



Final report to the Board and the Auditor General for Scotland on the 2015/16 audit



20 June 2016

the
Distinctive
audit

Contents

Our final report

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A reminder of our audit plan:

- **Materiality:** £2,385k (2014/15: £2,200k)
This is slightly higher than communicated within our planning report due to finalisation of expenditure limits at year end.
- **Performance materiality:** £2,146k (2014/15: £1,980k).
- **Threshold for reporting misstatements:** £22k (2014/15: £22k).
- **Significant risks over achievement of core expenditure resource limits, injury benefit provisions, management override of controls and other income recognition.**
- We have taken a fully substantive approach to audit, 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 2015.



Partner introduction

Partner introduction

Overview of responsibilities

I have pleasure in presenting our final report to the Board for the 2015/16 audit.

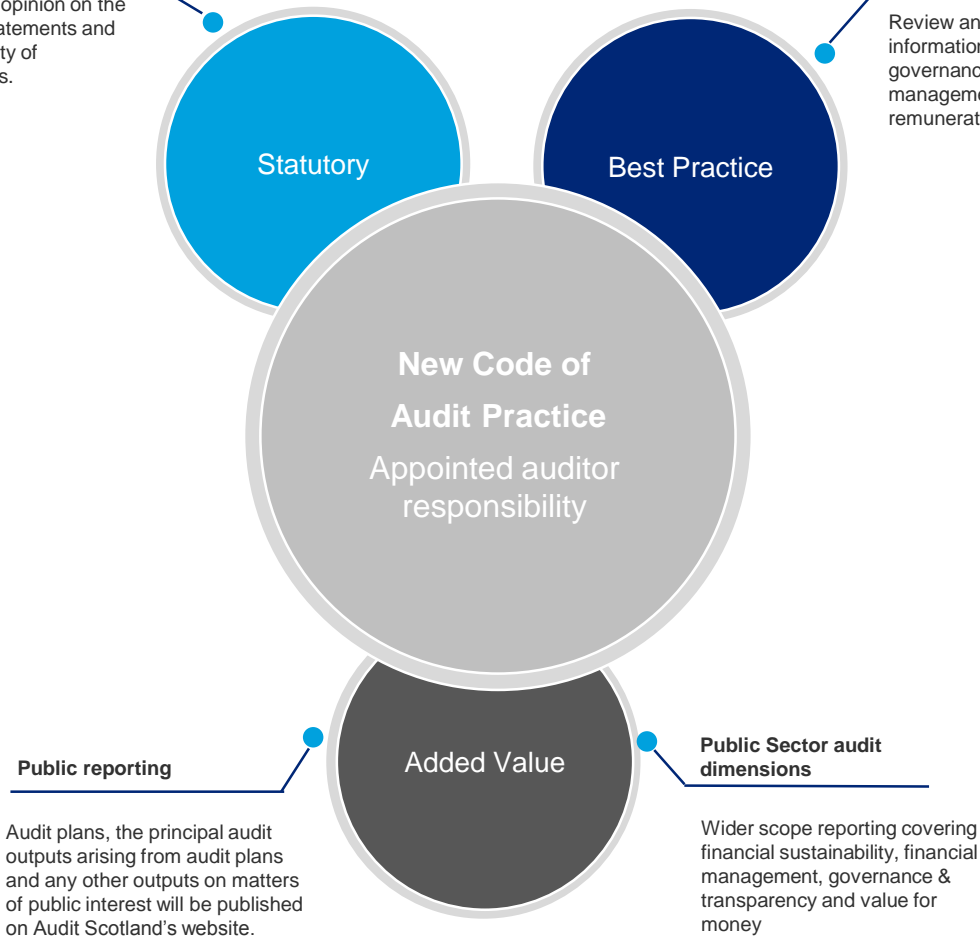
As set out in our plan presented to the Audit Committee in December 2015, we have early adopted the requirements of the new Code of Audit Practice which comes into force for the 2016/17 audits. A reminder of the requirements is set out below.

Financial Statements

Provide an opinion on the financial statements and the regularity of transactions.

Annual Reports

Review and report on the other information such as annual governance statement, management commentaries, remuneration reports



Public reporting

Audit plans, the principal audit outputs arising from audit plans and any other outputs on matters of public interest will be published on Audit Scotland's website.

Public Sector audit dimensions

Wider scope reporting covering financial sustainability, financial management, governance & transparency and value for money

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

Financial statement audit and annual report

Financial statement audit

Conclusions from our testing

- The key judgements and areas of focus in the audit process related to:
 - Achievement of expenditure resource limits;
 - The injury benefit provision; and
 - Other income recognition (being completeness of income outwith core funding).
- We identified a reclassification misstatement of £163,919 from our procedures to date in relation to accrued income for rebates, prepaid expenses and receivables from boards, all wrongly posted to the accrued expenses account. We will obtain written representations from the Board confirming that after considering all uncorrected items, in the context of the financial statements taken as a whole, no adjustments are required.
- 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:
 - Review of final version of the financial statements;
 - Receipt of consolidation template;
 - Completion of Minimum Data Set;
 - Finalisation of quality control procedures;
 - Receipt of signed management representation letter; and
 - Our review of events since 31 March 2016.

Annual report

Overall conclusion

- We have reviewed the annual report with reference to the new disclosure requirements for 2015/16 accounts and assessed whether it meets the minimum requirements of the FReM.
- Management have ensured that the new reports meet the requirements, consolidating their previous remuneration reporting, directors' report and governance statement sections. We have highlighted how the Governance Statement could be updated to better meet the good practice set out in the recent Audit Scotland Good Practice Note issued on 25 May 2016 through use of graphs, links to documents and cross referencing to avoid duplication.
- We have read the performance report and concluded that it is consistent with the financial statements. We have also read all other information in the annual report and accounts, including the governance statement and noted no inconsistencies with our knowledge acquired during the audit.
- We are satisfied that disclosures are appropriate and in line with requirements, with no disclosure deficiencies noted.

Partner introduction (continued)

Significant financial statements risk dashboard



| Fraud risk | Controls approach and findings | Consistency of judgements with Deloitte expectations | Comment |
|----------------------------------|--|--|--|
| Core expenditure resource limits | | | |
| No | Evaluate design / implementation of key controls. No controls reliance. No significant observations. | | We have confirmed that Scottish Ambulance Service (SAS) has operated within the limits set by the Scottish Government. We have assessed the split of capital and revenue expenditure and completed testing to assess that there were no unrecorded liabilities at year end. No issues were noted. |
| Injury benefit provision | | | |
| No | Evaluate design / implementation of key controls. No controls reliance. No significant observations. | | The key assumptions used in the provision calculation have been challenged through agreeing reasonableness of life expectancy factors and recalculated discount factors; testing a sample of individual provisions in detail to assess accuracy and assessing the adequacy of disclosures within the financial statements. No issues were noted. |
| Other income recognition | | | |
| Yes | Evaluate design / implementation of key controls. No controls reliance. No significant observations. | | Income from other NHS Scotland Boards confirmed to third party confirmation through the intercompany matching process. |
| Management override of controls | | | |
| Yes | Evaluate design / implementation of key controls. No controls reliance. No significant observations | | <p>We have used analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis covered all manual journals posted in the year. We have noted no issues with journal entries and other adjustments made in the preparation of the financial statements.</p> <p>Our review of accounting estimates for bias that could result in material misstatement due to fraud noted no issues.</p> |

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

Partner introduction (continued)

Public sector audit dimensions

We have commented below on the public sector audit dimensions with regard to SAS:

Financial management

The final outturn was an underspend against the core revenue resource limit of £54k, as well as a break even spend against the non core revenue resource limit. There was a £1k underspend made against the core capital resource limit. Further, there was a nil balance in relation to the cash requirement target.

The financial management framework and budgetary control systems are well controlled and expenditure is linked to the Board's strategic objectives. At the time of our planning report, SAS had reported an overspend of £1,250k to September 2015, and has successfully delivered the additional savings required to return to balance by the year end.

Financial sustainability

Financial sustainability continues to be one of the most significant challenges and risks for SAS. Effective and efficient use of resources is important to SAS, to both enable it to deliver change to meet the aspirations of the Towards 2020: Taking Care to the Patient Strategy (the 2020 Strategy) and to also provide the best level of safe care to patients.

The 2016/17 budget details the areas where savings will be made to meet the anticipated funding gap of £9.9m. Detailed plans to make these savings are not yet in place for all areas.

In accordance with Audit Scotland planning guidance, we have performed targeted follow up work on the recommendations made in the national performance report on *Scotland's Public Sector Workforce* which was published in November 2013. We concluded that significant resources are brought to bear on workforce planning arrangements within SAS and it is clear that this is an iterative process. SAS has invested significant resources and worked in partnership with Skills for Health to upskill its managers in the Workforce Planning process.

Governance and transparency

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

We have reviewed the financial and performance reporting to the Board during the year. Monthly management reports are clear and produced in a timely manner.

In a review of arrangements in relation to governance during 2015/16, Internal Audit found that SAS has robust and effective processes in place to ensure project monitoring and reporting activity is consistent and of appropriate quality, and that monitoring and reporting activities follow a risk-based methodology and are linked to corporate objectives.



Partner introduction (continued)

Public sector audit dimensions (continued)

Value for money

We have performed testing over both core and non-core expenditure and noted no issues.

Further, we concluded that the Board had a well established performance management framework during 2015/16. This was supported by effective performance monitoring.

Jim Boyle
Lead Audit Partner



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 (and any assurance statement on consolidation packs);
- Providing the annual report on the audit to the Board and the Auditor General for Scotland;
- Communicating audit plans 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 National Fraud Initiative (NFI) exercise);
- Identifying significant matters arising from the audit, alert Audit Scotland accordingly and supporting Audit Scotland in producing statutory reports as required; and
- Undertaking work requested by Audit Scotland or local performance audit work.

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.

The Board is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.



Significant risks

Core Expenditure Resource Limits

Key focus for management

Nature of risk

As set out in our Audit Plan, we recognised the key financial duty for SAS 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 SAS complies with all key resource limits.

| | Expenditure £000s | Resource Limit £000s | Underspend £000s |
|---------------------------------|----------------------|-------------------------|---------------------|
| Core Revenue Resource Limit | 213,673 | 213,679 | 54 |
| Non Core Revenue Resource Limit | 14,015 | 14,015 | - |
| Capital Resource Limit | 10,773 | 10,772 | 1 |
| Cash Requirement | 222,717 | 222,717 | - |

The final small underspend position was driven by management focus on tight cost control.

Deloitte response

- The funding allocation to SAS has been confirmed via confirmation from the Scottish Government and we have agreed the cash draw down to the bank statements.
- We assessed whether expenditure is correctly classified between revenue and capital and whether it has been incurred in accordance with Scottish Government's guidance.
- We have also performed cut-off testing and noted no issues.

Deloitte view

- We have concluded through the performance of our year end procedures, the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish 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 Health and Social Care Directorate (SGHSCD) and therefore in compliance with the financial targets in the year.

Provisions

Injury Benefit Provision

Nature of the risk

There is 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.

£8.0m provision
(2014/15 £8.2m)

44 individuals
(2014/15 43)

Although the number of persons has increased, there was a reduction in the provision as at year end when compared with prior year because the life expectancy of all individuals for whom injury benefits were provided as at year end had reduced. On a yearly basis, we expect the provisions for injury benefits to reduce to reflect the individuals getting older, and their reducing life expectancy. The impact of the increase in the number of individuals by one from last year is far less than the impact of the increase in age.

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.

Deloitte view

From our audit procedures, we are satisfied that the provision is not materially misstated.

Management override of controls

We have used computer assisted audit techniques to support our work on the risk of management override

Risk Identified

International Standards on Auditing requires 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 our work on key estimates around income recognition on page 15 and provisions on page 13 with no issues identified.

Deloitte response

- No issues were 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.
- Our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements completed with no issues noted.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. We have used analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis covered all manual journals posted in the year. Investigation of items sampled did not identify indicators of management override.
- We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

Other income recognition

Completeness of income outwith core 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 outwith core funding given the significance to the organisation.

Key judgements

SAS received other income from NHS Boards of £4.614m in the year. This income relates to provision of ambulance services in relation to areas such as patients transport.

As funding is notified and agreed with other NHS Boards in advance of billing, there are limited areas of judgement in other income recognition within SAS.

Deloitte response

We have assessed completeness of income through agreement of balances to signed third party confirmations required as part of SFR 30 (Balances with other NHS Scotland bodies). We have also performed our year-end cut-off procedures and assessed recoverability of outstanding amounts at year-end.

No issues noted from our review of the treatment of income in the year, which has been accounted for in line with the financial reporting manual (FReM).

Deloitte view

- We have concluded through the performance of our year end procedures that funding recorded is complete at year end.
- We do not consider there to be evidence of management bias in the revenue recognition policies adopted.

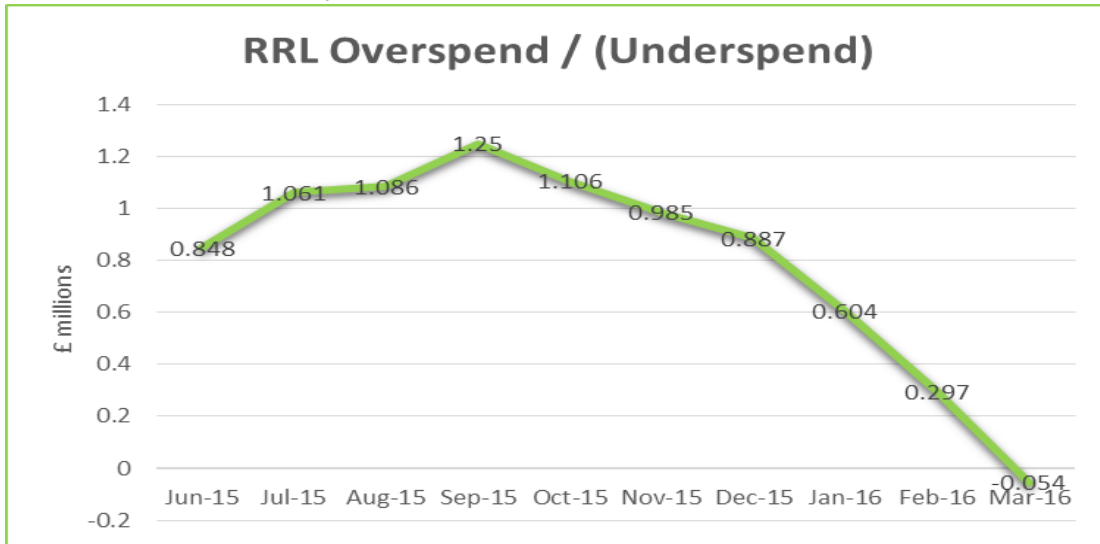
Public sector audit dimensions

Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Revenue expenditure

SAS budgeted a breakeven position for the year to 31 March 2016. This was a challenging target, however a peak overspend position of £1.25m in September 2015 was effectively managed to result in an overall underspend against the Revenue Resource Limit of £0.054m at the year end, as can be seen from the overview of the year below.



The table below illustrates how the Board's performance compares to prior year, and budget for 2015/16, and forecast for 2016/17.

| | 2014/15 Total £'000 | 2015/16 Budget £'000 | 2015/16 Total £'000 | 2016/17 Forecast £'000 |
|-------------|---------------------------|----------------------------|---------------------------|------------------------------|
| Income | 246,853 | 227,688 | 227,688 | 232,747 |
| Expenditure | (246,792) | (227,688) | (227,634) | (232,747) |
| Surplus | 61 | - | 54 | - |

There continues to be a challenge in SAS in relation to managing overtime costs that arise in mainly unscheduled care although, as can be seen from above, these overspends have been managed in the wider budget through a reduction in discretionary expenditure. Moving forward, as part of SAS' 2020 Strategy, a significant long-term financial and training investment has been made in increasing the number of operational staff to reduce the need for overtime, as well as to enable patients to be diverted away from acute hospital settings.

Financial management (continued)

Revenue expenditure (continued)

As part of our targeted follow up work undertaken in 2014/15, we undertook work around financial capacity. We noted that there were no issues around general budget monitoring and reporting. There was a key Audit Scotland focus on development of a priority-based approach to budget-setting which makes connections between planned spending and intended outcomes. Last year this was in the formative stages at SAS and has not been progressed further in the current year as the focus has been on reviewing the budget setting process to ensure base budgets are correct and achievable.

Budget management was reviewed by Internal Audit in September 2015 and at this time 5 out of 6 control areas reviewed were found to be satisfactory. Whilst they concluded that SAS has a sound process in place for budget setting and monitoring expenditure against budget, they did highlight that the level of overspend against some budget lines indicates that controls operating within divisions could be strengthened to allow control action to be taken earlier to correct these overspends. As at March 2016, overspends against expenditure in accident and emergency and non emergency services were still reported to the Board in the year end Financial Performance report.

In order to address these considerations and to improve the accuracy of budget setting and monitoring, SAS have introduced a new budget setting process which involves all members of the Executive Team and the General Managers discussing and agreeing the budgets. Budgets for 2016/17 reflect the true costs of providing services in each division being, based on previous levels of expenditure, not previous budgets, and budget holders will be expected to meet these budgets throughout the year.

Capital expenditure

During the year a number of significant property developments were completed by SAS, such as new ambulance stations opening in Melrose, East Kilbride and Aberdeen, and a purpose built base for Scotland's Specialist Transport and Retrieval Service at Glasgow Airport, all with the aims of improving facilities for staff and ensuring closer alignment of complementary services.

Other capital projects included replacement of equipment, vehicles and ICT projects, including the Telehealth Programme, which aims to give staff access to key patient information, clinical guidance and provide the capability to exploit advances in decision support which rely on technology, e.g. video conferencing.

SAS incurred total expenditure of £10.772m during 2015/16. The final outturn for the Capital Resource Limit was £1k underspend at year end.

Deloitte Conclusion

SAS effectively managed to reduce the overall overspend position throughout the year by reducing discretionary spend, resulting in a small underspend against its Revenue Resource Limit at year end however, overspends in some areas, such as staff costs, remain.

Capital expenditure was effectively managed within the resources available.

Whilst no further progress has been made in relation to priority-based budgeting, the emphasis that SAS has placed on reviewing their budget setting and budget monitoring processes during the year to ensure that budgets are realistic and achievable in 2016/17, as well as linking expenditure to its 2020 Strategy and ensuring buy in from all divisions, evidences a clear commitment to delivering their strategic objectives within the resources they have available.

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial outlook

The 2016/17 revenue and capital budgets were agreed by the Board on 30 March 2016. A baseline funding uplift of £3.653m (1.7%) has been awarded. The key organisational objective for SAS is the implementation of the Towards 2020: Taking Care to the Patient Strategy. To support this SAS have received additional funding from the Scottish Government of £5m, on a recurring basis, from 2016/17 (non recurring funding of £2m was received to help fund implementation of this strategy in 2015/16). A number of other additional specific allocations totalling £8.928m were given, amounting to a total funding increase of £20.403m from 15/16.

The budget sets out details of cost pressures, including the removal of the employer's National Insurance contribution rebate in relation to contracted out pension schemes and the costs arising from the utilisation of overtime to provide relief cover primarily in unscheduled care, but also in some cases, in scheduled care. It also details the savings targets for 2016/17, as well as forecast revenue funding levels and savings targets up to 2020/21. The savings target forecast is shown below.

Savings Forecast 2016/17 to 2020/21

| | 2016/17 £000 | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|--------------|
| Recurring | 6,797 | 7,042 | 7,161 | 4,624 | 2,380 |
| Non Recurring | 3,100 | 3,000 | 3,350 | 3,100 | 0 |
| Total | 9,897 | 10,042 | 10,511 | 7,724 | 2,380 |
| Percentage of Baseline | 4.43% | 4.42% | 4.55% | 3.28% | 1.00% |

The areas which have been identified for where savings are to be delivered in 2016/17 are outlined below:

| Area | Amount of Saving £000 | Recurring / Non Recurring | Risk of Delivery |
|--------------------------|--------------------------|---------------------------|------------------|
| Diesel price fall | 1,000 | Non Recurring | Low |
| Airwave | 2,100 | | Low |
| Estates and Facilities | 200 | | Low / Medium |
| Scheduled care | 547 | Recurring | Medium |
| Review of cost pressures | 1,200 | | Low |
| Shared services | 300 | | Low / Medium |
| Productivity gains | 4,550 | | Low / Medium |

Financial sustainability (continued)

Financial Outlook (continued)

Detailed plans for all savings schemes were not in place at the time the budget was set and this is reflected on the assessed risk of delivering the savings in each areas. Finance staff are working closely with the Directorates to collaboratively draw up detailed plans, which are expected to be in place within the next month.

Workforce Planning

Throughout 2015/16, SAS has continued to implement a significant programme of organisational change to support it's 2020 Strategy. SAS has driven forward with the change agenda implemented by the Scottish Government, including the workforce development requirements.

In accordance with Audit Scotland planning guidance, we have performed targeted follow up work on the recommendations made in the national performance report on *Scotland's Public Sector Workforce* which was published in November 2013.

Effective workforce planning will be key to enabling SAS to deliver it's Towards 2020: Taking Care to the Patient Strategy. Significant resources are brought to bear on workforce planning arrangements within SAS and it is clear that this is an iterative process. SAS has invested significant resources and worked in partnership with Skills for Health to upskill its managers in the Workforce Planning process.

Deloitte Conclusion

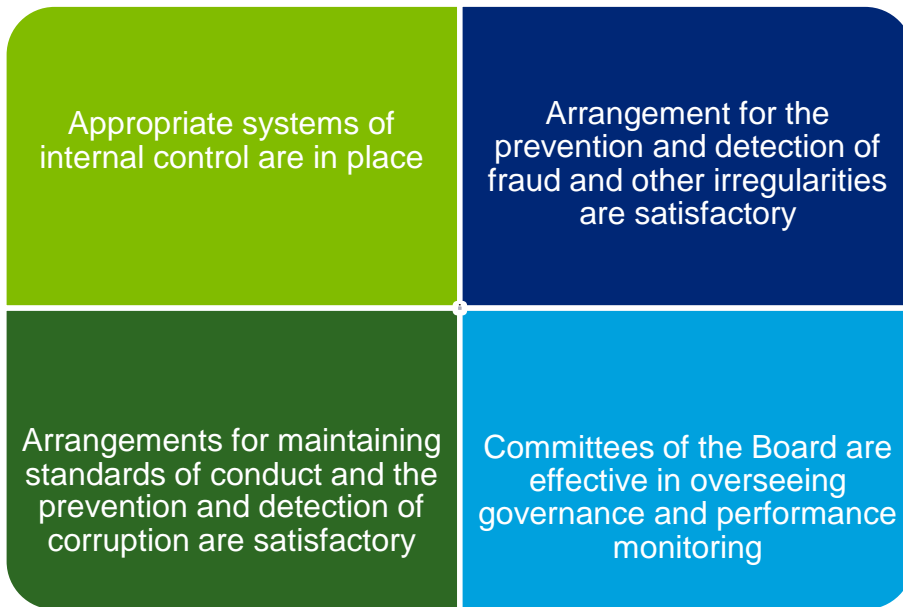
We have reviewed the Local Delivery Plan to 2016/17 and have noted no issues in terms of the key assumptions used by management.

As with all NHS Boards, SAS has challenging savings targets to meet moving forward to continue to be financially sustainable. Historically SAS has successfully achieved it's savings targets and it has made good progress in identifying areas of the organisation where it will realise these savings in 2016/17, however, detailed plans to realise these savings in each area should be agreed as soon as possible to ensure that SAS can achieve these targets.

Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

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



There have been limited changes in the Board during 2015/16, being the resignation and appointment of one Non-Executive Director.

The SAS board takes a pro-active approach to assessing it's own effectiveness. In January 2016, all Executive and Non Executive members of the board completed the NHS Scotland Board Development Diagnostic Tool. The board also holds regular development sessions and members works towards a Personal Development Plan.

Deloitte Conclusion

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 placed no direct reliance on the work of the internal auditors.

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

Governance and transparency (continued)

National Fraud Initiative

In accordance with Audit Scotland planning guidance, we are required to monitor the Board's participation and progress during 2015/16 and completed an NFI audit questionnaire by 29 February 2016.

Fraud (including NFI) is a regular item on the Audit Committee agenda

Head of Financial Planning and Reporting continues to take lead on NFI.

SAS liaises with the Counterfraud Service to proactively guard against fraud

Deloitte Conclusion

We reported in our 2014/15 annual report, that resources were being allocated within SAS to address all recommended matches within the period June to December 2015.

These matches were addressed by SAS within the timescale stated. No significant findings arose for SAS from the NFI match and no frauds or errors were identified.

Proactive measures in relation to minimising the potential for fraud are taken by the Board. The Head of Financial Planning and Reporting attends an annual review meeting with the Counterfraud Service (CFS) to ensure that he is up-to-date on issues in the NHS relating to fraud, and SAS attend and participate in all workshops and events held by the CFS.

Value for money

Value for money is concerned with using resources effectively and continually improving services.

Performance management

The performance of SAS is monitored by the Scottish Government against a number of key performance targets and standards which support the delivery of the Scottish Government's national performance framework. SAS report its progress against KPIs, as agreed with the Scottish Government, including financial break-even targets, percentage of Category A incidents (the most serious) responded to within 8 minutes and percentage of emergency calls treated at the scene. These targets and their trajectories were set out in the Board's 2015/16 Local Delivery Plan (LDP).

Performance against key performance targets is presented to the Board. The overall approach adopted is that performance management is integral to the delivery of quality and effective management, governance and accountability. The need for transparent and explicit links to performance management and reporting within the organisational structure at all levels is critical.

Overview of key performance targets in 2015/16

The board's performance against its key targets and standards as reported in the May's Performance Report and based on the most up to date data available includes the following highlights:

Towards 2020 Strategy

Out of hospital cardiac arrest survival performance rates continues to improve

Patient Transport Service punctuality for pick up has seen sustained improvement

The percentage of incidents responded to within target times has decreased slightly for both Category A and B incidents as a result of additional demand

Deloitte Conclusion

Overall SAS has seen improvements in its performance against its key targets which relate to efficiency and governance, access to services and providing treatment to individuals. Performance has decreased slightly in relation to attending incidents within specified target times, however this has been at a time of significant increase in demand. We are satisfied that the performance is appropriately discussed within the Performance Report in the Annual Accounts and management have introduced plans to address areas where progress has not been satisfactory.

Value for money (continued)

Audit Scotland national reports

The following reports have been issued by Audit Scotland over the past year which may be of interest to Board members:

| Title | Headline messages | Impact on SAS |
|--|---|--|
| <p>NHS in Scotland 2015 <i>Published October 2015</i></p> | <p>Fundamental changes and new ways of delivering healthcare are required now to ensure the NHS is able to continue providing high-quality services in the future.</p> | <p>With appropriate support from the Scottish Government, SAS' long term planning should be assessing it's spending needs and options over a longer period of 5-10 years. It should also ensure that it's work to meet financial and performance targets also supports longer-term changes to delivering healthcare. This will help ensure that short term actions do not conflict with longer term plans.</p> |
| <p>Health and Social Care Integration <i>Published December 2015</i></p> | <p>Significant risks must be addressed if a major reform of health and social care is to fundamentally change how services are delivered, and improve outcomes for the people who use them.</p> | <p>While not directly impacting on SAS immediately, Integrated Joint Boards (IJBs) need to set out clearly the resources, such as funding and skills, that they need and have clarity around their remit moving forward. SAS has a key role to play in these discussions.</p> |
| <p>Changing models of health and social care <i>Published March 2016</i></p> | <p>A lack of national leadership and clear planning is preventing the wider change urgently needed if Scotland's health and social care services are to adapt to increasing pressures.</p> | <p>SAS has an ongoing dialogue with the IJBs at a divisional level to ensure it is aware of new ways of working as it provides a key role through it's provision of patient transport. It is also working towards embedding pathways that offer a sustainable and appropriate alternative to hospital.</p> |
| <p>Reshaping care for older people – impact report <i>Published March 2016</i></p> | <p>This report looks at the impact made by the report <i>Reshaping care for older people</i>, which was published in February 2014.</p> | <p>SAS will have to identify and plan for the potential impact on demand for it's services, which may increase as a result of new approaches to care which lead to individuals remaining in their own homes for longer.</p> |

We note that there is a standard item on each Audit Committee agenda for sharing all relevant Audit Scotland reports and they are subsequently passed to the Executive Team for consideration of required action and further dissemination as appropriate.

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:

The Performance Report

Management response

The report outlines SAS’s performance, both financial and non-financial. It outlines the strategic objective in relation to its 2020 Strategy, action taken to reduce areas where performance against key performance indicators has decreased and its key priorities, as required.

Deloitte response

Deloitte has assessed whether the disclosures meet the minimum requirements of the FReM and has highlighted areas where the report can be updated to better reflect the new reporting requirements, for example, through providing more context around the reasons for performance against targets.

The Accountability Report – overall observations

Management response

Management have ensured that the accountability report meets the new requirements, consolidating their previous remuneration reporting, directors’ report and governance statement sections.

Deloitte response

Deloitte has assessed whether the disclosures meet the requirements of the FReM and highlighted how the Governance Statement could be updated to better meet the good practice set out in the Audit Scotland Good Practice Note issued on 25 May 2016 through use of graphs, links to documents and cross referencing to avoid duplication.

Remuneration policy and reporting requirements

Management response

Management has made appropriate disclosure within the Remuneration and Staff Report, including noting the policy regarding senior management pay and also disclosing off payroll engagements.

Deloitte response

Deloitte have challenged management’s assumptions and judgements and have audited each disclosure in the accounts. We have concluded both treatment and disclosure are appropriate.

Going concern

Management response

Management has made appropriate disclosure relating to Going Concern matters.

Deloitte response

Deloitte have challenged the assumptions built into the local delivery plan and have concluded that the plan is sufficiently robust to demonstrate that SAS will be a Going Concern for 12 months from signing the accounts.

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

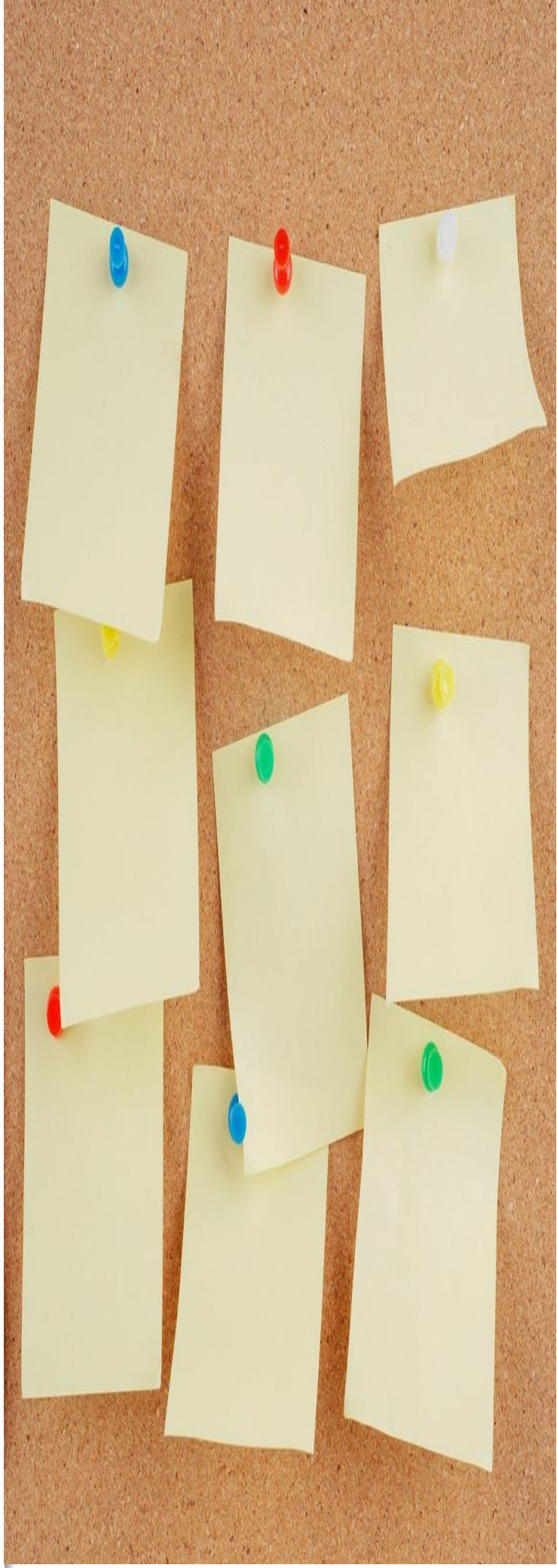
- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan and the supplementary "briefing on audit matters" previously circulated to you.

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

Deloitte LLP

Deloitte LLP
Chartered Accountants
Edinburgh
13 June 2016

Appendices



Audit adjustments



Summary of uncorrected and corrected misstatements noted

Uncorrected misstatements

We have noted the below audit misstatement, during the process of our audit work.

| Description | Assets DR / (CR) £ | Liabilities DR / (CR) £ | Equity DR / (CR) £ | SOCNE DR / (CR) £ |
|--|--------------------------|-------------------------------|--------------------------|-------------------------|
| Trade and other receivables – accrued income | 96,445 | 0 | 0 | 0 |
| Trade and other receivables – boards | 48,349 | 0 | 0 | |
| Trade and other receivables – prepayments | 19,125 | 0 | 0 | 0 |
| Trade and other payables – accruals | 0 | (163,919) | 0 | 0 |
| Total | 163,919 | (163,919) | 0 | 0 |

This misstatement relates to accrued income for rebates, prepaid expenses and receivables from boards, all wrongly posted to the accrued expenses account. Vendor contracts don't contain a right to offset and transactions with vendors are gross settled, hence the reclassification.

This misstatement has no impact on the Board's achievement of their Revenue Resource Limit target.

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.

Action Plan

Our recommendation for improvement

We followed up on our prior year recommendations, in relation to exploring options to extract Fixed Asset information direct from the Fixed Asset system and implementing recommendations raised by Internal Audit.

For Fixed Assets, this option was explored but system capabilities did not allow it to be implemented.

Progress is being made with implementing Internal Audit recommendations and these are followed up at each Audit Committee.

We have made the following observation arising from this year's audit.

| Area | Observation | Management Response |
|---------------------------------|--|--|
| Valuation of Specialised Assets | <p>In the year, the District Valuer was not instructed to value any of the specialised assets, which are valued on a depreciated replacement cost basis. SAS advised that in years between valuation, these properties are indexed annually by use of the Building Cost Information Service (BCIS) index supplied by the District Valuer.</p> <p>We recommend that the BCIS index should be adjusted by use of BCIS Location Factor allowances (used to adjust national to local build cost) in order to more accurately reflect local market conditions for this group of assets.</p> | <p>We are happy to accept this recommendation.</p> <p>Responsible Person: General Manager - Finance</p> <p>Timescale: March 2017</p> |

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 other income 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 other income 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. |
| Fees | Our audit fee for the year from 1 April 2015 to 31 March 2016 is £76,500 (inclusive of VAT and Audit Scotland fixed charges) and is within the indicative fee range set by Audit Scotland. There were no non-audit services for the period. |
| 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. |
| 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. We are not aware of any relationships which are required to be disclosed. |

Events and publications

Our events and publications to support the Board

Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the NHS are shared below:

Perspectives: Health & Social Care - The great integration challenge

Bringing health and social care closer together has been a policy ambition for decades, yet it continues to be a challenge. This new piece discusses some of the key factors that affect integration and what can realistically be achieved. Read the full blog post here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/the-great-integration-challenge.html>

Perspectives: The public sector's talent retention challenge – How can a talent drain be avoided?

Although global governments are increasingly conscious of the value of skills, the UK's public sector workforce has been hit hard by austerity. Job losses, low morale and pay freezes have all fuelled concerns of a potential drain. Read the full blog here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sectors-talent-retention-challenge.html>

Publications

Decoding Digital Leadership

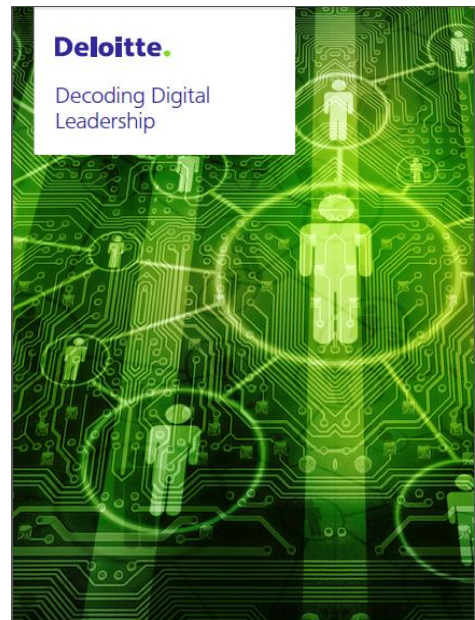
Surviving Digital Transformation

Digital transformation is a hot topic in government. The 2010 Spending Review mentioned the word 'digital' only four times in its reform plans, while the 2015 Review mentioned it 58 times. With that context, are senior leaders across government setting their organisations up for digital success?

Digital transformation requires top to bottom organisational transformation, which requires leaders who are willing and able to leverage digital to innovate, fail fast and drive value in an ambiguous context. Are your leaders equipped to drive digital transformation?

Download a copy of our publication here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/decoding-digital-leadership.html>



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