



Grant Thornton

Scottish Ambulance Service

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

For the financial year ended 31 March 2018

Board 27 June 2018

Joanne Brown
Engagement Leader

John Boyd
Senior Manager



Our audit at a glance



We have raised one audit recommendation around financial sustainability, linked to the continued need to identify and deliver recurring financial savings. We have followed up on prior year audit recommendations and are satisfied that these have been addressed.



We have fulfilled our responsibilities per International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work and this final report to the those charged with governance (the Board) and the Auditor General for Scotland and concludes our work.



We have performed sufficient audit testing around our identified area of significant risk including: management override of controls; risk of fraud in revenue recognition; the risk of fraud in expenditure recognition; and injury benefit provision. We have no matters to bring to your attention.



This report reflects our broader reporting obligations under the Code of Audit Practice. We have provided commentary against our specific wider scope risks as well as general commentary on the financial challenges facing the organisation going forward. This includes the wider NHS Scotland challenges, and the context of National Board and Regional Board's collaboration plans.

An audit underpinned by quality



During 2017/18 there were changes across the Scottish Ambulance Service's finance team. As a result there were delays in the receipt of the annual report and accounts. This led to some delays in the audit process.

However, when the financial statements were finalised there was a good standard of working papers to support the accounts and we acknowledge the gap in staffing is being addressed.



We intend have issued an unmodified audit opinion signed the annual report and accounts following the Board meeting on 27 June 2018.

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Adding value through our external audit work

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

Through this Annual Report we seek to provide insight and commentary over certain aspects of Scottish Ambulance Service' arrangements, sharing relevant practices with the Audit Committee and Management. This is reflected in our audit recommendations which allow you to address gaps in your arrangements and to continually improve.

We have continued to build on our working relationship with management and our understanding of Scottish Ambulance Service as an organisation. During the year we have shared relevant publications with management, in particular from Audit Scotland, and also supported with any technical queries. We have worked closely with the finance team during a period of transition across key members of staff to deliver the audit.

Introduction

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2018.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

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

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

Our report was presented as a draft to the Scottish Ambulance Service Audit Committee on 14 June 2018. Following the Audit Committee, the report and final annual report and accounts were presented to the Board on the 27 June 2018, where following the Board meeting the annual report and accounts were signed.

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

Structure of this report

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

Financial statements – Section 1

Financial management – Section 2

Financial sustainability – Section 3

Governance and transparency – Section 4

Value for money – Section 5



Our Opinion

For the financial year ended 31 March 2018 we have issued an **unmodified audit opinion**

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



The audit process

During 2017/18 there were changes across the Scottish Ambulance Service's finance team.

As a result there were delays in the receipt of the annual report and accounts. This did lead to some delays in the audit process, and the audit was not as smooth a process as in prior year.

We identified no unadjusted differences to report to the Audit Committee and the Board.

We identified a number of small adjustments to the draft accounts and these have been reflected in the financial statements. This included reclassification of gains on the disposal of property, plant and equipment.



For 2018/19 Management intend to strengthen the capacity in the finance team to ensure sufficient support for the annual report and accounts going forward. These plans may be linked to the National Board plans, depending on timing and how the collaborative working progresses.

Financial statements audit



Materiality was set at 2% of gross expenditure based on the 2017/18 unaudited annual report and accounts (£4.688 million). Previous year it was 1% of gross expenditure. Materiality was calculated in accordance with our plan.



Testing provided assurance on all identified areas of significant audit risks and there were no material audit differences arising during the course of our audit



We have issued an unmodified audit opinion on the financial statements, including the wider information contained in the annual reports and accounts, and regularity opinion. The audited parts of the Directors Remuneration Report are free from error.



During 2017/18 there were changes across the Scottish Ambulance Service's finance team. Due to changes in personnel across the finance team there were delays in the receipt of the annual report and accounts. This led to delays in the audit process.

Audit materiality

Our audit approach was set out in our annual audit plan presented to the Audit Committee on 1 December 2017. As set out in our plan, we have updated our materiality calculations to be based on the unaudited 2017/18 financial statements. Overall materiality has been set at £4.688 million (2% of gross expenditure) and performance materiality was set at £3.516 (75% of materiality). We report to management any audit difference identified over £0.234 million (Trivial as 5% of materiality).

Audit opinion

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

- they give a true and fair view
- they have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the financial statements, e.g. Performance Report, Accountability Report (including the Governance Statement), is consistent with the financial statements
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with applicable guidance

Internal control environment

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

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

No material weaknesses in the accounting and internal control systems were identified based on our work undertaken during the audit which could have an adverse impact on Scottish Ambulance Service ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

We adopted a substantive based approach to the audit of the financial statements and therefore do our review is limited to the design of controls rather than the operating effectiveness of these.

Internal Audit

As set out in our external audit plan we have not placed formal reliance on the work of Scott-Moncrieff, the internal audit provider, during 2017/18. We have reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach, with none being noted. Overall, internal audit provided an annual opinion of reasonable assurance over the Scottish Ambulance Services control environment, as related to governance, risk and internal control.

Key audit issues – Our response to significant audit risks

	Identified audit risk at planning	Work completed	Our conclusion
Risk of fraud in revenue	As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. Scottish Ambulance Service receive £8.680 million classed as Hospital and Community Health services income/other income and we therefore focus our risk on this income stream, in particular transactions and balances at the year end.	<ul style="list-style-type: none"> Developed our understanding of Scottish Ambulance Service's material revenue streams including walkthrough of key transactions. Performed targeted review and testing of key revenue streams during the year, including analytical procedures and transaction testing Performing revenue cut off procedures and substantive testing over pre and post year end balances Testing the existence and recoverability of balances at the year end 	<p>From our audit procedures performed we are satisfied that revenue is free from material misstatement.</p> <p>We are satisfied that revenue has been recognised in the appropriate financial year.</p>
Operating expenditure is not treated correctly	Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities. We consider the risk to be most prevalent in transactions and balances at the year end.	<ul style="list-style-type: none"> Developed our understanding of Scottish Ambulance Service's material expenditure streams including walkthrough of key transactions. Performing targeted review and testing of key expenditure streams during the year,. Performing cut-off testing of expenditure transactions around the year end to ensure these had been allocated to the appropriate financial year. Reviewing post year end payments for any potential unrecorded liabilities. 	<p>Assurance gained that expenditure has been recorded within the appropriate financial year and that payables are free from material misstatement.</p> <p>We are satisfied that expenditure has been incurred in accordance with the type/nature of Scottish Ambulance Service as an organisation</p>
Management override of controls	As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. Override of controls is present in all entities.	<ul style="list-style-type: none"> Developed our understanding of the entity level controls in place at Scottish Ambulance Service that reduce the risk of management override Performed review of journal transactions for unusual transactions or balances. Evaluated key areas of judgement within the Financial statements and the basis for these judgements / application of accounting policies Reviewed unusual and/or significant transactions 	<p>We did not identify any significant areas of bias in key judgements by management. We have not identified any unusual or significant transactions during the course of the year that would indicate management manipulation.</p>
Injury benefit provision	Scottish Ambulance Service in 2016/17 had provisions of £16.924million. Of this, £9.013 million related to Injury benefit. This represents an area of management judgment and estimation, based on assumptions including life expectancy. There is a risk that this balance could be materially misstated.	<ul style="list-style-type: none"> We have reviewed the reasonableness of management's judgments and assertions including consistency of application We have agreed the claim to supporting documentation and substantively tested a sample of underlying claims. We have reviewed the disclosures within the financial statements to confirm that these are appropriate and in line with the NHS Manual of Accounts. 	<p>We are satisfied that the provision recognised is free from material misstatement.</p>

Other key areas of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. While not considered a significant risk, these are areas of increased risk due to their complexity or magnitude.



Valuation of property, plant and equipment: Scottish Ambulance Service holds property, plant and equipment of £86.409 million, including £41.8 million of transport equipment. In accordance with IAS 16, all assets are held at their fair value. For land and buildings, this includes regular revaluation. Management revalue land and buildings under a five-year programme of professional valuations, adjusted in intervening years to take account of movements in market prices since the latest valuation. We have reviewed the valuation applied and are satisfied that property, plant and equipment is appropriately recognised in the accounts.

Consolidation: The Scottish Ambulance Service group accounts consolidate the Scottish Ambulance Service Endowment Fund. While not material to the financial statements as a whole, we have reviewed the consolidation and are satisfied that the Endowment Fund transactions and balances have been appropriately consolidated into the group financial statements. We are not the appointed auditors of the Endowment Fund and use the Audited financial statements of the endowment fund to support our assessment of the completeness and accuracy of the consolidation.

Narrative elements of your annual accounts

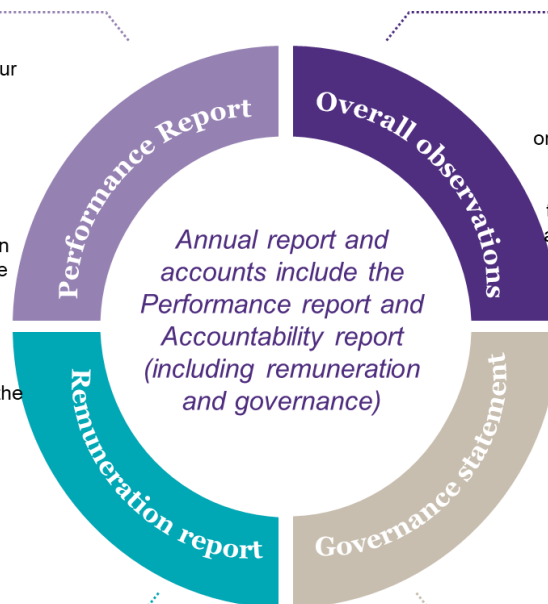
In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below. We have also audited the required information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

Performance Report

- The Performance report is in line with our understanding of Scottish Ambulance Service and in particular the vision and strategic priorities of the organisation.
- There is a good alignment between key strategic objectives, in year targets and outcomes.
- Good use of links to relevant material on the Scottish Ambulance Service website

Remuneration Report and Staff Report

- Has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions thereunder
- The senior managers reflected in the report have been correctly identified in accordance with FReM



Overall observations

Scottish Ambulance Service continue to look at how the “front end” of the Annual Report and Accounts tells the story of the organisation including strategic priorities, risks and challenges and opportunities. There is further opportunities to continue to focus on the outcomes of Scottish Ambulance Service as an organisation and continue to make use of graphics as appropriate.

Accountability Report

- As required by the FReM the Governance statement is included in the Accountability report
- No material issues of governance in year that are required to be reported
 - The governance statement is in accordance with the FReM
- The statement is supported by individual assurances to the Accountable Officer over internal controls

Continually enhancing disclosure

Management continue to review the content and presentation of the “front end” of the accounts and they show good use of graphics and do focus on outcomes. This will be continually reviewed in future years, in particular, to build on how trends in outcomes are captured and reported over-time and ensuring continued clarity over the key performance metric/target and the baseline position.

Key aspects of your financial statements

As set out in our audit plan we consider particular aspects of your financial statements in relation to management judgements including estimates and where management may have particular options or choices in what accounting standards or disclosure requirements to apply. We have summarised where these apply, and our conclusions below.

Scottish Ambulance Service's Accounting policies are in accordance with IFRS as interpreted and adapted by the 2017/18 NHS Manual for Accounts (where relevant to Scottish Ambulance Service) and we consider these to be appropriate to the organisation and consistent with those adopted in prior years.

Accounting estimates and judgements

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

- property valuations: Where we are satisfied these are supported by qualified expert valuations.
- Legal liabilities and provisions: Remains consistent with prior year and based on professional legal advice from Central Legal Office.
- Expected useful economic lives of property, plant and equipment, including ICT equipment and intangible assets. Management regularly consider the rapidly changing external environment when assessing useful economic life. We consider the useful economic lives adopted by management as appropriate.



We are satisfied that the estimates and judgements applied by management are reasonable and not subject to management bias.

Fraud and irregularity

There are no provisions or uncertainties related to the accounts.

In relation to the audit risk of fraud in respect of expenditure we tested Scottish Ambulance Service's cut of arrangements in particular (timing) and identified no issues in accruals or prepayments which would indicate a higher risk of fraud.

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

Going concern

Scottish Ambulance Service has an agreed budget for 2018/19 and a draft Resource Allocation letter from the Scottish Government.

The Scottish Ambulance Service will continue to receive grant funding to support the provision of accident and emergency response, patient transport services and air ambulance services across Scotland. Draft Scottish Government allocations are approximately £237 million. Within Financial sustainability section we have recognised the challenges facing the organisation in 2018/19 and beyond. However, we are satisfied that the organisation will continue to meet its obligations as they fall due and continue to represent a going concern.

Financial management



Scottish Ambulance Service has well established financial management arrangements. Financial performance information is reported regularly to the Board and provides concise information on the Board's performance and key areas of risk.



The Board achieved a break-even position against its Revenue Resource Limit and a delivered a small underspend of £4,000 compared with capital resource limits.



Scottish Ambulance Service continues to operate under a challenging financial environment. To meet its financial targets in-year the Board had to rely on deferring a small amount of discretionary expenditure, and relied on one off/non-recurring savings. This has created additional pressures on the savings that will be required during 2018/19.



During 2017/18 there were changes to key personnel across the Finance Function. This included the Director of Finance & Logistics going on a secondment to NHS Orkney and the Head of Finance leaving the organisation. The positions were filled with temporary appointments. The Director of Finance from the Golden Jubilee is providing an interim Director of Finance role two days a week.

We understand the Board is working with the Scottish Government to establish a longer term solution for the secondment/vacancy and there may be an opportunity to link this to the National Boards collaborative working plans.

During our audit planning process, no specific financial management risks were identified for 2017/18. However, as noted in our annual audit plan, we considered Scottish Ambulance Service financial performance and financial management arrangements including review of policies and procedures and systems of internal financial control.

Our work in this area reflects our judgement and conclusion on the organisation's financial management arrangements. This has been informed through review of Board and committee meetings; review of financial plans and monitoring reports, review of applicable policies and procedures; and discussion with management.

Financial Performance

Scottish Ambulance Service reported a breakeven position against both and non-core revenue resource limits for the year in line with the Board's Local Delivery Plan trajectory.

However, the Board recognise they face significant challenges in identifying and managing ways to deliver recurrent cost savings to ensure a sustainable financial balance in future years.

	Resource £ million	Expenditure £ million	Saving / (Excess) £ million
Core	235.383	235.383	Nil
Non-core	15.622	15.622	Nil
Total	251.005	251.005	Nil

Capital Expenditure

	£ million
Capital Expenditure	21.316
Capital Resource Limit	21.320
Under / (Over) spend	0.004

Scottish Ambulance Service invested £21.5 million in capital expenditure during the year and reported a small underspend of £4,000 against their Capital Resource Limit. The investment was primarily in relation to the ongoing vehicle replacement programme. Capital expenditure forms a critical part of the organisation's continued investment in the ambulance infrastructure.

Delivery in the current year

To achieve financial targets, management focused on discretionary expenditure and implemented critical review of stock levels and expenditure towards the year end. The Board reported the delivery of targeted efficiency targets of £8.652 million during the year. Of this, £4.4 million was on a non-recurring basis. While achieving targets for 2017/18, this creates a significant challenge for 2018/19 as there is a risk that to meet targets non-essential or urgent expenditure is pushed into the next financial year.

From 2017/18, the Board secured additional £6.3 million of recurring strategic funding from the Scottish Government to support the delivery of the 2020 strategy. The funding has been used in conjunction with the Board's own resources to invest in £11.5 million strategic investments. These have primarily been across technical and paramedic training and development alongside the upgrading of ambulance control centres. This investment forms a key element around the delivery of the board's strategic goals around the quality of patient care.





Financial management

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

- Financial performance reports were clear and concise
- There is challenge and scrutiny of performance in the year and key variances between actual and outturn performance.
- Financial pressures and challenges are discussed and savings profiles revised during the year to ensure accurate forecasting
- Management are continuing to enhance this reporting arrangements, including clearer reporting of budget movements in each quarter.
- Based on review of committee minutes and papers there appears to be alignment between financial planning and operational plans. The alignment between financial and operational plans is increasingly critical with pressures on resource.

Financial capacity and capability

During 2017/18 there were significant changes across senior members of Scottish Ambulance's finance team. The Director of Finance & Logistics transferred to NHS Orkney on secondment in January 2018. In addition, the Head of Finance left the organisation in March 2018. An interim arrangement was agreed with NHS National Waiting Times Centre Board, for the secondment of the Director of Finance on an interim basis as a shared resource. This secondment was for an initial six month period.

The organisation faces significant challenges in the coming years in establishing a sustainable financial operating model. It is critical that the Board ensure that it has sufficient capacity and capability to meet the pressures and challenges faced in the coming years. This will require experienced and skilled financial leadership from within the organisation.



Financial sustainability



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



Management have identified that for 2018/19, the Board requires savings of £9.9 million to meet its financial targets. Management envisage that the level of required savings are likely to increase over the coming years. This represents a significant challenge for the Board and will likely require fundamental changes to how the Board operates to deliver.



The 2018/19 financial planning assumptions appear reasonable. Management recognise that it needs to move away from reliance on non-recurring savings to develop a financially stable operating model. A key focus for 2018/19 is targeting efficiencies within services. However over the medium to long term more fundamental changes are likely to be required to continue to meet forecast financial challenges.

To support the longer term financial sustainability of the Service it is recognised that there also needs to be wider NHS Scotland transformation and service redesign to allow the Service to also consider future service options. An element of the future solution could rest with greater collaboration between the National Boards, which has made good progress during 2017/18. for example in corporate areas, investment in digital. There is also a continued opportunity for the Service to work in partnership with the Territorial Boards.

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

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

Identified audit risk at planning	Conclusion
<p>Scottish Ambulance Service are continuing to forecast a break-even financial position for 2017/18. However, 2018/19 and beyond is looking increasingly challenging, including the challenge to identify and deliver on recurring savings and deliver the level and performance of Service expected. Furthermore, the uncertainty around the potential impact of Brexit on future finances and workforce creates additional challenges.</p> <p>Savings plans are in place, assessed according to risk and the financial position is reported as a routine item to the Scottish Ambulance Service Board.</p> <p>Our Response:</p> <p>We discussed financial sustainability with Scottish Ambulance Service Management. We reviewed the financial plans in place, including the scenarios set out, the governance of the plans and regular reporting</p>	<p>The Board recognise how critical it is to ensure that the organisation has a financially sustainable operating model. This is reflected within the Board's strategy: "Towards 2020: Taking Care to the Patient". While the Board achieved its financial targets year on year, the outturn position for 2017/18 was only delivered through reduced discretionary levels of spend on a non-recurring basis. This puts additional pressures on the next financial year.</p> <p>For the 2018/19 financial budget, management undertook a number of measures to identify a robust plan that delivers savings on a recurring basis including:</p> <ul style="list-style-type: none"> - Review of all costs control processes to ensure efficient and effective decisions are taken at all times; - Improve visibility, pace and focus on the delivery of efficiency plans, primarily through the Best Value working group and management reporting; - Exploring opportunities for collaborative working across national boards and regions to identify duplication and overlaps for potential efficiencies <p>Progress has been made during 2017/18 in the identification of recurring savings programmes of £1.8 million. A further £2.5 million of local service level efficiencies have been identified with a further £3.64 million required to be delivered on a recurring basis in 2018/19 .</p> <p>Over the next five years, the financial challenges facing the Board increases significantly.</p> <p>Management working in conjunction with other National Boards is working through medium to longer term financial forecasts. Management envisage that the level of required savings will increase over the coming years.</p> <p>To support the identification and delivery of required savings the Board has endorsed an new efficiency savings approach overseen by the Best Value Group chaired by the Director of Finance and Logistics. This includes members of the Executive team, senior managers within the Service. The group will focus on addressing underlying areas of service overspend as well as developing a three to five savings plan, aligned to the Board's quality improvement agenda. It will be important that the Board has visibility of the work performed by the Group. The delivery of recurring, sustainable savings remains a critical challenge for the Board.</p> <p>We recognise that management has implemented a framework to support the identification and delivery of required savings while maintaining focus on quality of patient care.</p>

Action plan - 1

Financial planning 2018/19

The Board approved the operational delivery plan 2018/19 and the operating budget for the year in February 2018. The financial plan is developed using detailed budgeting approach to ensure that forecast income and expenditure is developed on key planned activity during the year. Financial forecasts are reviewed during the year to ensure these remain appropriate.

The financial plan for 2018/19 projects a breakeven position. We consider the key assumptions below:

Key assumption	Budget £ million	Considered reasonable	Comment
Grant-in-aid income	237.902	✓	Draft grant-in-aid letter received from the Scottish Government. Scottish Ambulance Service has assumed uplift of 1% of baseline in line with other patient facing health boards across Scotland as well as strategic funding requested from Scottish Government to support the delivery of the 2020 strategy.
Other income	22.096	✓	The funding assumption includes strategic Investment funding from Scottish Government and other operating income of over £8 million. We consider the forecast other income levels to be reasonable and in-line with prior year actuals.
Cost baseline	(269.938)	✓	The budget numbers reflect the Scottish Government Pay Policy settlement for 2018/19 of a 3% increase for all employees earning under £30,000 per annum, 2% for those earning between £30,000 and £80,000 and £1,600 for employees earning over £80,000. Other financial pressures include continued investment in the ongoing training and development of staff.
Efficiency savings required	9.940	✓	£4.3 million of the required savings have already been identified through existing programmes and local efficiencies. In addition, pay award expected to be fully funded contributing to a further £2 million. Therefore the remaining balance of £3.6 million is still to be identified (as at June 2018)
Forecast surplus / (deficit)	-		

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

We are satisfied that the financial plans in place are based on reasonable assumptions and appropriate based on our understanding of Scottish Ambulance Service. However, with £3.6 million of savings to be identified for 2018/19 it will be critical the Service can identify and deliver these on a recurring basis to support the Board's underlying financial sustainability.

Capital plan

The Board have planned capital expenditure for 2018/19 of £15.4 million across a range of programmes including the ongoing fleet replacement programme of £7.938 million. Currently the estimated expenditure is approximately £1 million in excess of the approved capital resource limit. The Board will manage capital expenditure in the year to ensure that investment is prioritised around available funding and through anticipated programme slippage.

Governance and transparency



There appears to be commitment from both non-executive and executive members to delivery of the Board's strategy, *Towards 2020: Taking Care to the patient*. This goal flows through corporate documentation and decision papers for management and the Board.



The Board risk management arrangements appear robust. Strategic risks are reported to the Audit Committee and underpinned through web based operational risk management arrangement's

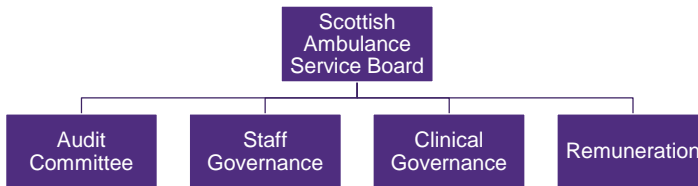


The Board continue to face challenges around absence management levels. For 2017/18 the Board had a sickness absence rate of 7.6%, well in excess of the targeted 5%. During the year the Board implemented a number of measures to address the issues and continue to look to address the levels. This is an area we will further review in 2018/19.

During our audit planning process no specific governance and transparency risks were identified for 2017/18. We considered, through discussions with management and review of minutes, Scottish Ambulance Service's overarching governance arrangements and how the Service ensure that they are transparent and open to Service's stakeholders including members of the public.

Governance arrangements

Scottish Ambulance Service has a relatively stable governance structure with the Board and its committees well established. The Board meets regularly during the year to both set and monitor the delivery of the Board's strategic priorities. We found the level of reporting to the Board and its committees to be appropriate with key performance reports are transparent and reports are aligned to the Boards strategic priorities.



Strategic vision and tone from the top

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

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

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



Board effectiveness and transparency

The Board undertakes an annual assessment of its own effectiveness to ensure that it is in line with current best practice. There are clearly defined scheme of delegation and policies and procedures in place to ensure that there is clear responsibility across the organisation.

Scottish Ambulance Service demonstrate committed to clear and transparent public reporting. Board minutes and supporting papers are published online as well as a range of corporate publications detailing the Board's underlying performance and activities.





Risk Management

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

The risk management strategy 2016-20 was reviewed during the year to ensure that it continued to remain appropriate. In addition, the board completed a risk workshop to review the corporate risk register to ensure this remained appropriate. The corporate risk register is monitored through the Audit Committee and operational risks are monitored across the organisation through the Board's web based risk management system.

The risk management arrangements appear appropriate.

Absence Management

For 2017/18 the Board reported a sickness absence rate of 7.6%. This was consistent with the prior year and represents a comparatively high rate compared with other health boards and is significantly higher than the targeted 5%. Sickness absence creates significant pressures both operationally and financially. The Board have recognised that this a key areas of focus for management and are in the process of implementing an action plan to address the issues faced. Delivery of the plan is being monitored through the staff governance committee.



Fraud and Irregularity

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

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

We found Scottish Ambulance Service's arrangements for participation in the NFI exercise during 2017/18 to be satisfactory. The Board has effective arrangements in place for the submission of data and investigation of potential matches.

Value for money



Scottish Ambulance Service has clear and transparent performance management arrangements in place which are aligned to the delivery of the organisations strategic priorities.



During 2018, the Board in conjunction with other National health boards across Scotland submitted the National Board Plan 2018-23. The plan sets out three key areas for collaborative contribution by the National Boards:

- Evaluation, transformation and improvement support
- Digitally enabled service transformation
- Workforce development and sustainability.

Scottish Ambulance Service recognise that effective partnership working, particularly with other National Boards is critical to the delivery of the Board's strategic goals.

However, given the nature of the Service it is also essential that the Board continues to work in partnership with the Territorial National Boards particularly around patient flow, including working with the Integrated Joint Boards across Scotland and supporting different patient care pathways.

During our audit planning we identified a risk around the new national Emergency Services network contract and the progress being made with its implementation. We conclude on our assessment of the risk below as well as our wider consideration of Scottish Ambulance Service's performance management arrangements.

Identified audit risk at planning

The Airwave contract is due to be replaced with the national Emergency Services network contract. The Airwave contract ends in 2020 but migration is planned earlier. This is a significant project for Scottish Ambulance Service which has risks and opportunities and is critical that it continues to be managed effectively.

In November 2016 the Service piloted a new response system which was developed based on clinical evidence and represented a change to the previous time based targets which were longstanding.

Our Response:

We will review the progress towards this new contract during 2017/18, including the project governance and reporting arrangements as well as how potential risks are identified and escalated.

In addition we will consider how the Service capture, report and evaluate performance under the new response system, and how this pilot system is being evaluated, including the consideration of outcomes and service and staff user feedback.

Conclusion

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

The Board has made progress during the year in readiness for the decommissioning of the Airwave system. This has included establishing an internal emergency service network programme and engagement with the Scottish Government, Police Scotland, Scottish Fire and Rescue and other partners.

During 2018/19 we will continue to monitor the implementation of the new contract and decommissioning of the existing Airwave contract.

Performance Management



The Board continues to develop and enhance its performance management arrangements. Along with the Scottish Government's HEAT targets, the Board continues to look to capture and report on data to provide a clear picture of the Board's underlying performance.

The Board is seeking to reflect the complexity of performance information by using a dynamic data display (including trends and performance against targets) to inform management. The analysis is feeding into Board reports and supporting management decisions. We recognise that the information and reporting continues to be developed by management. There is an opportunity to enhance the readability of the annual report and accounts through greater usage of this analysis tools.

Partnership working

The Board recognise the importance of effective partnership working to deliver the 2020 strategic goals. This includes working with other NHS boards, integration joint boards, patients, communities and other public and voluntary agencies.

During 2018, the Board in conjunction with other National health boards across Scotland submitted The National Board Plan 2018-23. The plan was developed with input from executive teams and staff representatives, Chairs and Chief Executives as well as meetings with regional boards and Scottish Government officials. The plan sets out three key areas for collaborative contribution by the National Boards:

- Evaluation, transformation and improvement support
- Digitally enabled service transformation
- Workforce development and sustainability.

To deliver the services detailed within the 2018/19 financial envelope, Boards will have to manage both efficiency savings targets and cost pressures aligned with their services. For Scottish Ambulance Service this includes the identified savings of £9.9 million to break even in 2018/19. Management are working with other National Boards to identify opportunities for collaborative working to support delivery of efficiency savings.

Appendices

Audit adjustments

Action plan and follow up of 2016/17 recommendations

Fees, independence and fraud arrangements

Financial reporting future developments

Communication of audit matters

Audit adjustments

Uncorrected and corrected misstatements

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

There were a number of minor (not material) adjustments between the first set of unaudited accounts we received to audit and the final version. These were primarily in relation to late allocation adjustments between the draft trial balance. The adjustments made are detailed below

Item	Dr (£'000)	(Cr) (£'000)	Description
1			
Staff costs		(552)	<i>Being adjustments to period 12 TB to correct revaluation movements and correction of income / expenditure miscoding within the first version of the draft financial statements.</i>
Air Ambulance expenditure		(48)	
Other income	550		
Trade and other payables	245		

Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow Audit Committees to evaluate the impact of these matters on the financial statements. There were no material/significant disclosure misstatements identified we wish to bring to your attention.

Action plan and follow up of 2016/17 recommendations

We have set out below, based on our audit work undertaken in 2017/18, those risks and recommendations we consider are of a higher risk to Scottish Ambulance Service that Management may wish to consider in the future. We have also completed follow up of our 2016/17 recommendations and this is reflected below for information.

Recommendation

Agreed management response

Financial sustainability

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

Management response:

The Board acknowledge this risk and has whilst recognising the challenges has presented a financial plan with actions in place to deliver a balanced budget or 18/19. Work through the newly established best value group will work to deliver recurring savings over this period

Action owner: Director of Finance & Logistics

Timescale for implementation: March 2019

Follow up of 2016/17 External Audit Recommendations

Action as at May 2018

Lack of contractual information for one employee

We recommend that signed contracts should be retained and filed for all employees

Complete

Contracts are retained and filed for all employees and no issues were identified through our audit procedures during 2017/18.

Performance report - LDP

We recommend that consideration is given to split performance into those meeting and not meeting targets, with explanations and proposed remedial actions or those not currently meeting targets.

Complete

The Board continues to review the form and content of the annual report. While there is opportunities to continues to enhance and develop reporting we are satisfied that the Board's report is transparent.

Fleet information flow processes

We recommend that processes are put in place to ensure finance are notified of completions by fleet on a timely basis

Complete

Arrangements were established to ensure that the finance team were notified of all capital completions including fleet to support the preparation of the financial statements.

Fees, independence, fraud arrangements

External Audit Fee

Service	Fees £
External Auditor Remuneration	62,750
Pooled Costs	9,070
Contribution to Audit Scotland costs	3,790
Contribution to Performance Audit and Best Value	0
2017-18 Fee	75,610

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

The above fee has not changed and our final fee was £75,610

Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2017/18 financial year	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

Fraud arrangements

In assessing our audit risks, the audit team was alert to the possibility of fraud at Scottish Ambulance Service.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls.
- Leading a discussion with those charged of governance (for Scottish Ambulance Service this is assumed to be the Audit Committee) on their view of fraud. We did this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit. – None were identified in-year

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

It is **Scottish Ambulance Service'** responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

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

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

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

Communication of audit matters

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
We are independent of Scottish Ambulance Service and have not identified any conflicts of interest		
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
We have not incurred any non-audit fees during the year and no threats to independence identified		
Significant matters in relation to going concern	•	•
No significant going concern matters identified		
Views about the qualitative aspects of Scottish Ambulance Service accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Set out in the Financial statements Section and Appendix 1		
Significant findings from the audit		•
No significant findings from our audit		
Significant matters and issues arising during the audit and written representations that have been sought		•
Letter of representation will be shared and signed by the Accountable Officer when signing the financial statements. This is our standard, unmodified letter of representation.		
Significant difficulties encountered during the audit		•
No difficulties encountered		
Significant deficiencies in internal control identified during the audit		•
None identified		
Significant matters arising in connection with related parties		•
None identified		
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
None identified. A nil fraud return was submitted to Audit Scotland in April 2018 in accordance with the planning guidance.		
Non-compliance with laws and regulations		•
None noted		
Unadjusted misstatements and material disclosure omissions		•
None noted. Minor disclosure amendments only and these were not material in nature		
Expected modifications to the auditor's report, or emphasis of matter		•
None, an unqualified opinion		

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

We communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to Scottish Ambulance Service Management and the Audit Committee.



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