as there is no prior year information to support this percentage.	
<b>Recommendation</b>	Management should focus on identifying trends based on current year data to inform this calculation moving forward. In addition, management should focus on monitoring actual costs against estimates provided by the insurer to ensure accuracy of estimates.	
<b>Management response</b>	This will be undertaken moving forward, it was not possible this year as this is the first year of the new insurance contract.	
<b>Timeframe:</b>	June 2012	
<b>Owner:</b>	Finance Services Manager	

# Best value, use of resources and performance (continued)

## 9. Risk management and internal control systems (continued)

Supplier statement reconciliations		Priority – ●
<b>Description</b>	We noted that supplier statements were not reconciled and signed off for all key suppliers at the year end.	
<b>Recommendation</b>	We recommend that management should request supplier statements for all key suppliers at the year end and reconcile these back to the payables ledger.	
<b>Management response</b>	Whilst the reconciliation was undertaken we accept that the statements were not signed and this is required to evidence that the control was actioned.	
<b>Timeframe:</b>	Immediate	
<b>Owner:</b>	Accounts Payable Manager	

Airwave Contract Change Notices Unsigned		Priority – ●
<b>Description</b>	We noted that a number of Contract Change Notices (CCN's) were not signed off by Airwave and SAS.	
<b>Recommendation</b>	We recommend that SAS should ensure moving forward that all CCN's are formally signed off by both parties	
<b>Management response</b>	We agree that there requires to be signatures on CCN's.	
<b>Timeframe:</b>	Immediate	
<b>Owner:</b>	In Life Airwave Manager	

# Best value, use of resources and performance (continued)

## 10. National fraud initiative (NFI)

NFI brings together data from all bodies across the public sector to help identify and prevent frauds against the public sector including housing benefit and payroll frauds.

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

Management chose to investigate all 110 matches rather than focusing on recommended matches or a particular type of match. To 31 May 2012 all matches had been reviewed to determine a suitable course of action and to investigate and conclude on the reason for the match. This includes reviewing payroll records, liaising with the Human Resources Department, other Health Boards and Local Authorities.

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

We have also confirmed that the questionnaire submitted to Audit Scotland in 2011 remains valid.

As at 31 May 2012 no frauds have been identified through the 2011/12 NFI exercise.

# Other

## 11. Independence

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General, we are required to report to you on the matters listed below.

Confirmation	
<b>We are independent</b>	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

Non-audit services	
<b>No non audit services provided in the year</b>	<p>In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non audit services or of any apparent breach of that policy.</p> <p>There was no non audit services fees charged in relation thereto by Deloitte in the period from 1 April 2011 to 31 March 2012.</p>

Fees	
<b>Audit fee agreed within indicative range</b>	<p>The audit fee for the year has been agreed at £78,455 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland. This fee incorporates the contribution to Audit Scotland covering your organisation's allocation of the costs of, among other things:</p> <ul style="list-style-type: none"><li>• the programme of national performance audits in the NHS as set out in the recently published forward programme;</li><li>• functions that support the local audit process (e.g. technical support and co-ordination of the National Fraud Initiative);</li><li>• Audit Scotland's other support costs; and</li><li>• auditors' travel and subsistence expenses.</li></ul>

Relationships	
<b>There are no business or personal relationships to report</b>	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>

# Other (continued)

## 12. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by Audit Scotland, within the Code of audit practice, explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" circulated to you within our audit plan dated 14 December 2011 and sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to the board and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Board of Directors, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

### **Deloitte LLP**

Chartered Accountants  
Glasgow

20 June 2012

# Appendices

## 1 - Audit adjustments

### Misstatements

As stated in our audit plan, we only report to you uncorrected misstatements that are not clearly trivial which includes greater than £40,000. We have not identified any misstatements up to the date of this report.

### Disclosure misstatements

We have not identified any disclosure misstatements from our work performed.



# Appendices (continued)

## 2 - Representation letter

Deloitte LLP  
Lomond House  
9 George Square  
Glasgow  
G2 1QQ

Our Ref: SAS/2012

***Date: at time of signing***

Dear Sirs

This representation letter is provided in connection with your audit of the annual financial statements (“the financial statements”) of Scottish Ambulance Service for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Scottish Ambulance Service as of 31 March 2012 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the directions given by the Auditor General for Scotland (‘the Auditor General’) in accordance with Section 21 of the Public Finance and Accountability (Scotland) Act 2000. We are aware that it is an offence to mislead a Board auditor.

As Accountable Officer and on behalf of the board of directors, I confirm to the best of my knowledge and belief, the following representations.

### *Financial statements*

1. I understand and have fulfilled my responsibilities for the preparation of the financial statements in accordance with the directions given by Scottish Ministers and the National Health Service (Scotland) Act 1978 which give a true and fair view, as set out in the terms of the audit engagement letter.
2. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter with Audit Scotland. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

# Appendices (continued)

## 2. Representation letter (continued)

4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of *IAS24 "Related party disclosures"*
5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
6. There are no uncorrected misstatements or disclosure deficiencies.
7. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the Board or cease operating as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Board's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
8. We have considered the valuation of the Board's Property, Plant and Equipment, and are not aware of any circumstances indicating volatility in asset values requiring a revaluation in the current year
9. We confirm that we consider that depreciated historic cost is an appropriate proxy for the fair value of non-property assets, and are not aware of any circumstances that would indicate that these assets require revaluation.
10. With respect to the revaluation of properties in accordance with the FReM:
  1. the measurement processes used are appropriate and have been applied consistently, including related assumptions and models;
  2. the assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures;
  3. the disclosures are complete and appropriate; and
  4. there have been no subsequent events that require adjustment to the valuations and disclosures included in the financial statements.

# Appendices (continued)

## 2. Representation letter (continued)

### *Information provided*

11. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
12. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
13. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
14. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
15. *We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects Scottish Ambulance Service and involves:*
  - (i). management;
  - (ii). employees who have significant roles in internal control; or
  - (iii). others where the fraud could have a material effect on the financial statements.
16. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
17. We are not aware of any actual or possible instances of non-compliance with laws and regulations.
18. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
19. No claims in connection with litigation have been or are expected to be received.
20. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
21. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
22. I confirm that I have appropriately discharged my responsibility for the regularity of transactions

# Appendices (continued)

## 2. Representation letter (continued)

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed as Accountable Officer, and on behalf of the Board of Directors

# Appendices (continued)

## 3 - Additional resources available to you

### Additional information on current and future technical developments

#### IASPlus

The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the Internet about international financial reporting. It is aimed at accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. The site, which is totally free of charge, has a broad array of resources about the International Accounting Standards Board, International Financial Reporting Standards, and international accounting and auditing in general. It includes:

- Summaries of all IASB standards and interpretations;
- Background on all IASB and IFRIC agenda projects plus summaries of all IASB and IFRIC meetings;
- Comparisons of IFRSs and various local GAAPs;
- Updates on national accounting standards development in around 80 countries and regions throughout the world; and
- Free e-learning modules for each IAS and IFRS – made available at no charge in the public interest.

The site is available to browse at any time; alternatively you can subscribe to e-mail alerts and newsletters by going to <http://www.iasplus.com/subscribe.htm>.

#### Our range of publications

Our iGAAP books are available to our clients electronically and in hard copy. These include our major manuals providing comprehensive, practical guidance; model annual report and financial statements; and our major text on financial instruments providing in depth support to preparers and auditors in this challenging area.

Our range also includes quarterly iGAAP newsletters providing a roundup of recent developments. iGAAP and ukGAAP alerts are issued whenever a new exposure draft or standard is issued.

#### Stay tuned online: Internet-based corporate reporting updates

The Deloitte UK Technical Team run a series of internet-based financial reporting updates, aimed at helping finance teams keep up to speed with IFRS, UK GAAP and other reporting issues.

Each update lasts no more than one hour, and sessions are held three times a year, at the end of March, July and November. Recordings of past sessions are available via [www.deloitte.co.uk/audit](http://www.deloitte.co.uk/audit).

#### Audit podcasts

Our leading experts provide you with a short discussion of new IFRS standards and practical insights. These can be accessed via our website, [www.deloitte.co.uk/audit](http://www.deloitte.co.uk/audit). Alternatively, you can subscribe to our podcasts via iTunes – just search for Deloitte IFRS.

# Appendices (continued)

## 3 - Additional resources available to you (continued)

### Additional information on current and future technical developments

#### Deloitte UK Centre of Health Solutions

The Deloitte Centre for Health Solutions generates insights and thought leadership based on the key trends, challenges and opportunities within the healthcare and life sciences industry. Working closely with other centres in the Deloitte network, including the US centre in Washington, our team of researchers develop ideas, innovations and insights that encourage collaboration across the health value chain, connecting the public and private sectors; health providers and purchasers and consumers and suppliers.

'Primary Care: Today and Tomorrow' was published in May 2012 and upcoming studies include:

- Healthcare for the Homeless;
- The Economic Case for Improving Diagnostics in the UK;
- Value Based Pricing;
- Measuring the Return from (Pharma) Innovation – is R&D earning its investment;
- Commissioning; and
- End of Life Care.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.co.uk/about](http://www.deloitte.co.uk/about) for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

© 2012 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

**Member of Deloitte Touche Tohmatsu Limited**