



Final report to the Board and Auditor General on the 2014/15 audit

18 June 2015

the
Distinctive
audit

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Our final report

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A reminder of our audit plan:

- Materiality: £2,200k (2013/14: £2,100k).
- Performance materiality: £1,980k (2013/14: £1,890k).
- Threshold for reporting misstatements: £22k (2013/14: £21k).
- Significant risks over compliance with resource limits and cash requirement, injury benefit provision, qualification of asset impairments for DEL funding, revenue recognition (completeness of funding) and management override of controls.
- Other than considering the design and implementation of controls over significant risks, we have taken a fully substantive audit approach with no controls reliance.
- We have not identified any additional significant risk areas since our plan was issued.
- There have been no changes to our audit plan presented to you in December 2014.



Partner introduction

Partner introduction

Financial statement audit

I have pleasure in presenting our final report to the Audit Committee for the 2014/15 audit. I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

- The key judgements in the audit process related to:
 - The Injury benefit provision;
 - The qualification of asset impairments for DEL funding; and
 - Achievement of expenditure resource limits.
- We have not identified any corrected or uncorrected errors from our procedures to date.
- Based on the current status of our audit work, we envisage issuing an unmodified audit opinion.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
 - Receipt of RBS bank confirmation;
 - Receipt and review of final version of the financial statements;
 - Finalisation of quality control procedures;
 - Receipt of signed management representation letter; and
 - Our review of events since 31 March 2015.

Audit quality is our number one priority. When planning our audit we set the following audit quality objectives for this audit:

A robust challenge of the key judgements taken in the preparation of the financial statements.

A strong understanding of your internal control environment.

A well planned and delivered audit that raises findings early with those charged with governance.

Partner introduction (continued)

Public sector audit dimensions

We have commented below on the Audit Scotland impact dimensions with regard to Scottish Ambulance Service.

Financial sustainability

Financial sustainability continues to be the single most significant challenge and risk for Scottish Ambulance Service. We will continue to monitor these arrangements.

SAS has a 3 year budget in place which includes £23.1m of efficiencies to be achieved.

Financial Management

The final outturn was a surplus against the core revenue resource limit of £59k.

SAS complied with all financial targets in the year.

Best Value

We agreed to focus on the management of the Airwave contract, the replacement for Airwave, the potential of data analytics in understanding sickness absence, and shared learning from the North West Ambulance consultancy project.

Governance and Transparency

Governance arrangements are effective within Scottish Ambulance Service with committees of the Board overseeing governance and performance monitoring.

Monthly management reports are clear and produced in a timely manner.



Partner introduction (continued)

Significant risk dashboard



Fraud risk	Controls approach and findings	Consistency of judgements with Deloitte expectations	Comment
Core revenue resource limits			
✓	Evaluate design and implementation of key controls. No controls reliance. No significant observations.	●	We have confirmed that SAS has performed within the limits set by the Scottish Government.
Injury benefit provision			
✗	Evaluate design and implementation of key controls. No controls reliance. No significant observations.	●	Key assumptions challenged and agreed as reasonable.
Qualification of asset impairments for DEL funding			
✗	Evaluate design and implementation of key controls. No controls reliance. No significant observations.	●	Income recognised in line with funding agreement with the Scottish Government. We are comfortable that the claims qualify for DEL funding based on our review of the guidance and claim.
Revenue Recognition: completeness of funding			
✓	Evaluate design and implementation of key controls. No controls reliance. No significant observations.	●	Income recognised agrees to the final allocation per the Scottish Government and is recognised appropriately.
Management override of controls			
✓	Evaluate design and implementation of key controls. No controls reliance. No significant observations.	●	We have noted no issues with journal entries and other adjustments made in the preparation of the financial statements.

Overly prudent, likely to lead to future credit      Overly optimistic, likely to lead to future debit.

Scope, nature and extent of audit

Scope, nature and extent of audit

Our overall responsibility as external auditor of the Board is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The special accountabilities that attach to the conduct of public business, and the use of public money, means that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as regularity (or legality), propriety, performance and use of resources in accordance with the principles of Best Value and 'value for money'.

Our core audit work as defined by Audit Scotland comprises:

- Providing the Independent Auditor's Report on the financial statements (including any assurance statement on consolidation templates and summary financial information);
- Providing the annual report on the audit to those charged with governance;
- Providing reports to management, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code (including auditors' involvement in NFI); and
- Undertaking work required by Audit Scotland, including: providing information for the NHS financial performance report and NHS current issues report for the Auditor General; a review of elements of Best Value in Boards and feedback on local responses to national performance audit reports in Boards.

In addition to this annual report, we have completed and reported the following matters to those charged with governance (the Audit Committee) of the Board:

- Planning Report; and
- Progress reported to each Audit Committee meeting.

The key issues from these outputs are summarised in this report.



Significant audit risks and other matters

Significant audit risks

Compliance with resource limits

Risk identified

As set out in our Audit Plan, we recognised the key financial duty for Scottish Ambulance Service to comply with the Revenue Resource Limit, Capital Resource Limit and Cash Requirements set by the Scottish Government. Given the financial pressures faced by the Board, there is a risk that these limits are exceeded.

Key judgements

We must provide an opinion on regularity, to the effect that expenditure and receipts were incurred or applied in line with guidance. We have assessed whether expenditure is correctly classified between revenue and capital and whether it has been incurred in accordance with Scottish Government's guidance.

There are robust processes in place to ensure that Scottish Ambulance Service complies with all key resource limits.

	Expenditure £000s	Resource Limit £000s	Underspend £000s
Revenue Resource Limit - Core	209,867	209,926	59
Revenue Resource Limit – Non Core	36,925	36,927	2
Capital Resource Limit	11,729	11,730	1
Cash Requirement	228,443	229,000	557

Deloitte response

- The final small underspend position was driven by management focus on tight cost control.
- The funding allocation to SAS has been confirmed via confirmation from the Scottish Government dated 29 April 2015 and we have agreed the cash draw down to the bank statements.
- We have confirmed, through our performance of our year end procedures, that the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and the expenditure is valid and correctly classified between revenue and capital.
- We confirm that SAS has performed within the limits set by the Scottish Government and is therefore in compliance with the financial targets in the year.

Significant audit risks (continued)

Injury benefit provision

Risk Identified

Significant judgement and complexity around these calculations given the estimates utilised around life expectancy and discounting factors. There is a risk that this provision is incorrect or incomplete.

Key judgements

The key judgement area is around the life expectancy factors applied. This is the key driver of the provision recorded, and an error in this area could generate a notable movement in the final provision.

Deloitte response

We have performed the following:

- Agreed monthly payments to NSS confirmations;
- Agreed reasonableness of life expectancy factors and recalculated discount factors;
- Tested a sample of individuals in detail to assess accuracy; and
- Assessed the adequacy of disclosures within the financial statements.

No issues have been noted from the work performed.

£8.2m provision
(2013/14 £6.8m)

43 individuals
(2013/14 40)

The key movement driver is £1.1m of provision relating to the new individuals being added in the year.

Significant audit risks (continued)

Qualification of asset impairments for DEL funding

Risk Identified

There is a Scottish Government Departmental Expenditure Limit (DEL) fund extended for another year – to cover losses on disposal, over-specification of assets and other impairments. The key item SAS made a DEL funding claim for is the impairment of the Airwave prepayment of £16.6m given concerns over the long-term funding of Airwave to deliver the contract through to 2020. There has been an additional claim of £1.0m for the additional costs related to Vehicle Conversions given the additional expenses these vehicles have historically incurred.

We have focused on assessing whether any items classified in this area have been treated correctly. The risk is that SAS make claims for assets which do not qualify for this funding and hence recognise income incorrectly.

Key judgements

Management judgement in relation to the identification of assets which qualify for this funding.

We have performed the following procedures:

- Tested a sample of claims made in relation to losses on disposal and over-specification of assets and assess whether the assets qualify for the funding applied for; and
- Obtained a third party confirmation and assessed whether the adjustments have been correctly recorded.

Airwave

£16.6m

Vehicle
Conversion

£1.0m

Other

£0.1m

Deloitte response

We have performed the following:

- Obtained and reviewed the management paper on the Airwave prepayment claim;
- Obtained and reviewed the management paper on the Vehicle conversion claim;
- Considered the respective proposals with reference to the DEL guidance and correspondence with Scottish Government.

No issues were noted from the procedures performed. We are satisfied that these assets meet the criteria for DEL funding.

Significant audit risks (continued)

Revenue recognition: completeness of funding

Risk Identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The risk is pinpointed to completeness of funding given the significance to the organisation.

Key judgements

As funding is notified and agreed with the Scottish Government, there are limited areas of judgement in revenue recognition within Scottish Ambulance Service. Our challenge is set out below.

Deloitte response

- No issues noted from our review of the treatment of income in the year, which has been accounted for in line with the FReM.
- We have obtained a copy of the year end funding statement received from the Scottish Government which has been agreed to the amount recognised by SAS.
- We have also agreed the core funding to bank payments received.

Significant audit risks (continued)

Management override of controls

Risk Identified

International Standards on Auditing require auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor.

This recognises that management may be able to override controls that are in place to present inaccurate or fraudulent financial reporting.

Key judgements

Our audit work is designed to test for instances of management override of controls.

We have summarised on pages 11 to 13, our work on key estimates around revenue recognition and injury benefit provisions, and the qualification of the Airwave prepayment for DEL funding.

Deloitte response

- No issues noted around journal entries and other adjustments made in the preparation of the financial statements.
- Our review of accounting estimates for bias that could result in material misstatement due to fraud noted no issues.
- Retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements completed with no issues noted.

Other matters

Other areas we wish to highlight to you

Holiday pay

The Employment Appeal Tribunal (EAT) made a significant judgment in July 2014 in relation to the calculation of holiday pay. The three test cases were held together, and the judgement made was that overtime should be included in the calculation of holiday pay. Employees do not have the right to claim back pay unless the underpayment was in the last 3 months, thereby restricting the back pay claims. It should be noted that this decision only applies to the statutory 4 weeks holiday granted by the Working Time Directive. As such, it does not apply to additional contractual holidays offered by employers over and above this. The judgement made in this case is expected to be appealed to the Court of Justice of the European Union, and no conclusion is expected to be reached by year end. As such, management had to make a judgement on the potential impact of this matter on the organisation, and reflect this within the annual accounts.

While the potential for back claims is limited as per above, the cost of future holiday pay could increase significantly where overtime needs to be taken into account. This would provide a further financial challenge in addition to known budgetary pressures.

Scottish Ambulance Service currently provides for holiday pay based on basic pay, unsocial hours and on-call time, but does not provide for overtime on the basis that it is voluntary and not contractual. This matter is being considered on an NHS wide basis. There has been a claim submitted against Scottish Ambulance Service by the North region, and management have moved to defer the case ahead of the national position being finalised.

SAS have not recorded a provision or contingent liability on the basis that they believe the risk of material exposure is remote. We concur with this assessment.

CNORIS provision

There has been a £1.2m prior year restatement processed through the annual accounts in relation to the CNORIS provision. This is an additional legal provision reflecting the estimated Scottish Ambulance Service share of those claims that have not yet been received but relate to matters which occurred before the balance sheet date.

Previously Boards only recorded known claims at the year-end date, and therefore did not provide for cases **which had not been notified but had occurred** before year end. These balances were adjusted at a consolidated stage for NHS Scotland, but were not reflected within individual boards. A prior year adjustment has been processed to address this historical inconsistency, with all Boards asked to process the restatement **regardless of materiality**.

The movement in the provision between financial years is matched by a corresponding adjustment in AME provision and is classified as non-core expenditure.

Best value, use of resources and financial performance

Financial performance and outlook

Financial sustainability remains a key concern for SAS

Value for money

SAS budgeted for a break even financial position for the year to 31 March 2015. The final outturn was a small surplus against the core revenue resource limit of £59k. This was achieved through a focus on tight cost control and close monitoring of budgetary fluctuations.

Overall financial and quality performance

The table below illustrates how the Board's performance compares to plan and prior year, and budget for 2015/16;

	2014/15 Recurring £'000	2014/15 Non- Recurring £'000	2014/15 Total £'000	2015/16 Total £'000
Income	209,926	36,927	246,853	232,318
Expenditure	(209,867)	(36,925)	(246,792)	(232,318)
Surplus	59	2	61	0

SAS is projected to breakeven in 2015/16. This includes expected efficiency savings of £6.713m. While detailed plans are in place for 2015/16, significant concerns have been raised by SAS around the sustainability of medium and long term financial plans in light of current funding. We have no concerns around the strategy and processes in place, but will continue to closely monitor the sustainability of SAS finances.

Conclusion

No issues noted from our review of the treatment of income and expenditure in the year, which has been accounted for in line with the FReM. We do not have any concerns over the financial management in place at Scottish Ambulance Service..

HEAT targets

Key performance indicators

SAS has a Local Delivery Plan agreed with the Scottish Government. This contains a number of targets structured under four key Ministerial Objectives. For each of the below headings, Deloitte have analysed which targets were met in the year and, where these were missed, assessed SAS's plan for next year to achieve them.

In each of the following slides we have used a traffic light system to highlight performance as follows:

Traffic light key
Target achieved
Target not achieved but an improvement seen since 2013/14
Target not achieved and no improvement/decline in performance since 2013/14

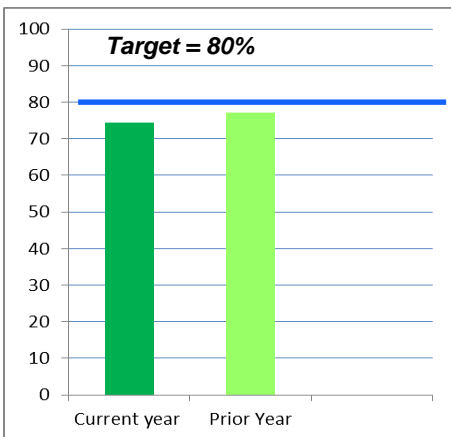
Where targets were not achieved, we have shown in graphical format current year performance against both targets and prior year performance, and have documented SAS' planned strategy to achieve these in 2015/16.

Health improvement of the people of Scotland

Improving life expectancy and healthy life expectancy

Targets

1. Achieve a return of spontaneous circulation on arrival at hospital
2. % of cardiac arrest patients responded to within 8 minutes
3. Achieve a return of spontaneous circulation for VF/VT patients on arrival at hospital
4. % of category A incidents responded to within 8 minutes
5. % of category B incidents responded to within 19 minutes

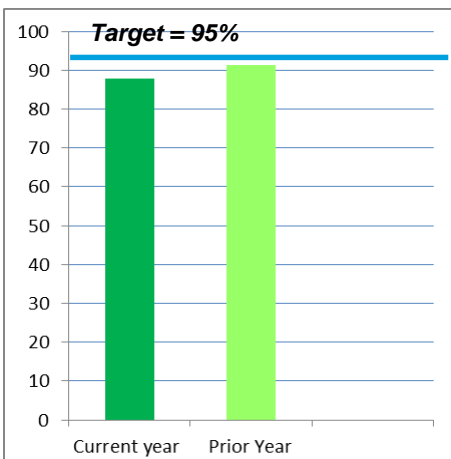
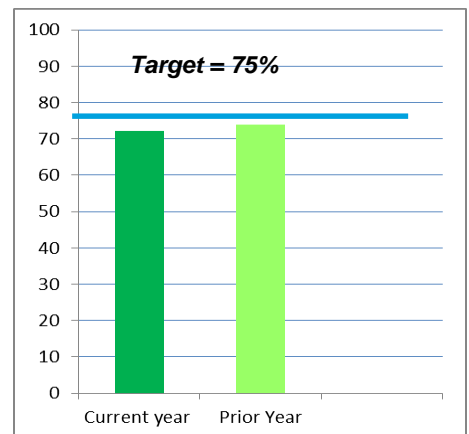


H2

- The % cardiac arrest patients responded to within 8 mins was 74.3% against a target of 80% and prior year performance of 77.1%.
- This was largely due to the results shown in the North division where areas and patients are less accessible and prove difficult to reach within the targeted times.
- Going forward there will be a continued focus on the first responder schemes particularly within the remote and rural areas.

H4

- The % category A incidents responded to within 8 minutes was 72.2% against a target of 75% and prior year performance of 73.9%.
- H4 and H5 targets are linked as the only difference is between the type of incidents attended. Again these have been affected by rural/remote areas as discussed in H2 above and there have also been issues reaching patients within the South East region.
- In order to improve on these, there has been increased focus on the Optima system and also new deployment points being introduced in the Edinburgh areas to reduce the response times for patients.



H5

- The % category B incidents responded to within 19 mins was 87.8% against a target of 95% and prior year performance of 91.3%.
- H4 and H5 targets are linked as the only difference is between the type of incidents attended. Again these have been affected by rural/remote areas as discussed in H2 above and there have also been issues reaching patients within the South East region.
- In order to improve on these, there has been increased focus on the Optima system and also new deployment points being introduced in the Edinburgh areas to reduce the response times for patients.

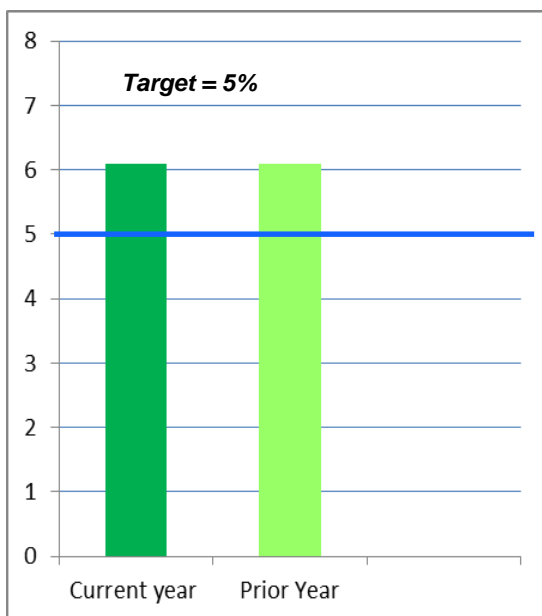
Efficiency and governance improvements

Continually improve the efficiency and effectiveness of the NHS

Targets

1. NHS Boards to operate within their Revenue Resource Limit and Capital Resource Limit; and to meet their cash requirement

2. Reduce sickness absence to a target of 5%



E2

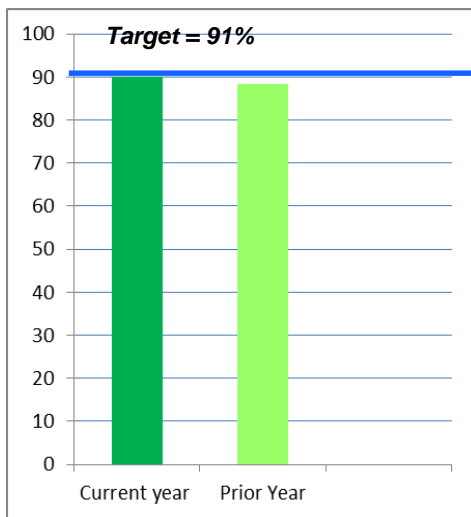
- The sickness absence rate was 6.1% against a target of 5% and prior year performance of 6.1%.
- A 1% reduction in sickness absence is estimated to generate £1m of cost savings through reduced overtime.
- Deloitte have provided an analytics workshop in the year exploring sickness absence rates in order to highlight the possibilities of analytics in supporting SAS in better understanding and managing the causes of the absence rates and to help identify possible solutions.
- The results of this have been detailed in a later slide and will be discussed therein.

Access to services

Recognising patients' needs for quicker and easier use of NHS services

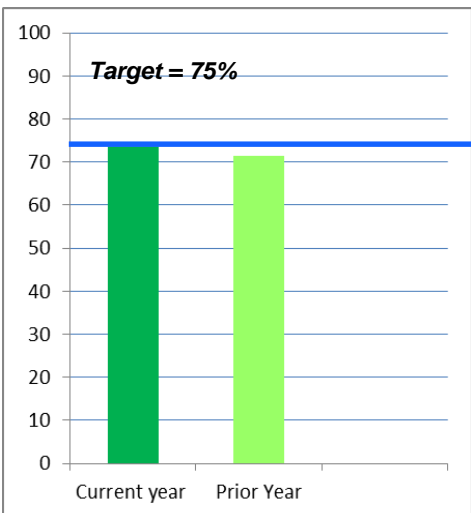
Targets

1. % of 1 hour GP urgent calls responded to within an hour
2. % of Patient Transport Service (PTS) patients at hospital prior to appointment
3. % of PTS patients picked up within 30 mins of end of appointment
4. % of PTS journeys cancelled by SAS
5. % of 999 calls answered within 10 seconds
6. % of PTS calls answered within 60 seconds



A1

- 90.1% of 1 hour GP urgent calls were responded to within an hour against a target of 91% and prior year performance of 88.4%.
- Although SAS have not met the target for this year, there has been an improvement in performance since the prior year which is a positive step.
- This is due to various implementations which include the use of virtual call systems which can divert calls to alternative divisions when certain call centres are busy. This results in calls being answered quicker and increased productivity across call centres.

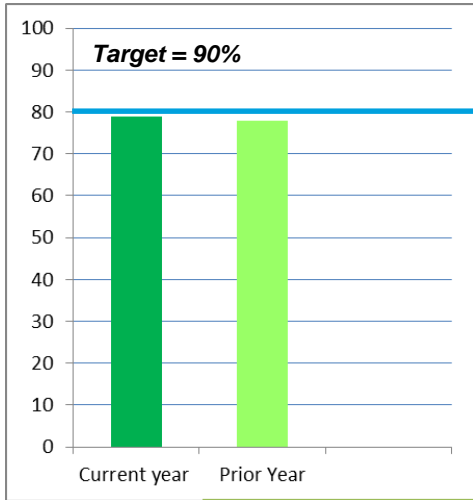


A2

- 73.7% of PTS patients arrived at hospital prior to their appointments. This was against a target of 75% and prior year performance of 71.4%.
- Although SAS have not met the target for this year, there has been an improvement in performance since the prior year which is a positive step.
- SAS are close to reaching this target and will continue to strive to achieve to have 75% of all patients at hospitals prior to appointments.

Access to services (continued)

Recognising patients' needs for quicker and easier use of NHS services

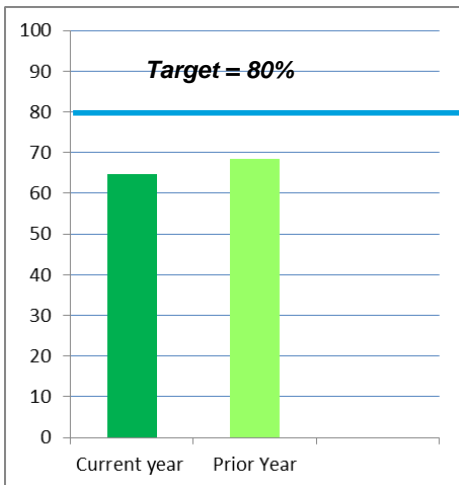
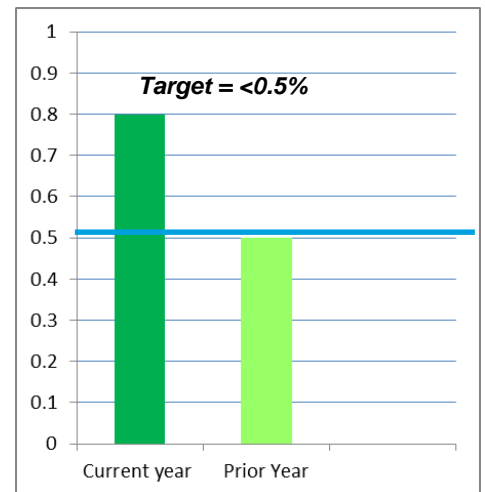


A3

- 78.9% of PTS patients were picked up within 30 mins of their appointment against a target of 90% and prior year performance of 78.9%.
- Although SAS have not met the target for this year, there has been an improvement in performance since the prior year which is a positive step.
- SAS will continue to strive to achieve to have 90% of all patients at hospitals prior to appointments.

A4

- 0.8% of PTS journeys were cancelled by SAS against a target of <0.5% and prior year performance of 0.5%.
- The number of journeys cancelled by SAS has been impacted by the decrease in the number of available volunteers in the year. SAS have little control over the number of volunteers available as these are dependent on budgets.



A6

- 64.6% of PTS calls were answered within 60 second against a target of 80% and prior year performance of 68.5%.
- SAS have stepped up recruitment for call centre workers in order to increase the number of calls answered within the 60 second limit. SAS expect to see an improvement in the coming year, as they forecast demand to remain constant against current year.

SAS should continue to monitor the impact of Health and Social Care Integration on key access to services targets.

Treatment appropriate to individuals

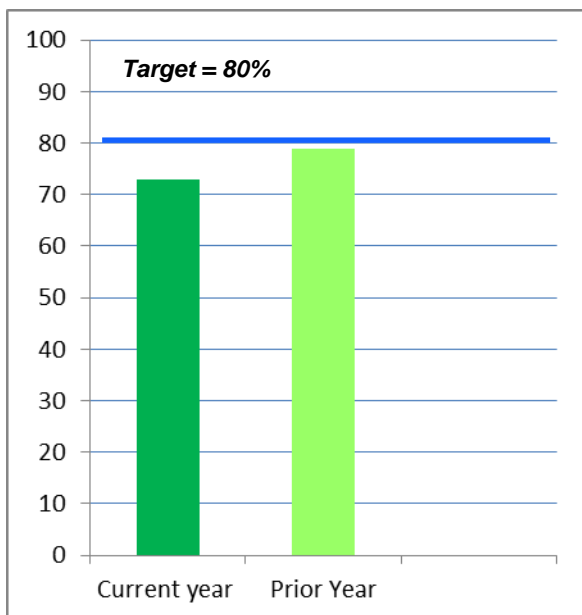
Ensure patients receive high quality services that meet their needs

Targets

1. % of emergency calls treated at scene

2. % of hyper acute stroke patients taken to hospital within 60 minutes

3. % of recorded use of PVC insertion care bundle



T2

- 72.8% of hyper acute stroke patients were taken to hospital within 60 minutes. This was against a target of 80% and prior year performance of 78.8%.
- This target was missed due to further distances being travelled to reach appropriate services, increased waiting times at hospitals and also the performance of checks at scene rather than on route to hospital.
- Proposed improvements include:
 - a focus on revising the identification and treatment guidance decision tool made available to staff
 - education and training
 - ensuring patients are accepted by the nearest emergency to reduce travel times
 - renewed focus on treating patients at the scene

Best Value

Our considerations in line with the Code of Audit Practice.

Management of the Airwave process

There have been a number of disputes around the Airwave contract, with key areas of dispute around delay deductions, service credits and functionality concerns. Scottish Ambulance Service have benefitted significantly from having continuity in both Operational Management and Financial Management. In contrast, Airwave appear to lack the continuity in key personnel, as evidenced by the number of different individuals who have been involved at different stages of the discussion. It would appear that this continuity has provided strong foundations for the SAS negotiating position. With the scoping of the next generation system currently underway, SAS should strive to ensure that there is similar continuity through the management of the new contract.

Replacement for Airwave: ESMCP

The emergency services mobile communications programme (ESMCP) is a UK wide contract that will provide the next generation communication system for the 3 emergency services (3ES) and other public safety users. This system will be called the emergency services network (ESN). ESN will provide the next generation integrated critical voice and broadband data services for the 3ES (police, fire and rescue, and ambulance).

The contract process is currently ongoing, and the individual services involved in the programme (primarily ambulance, police and fire but also some smaller entities) are being asked to provide assurance on the direction of travel by the end of July 2015. The contract award and final business case will be out in September 2015.

There are currently significant uncertainties around cost, and Scottish Ambulance Service are awaiting more information in this regard. The underlying intention of ESMCP is to be 'Better, Smarter, Cheaper' than existing systems, but more clarity is required on the underlying figures. The key points to be resolved are around the SAS share of total costs, funding of dual running costs and the VAT treatment of elements of the contract.

The current status of the contract is that there are shortlists of 4, 2 and 1 respectively for Lot 1, Lot 2 and Lot 3. Lot 3 shall proceed on a one bidder and arrangements are being put in place to assess best value. Note that Lot 4 which related to remote and rural areas has been withdrawn given the significant overlap with Lot 3. Replacement services will be provided in this regard.

We will continue to monitor developments in relation to ESMCP over the term of our audit contract.

Best Value (continued)

Considering data analytics and shared learning

Data Analytics: Sickness Absence

Sickness absence remains a key issue for SAS, with a 1% reduction in sickness absence offering the potential for a £1.0m cost saving in overtime reductions. We ran a session for the senior Finance team and Human Resources in our data analytics lab to showcase the possibilities of data analytics and the potential for using data in different ways to seek to identify and address the underlying causes of sickness absence. Key information emerging from the session included:

- There are 5 separate HR absence areas within SAS and there is currently no consistency in recording or reporting absence.
- The current rate of unplanned absence is around 6%. This varies across geographies and departments and the control centre tends to have the highest rate of about 7-8%. SAS has an internal target of 5% and a government target of 4%, neither of which they meet.
- SAS want to be proactive in intervention to put in place measures to support their staff, but at the moment there is little information for them to understand the drivers for absence and much of the absence is uncategorised.

We identified and discussed some of the myths and theories related to sickness absence at SAS including the perceived impact of weekends, school holidays, shift patterns and geographical differences. Thereafter we discussed a potential data integration and analysis approach with the Director of Finance and the team which would help dispel or prove these myths given the significant impact on overtime costs (assumed to be £1m for every 1% of sickness absence)

There is the potential for an additional piece of follow-up work should SAS wish to pursue it – this is currently being considered by the Director of Finance.

Shared Learning: North West Ambulance

Our consulting colleagues have completed detailed cost reduction and efficiency projects around back office functions at both North West Ambulance, and subsequently North East Ambulance. Scottish Ambulance Service provided some basic inputs into this process for benchmarking purposes. In return we are keen to identify any key shared learning for the Service.

We have facilitated a discussion between the Deloitte North West Ambulance team and the Director of Finance to discuss the key emerging messages. They are liaising to identify potential shared learning in relation to organisational structure, systems and processes and to highlight areas which merit a more detailed investigation.

Best Value (continued)

Financial capacity in public bodies

As part of our audit appointment, we have been asked to complete a questionnaire on Financial Capacity in Public Bodies. A number of auditors had expressed specific concerns about the reduction in financial capacity and there have been an increasing number of references in auditors' reports to weaknesses in accounting systems and related controls.

The Auditor General and the Accounts Commission have expressed an interest in this area and commissioned Audit Scotland to do some further work to gather information and intelligence. The data collected will feed into the health overview report, and may lead to a future performance audit on finance capacity.

Audit Scotland issued the questionnaire to auditors in April 2015 for completion. The key areas of focus are outlined below, and our conclusions are set out overleaf.



Best Value (continued)

Financial capacity in public bodies (continued)

Section	Rating	Comments
Organisational structure and role of the Chief Financial Officer	G	No concerns raised around structure or role of the Director of Finance
Financial strategy and sustainability	R	<p>Significant concerns are raised therein around the sustainability of medium and long term financial plans in the absence of a firm commitment for additional recurring funding.</p> <p>No concerns raised around the strategy and processes in place.</p>
Budget monitoring & reporting	A	<p>No issues noted around general budget monitoring and reporting. Key Audit Scotland focus on development of a priority-based approach to budget-setting which makes connections between planned spending and intended outcomes. Noted as being in the formative stages at SAS.</p> <p>SAS previously conducted an Outcome Based Budgeting pilot in relation to fleet services. Given the focus on this by Audit Scotland, SAS should consider expanding this pilot to other areas of the organisation.</p>
Quality of the operational finance function	G	No concerns raised around the quality of the operational finance function.
Financial capacity within the organisation	G	No concerns raised around financial capacity with SAS.

Key



No concerns highlighted



Areas of improvement highlighted



Significant issue highlighted

National Fraud Initiative

SAS continue to proactively manage the NFI process

All boards and special boards except Mental Welfare Commission are participating in the National Fraud Initiative (NFI) 2014/15, and were required to submit data in October 2014. As at 31 May 2015, no frauds have been identified.

Fraud Liaison Officer continues to take overall responsibility for NFI work.

Accounts Payable supervisor takes lead role on creditor matches..

Payroll Project Lead continues to take lead for payroll matches.

All data was submitted to the NFI in accordance with the deadlines of October 2014, and management now have plans in place to address all of the recommended matches over the period from June to December 2015, with adequate resources being allocated to this work. We will submit the checklist to Audit Scotland for the 30 June 2015 deadline noting current progress.

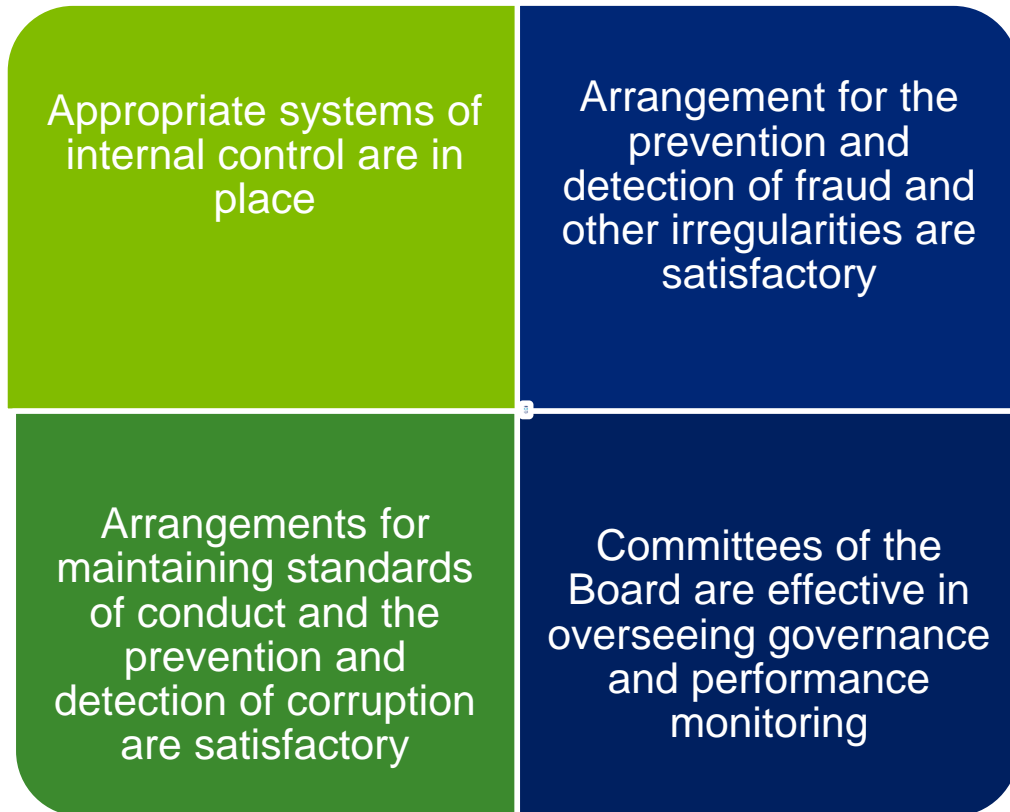
We have also offered management the opportunity to make use of our free Moneyback tool which is designed to supplement the work of NFI through applying advanced analytics to the creditors ledger focusing on the identification of duplicate invoices, untaken credits and other anomalies within the purchases ledger. We have now received and processed the data from SAS and provided the output of matches to the Fraud Liaison Officer for follow up.

Governance and accountability

Governance and Transparency

Governance arrangements are operating effectively

In accordance with the Code of Audit Practice, we are required to consider and formally report in relation to the following key matters:



We confirm that we have reviewed the arrangements in each of the four areas and have identified no issues in this regard.

We have no concerns around the arrangements with internal audit.

We are comfortable with the fraud arrangements in place and confirm there have been no frauds of which management have made us aware.

Governance and accountability (continued)

Internal control and risk management

We present a summary of observations on the Board’s internal control and risk management processes

	Observation	Management response	Priority
Fixed assets – RAM system issue	<p>As in the prior year, we recommended that SAS explore options to extract the required information direct from the system via consultation with the system administrator.</p> <p>If this is not possible we suggest that this exercise is completed on a monthly basis as this would make the process significantly easier at year-end.</p>	<p>Management confirmed their intention to perform this exercise on a monthly basis and look into potential improvements which could be made in terms of the way the fixed asset system is utilised.</p>	G
Internal audit findings	<p>It was noted at the audit committee meeting that various recommendations raised by the internal audit department had not been implemented by SAS.</p>	<p>This was discussed with management and an exercise has already begun to ensure that these findings are actioned within SAS.</p>	A

Key:

Low Priority

Medium Priority

High Priority

Prior year follow up

We followed up on our prior year recommendation that monthly supplier statements should be retained for one year instead of being disposed of at the end of the month. Although these are still not retained for longer than a month, the process has been improved in terms of introducing a more rigorous review by the team supervisor and retaining the documents until the next month’s reconciliation is complete.

The fixed asset finding was also raised in the prior year but as there was still a time consuming exercise required to extract the information from the RAM analysis, we have kept this as a finding for the current year.

We will perform follow-up work on our current year risk management and internal control observations as part of 2015/16 audit process.

Your Annual Report

Our comments on your annual report

We welcome this opportunity to set out for the Audit Committee our observations on the 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 your response to these areas:

Deloitte response

Directors' Report

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.

We noted that the Board and committees met regularly throughout the year and in line with the NHS Board Accounts Manual, the Directors' Report includes relevant disclosures around the basis of preparation around Going Concern.

All disclosures made are in accordance with the FReM and Accounts Manual.

The Strategic Report

The Strategic report comments on financial performance, strategy and performance review and HEAT targets. Deloitte note that the Strategic Report has been prepared in line with issued guidance.

Remuneration Report

The remuneration report has been prepared in accordance with the requirements of the FReM, disclosing the remuneration and pension benefits of Executive and Non-Executive Members of the Board.

Governance Statement

The Governance Statement reports that SAS is in compliance with the aspects of the UK Corporate Governance Code which are set out within the guidance as being applicable to NHS Boards.

We have reviewed the systems in place to ensure that there is sufficient evidence available to the Chief Executive to sign the Governance Statement, which includes a formal sign off by each Director and the Chair of each of the main Committees.

The statement notes that there have been no significant control weaknesses or failures to achieve the standards set out in the guidance on governance, risk management and control. This is consistent with our knowledge based on evidence collected in the course of the audit.

Purpose of our report and responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Other insights we have identified from our audit.

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan and the supplementary "briefing on audit matters" previously circulated to you.

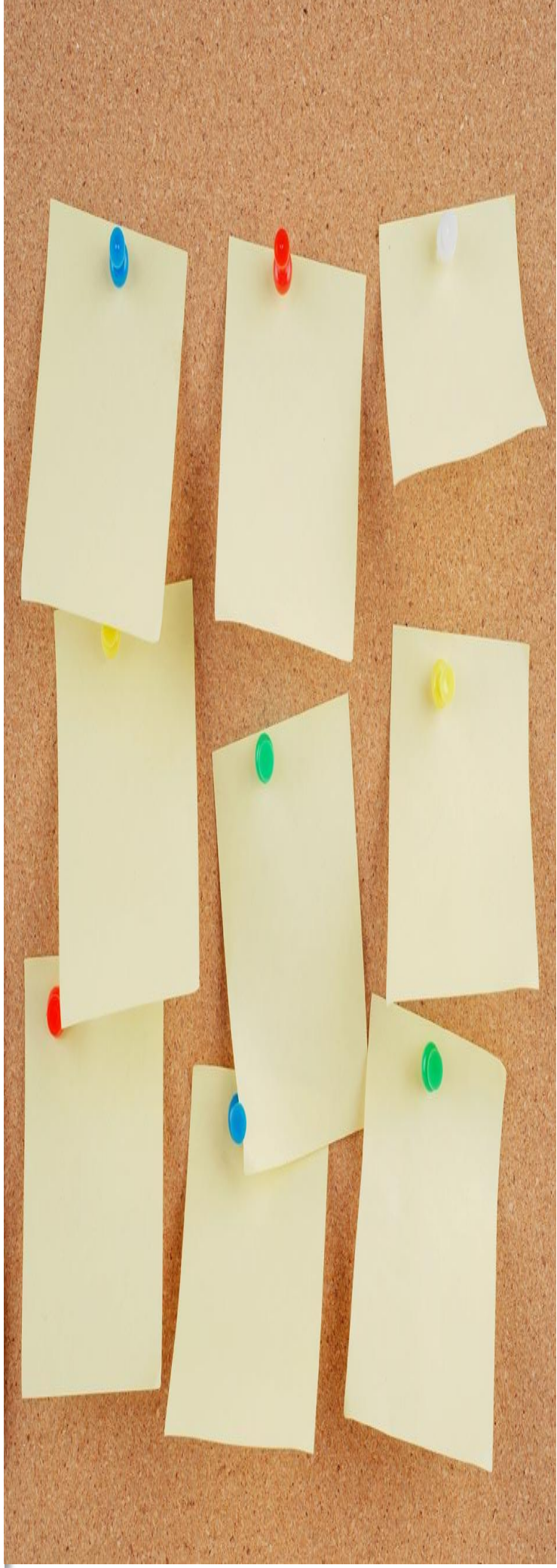
We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP

Chartered Accountants
Edinburgh
10 June 2015

Appendices



Audit adjustments



No uncorrected or corrected misstatements

Uncorrected misstatements

There have been no uncorrected misstatements noted during the process of our audit work.

Corrected misstatements

There have been no corrected misstatements noted during the process of our audit work.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies to date in the course of our audit work.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed

- In our planning we identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for the Board.
- During course of our audit, we have had discussions with management and those charged with governance.
- In addition, we have reviewed management's own documented procedures regarding the fraud and error in the financial statements.

Concerns

- As set out above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

Independence and fees

There are no issues we wish to raise to you



As part of our obligations under International Standards on Auditing (UK & Ireland), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
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Fees	Our audit fee for the year from 1 April 2014 to 31 March 2015 is £75,750 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland. There were no non-audit services for the period
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Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Board's policy for the supply of non-audit services or of any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
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Relationships	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.
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We are not aware of any relationships which are required to be disclosed.

Action Plan

Our recommendations for improvement



Fixed Asset system - we recommend that SAS explore options to extract the required information direct from the system via consultation with the system administrator. Alternatively this could also be completed on a monthly basis to reduce the time consumed at year end.



Internal audit findings – we recommend that SAS continue their work into implementing the findings raised by the internal audit department.



We followed up on our prior year recommendations which have all been appropriately addressed by SAS.

Events and publications

Our events and publications to support the Board.

Governor seminars We run a regular programme of seminars for senior members of the Boards we audit. Recent areas covered have included:

- Themes from our Connected Health study, led by Karen Taylor, Director of our Centre for Health Solutions, looking at how digital technology is transforming health and social care;
- 2014/15 Reporting Requirements, focusing on areas for Governors to be aware of such as Quality Accounts changes;
- Findings from governance reviews under Monitor's "Well Led" framework; and
- "Hot topics" in the sector ahead of the year-end reporting and audit process.

The sessions provide an opportunity for senior members to share both challenges and examples of successful approaches from across their Boards. We would welcome suggestions for themes for future sessions.

Our next session will be in the autumn: we will send an invitation via the Director of Finance for the Audit Committee to nominate an attendee should they wish to do so.

Deloitte UK Centre for 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 our 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.

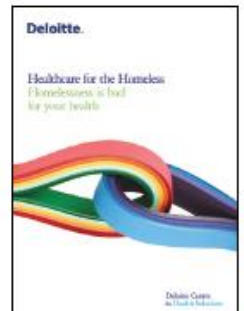
Recent reports include:

- Connected Health;
- Healthcare and Life Science Predictions 2020;
- Better care for frail older people;
- Guideposts Dementia Information Prescription, in partnership with the Guideposts Trust; and
- Working differently to provide early diagnosis.

Upcoming studies include End of Life Care, and the Cost of Compliance

For access to our latest studies and opinion pieces, please sign up to receive our weekly blog at <http://blogs.deloitte.co.uk/health/> or email centreforhealthsolutions@deloitte.co.uk:

Deloitte Centre
for Health Solutions



NHS Briefings and publications for the Board



We provide the Board through the year with publications and access to webinars and information on accounting requirements, including our "Stay Tuned Online" accounting update sessions.

We regularly publish NHS Briefings designed to disseminate our insights on topical issues within the NHS in general, and Foundation Trusts in particular. They focus on current issues facing the sector and ask questions to help readers assess if the issue is being appropriately addressed at their Trust or Board.

Briefings have covered a range of topics including Data Quality, The Dalton Review: Implications for providers, Joined up QIPP, Patient Administration Systems, Effective Boards, the Evolving Role of Governors, Narrative Reporting, Quality Accounts requirements, Human Resources, Mergers & Acquisitions in the NHS, Transforming Community Services, and the challenges of Monitor's Quality Governance framework.

We also run regular NHS Foundation Trust dinners for directors, with speakers from across the sector on key current issues. Recent events have focussed on Quality Governance and on the Dalton Review.

Deloitte.

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