

# Scottish Ambulance Service

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

2016/17 Financial Year

28 June 2017



# Contents

	<b>Page</b>
Key Messages	3
Financial Statements Audit	4
Financial management	10
Financial sustainability	13
Governance and transparency	17
Value for money	20
 <b>Appendices</b>	
Audit Adjustments	24
Follow up on prior year recommendations	25
Action Plan for 2016/17	26
Reminder of Responsibilities	27

## Summary of our audit plan:

Materiality has been updated based on draft financial statements to £2.498 million (1% of gross 2016/17 expenditure)

Performance materiality is set at £1.624 million and we have reported to management everything identified over £24,980 (1% of materiality)

Financial statement significant audit risks were: management override of controls; risk of fraud in revenue recognition; injury benefit provision; and other audit risks: fraud in operating expenditure and PPE valuation.

We also identified three wider scope risks: future financial sustainability; sickness absence; and the new emergency services network contract

We can confirm we are independent of Scottish Ambulance Service and our objectivity is not compromised in accordance with International standards on Auditing (UK & Ireland) and APB ethical standards for Auditors. No non-audit services have been provided to Scottish Ambulance Service in 2016/17. Our audit fees were set out in our plan and remain unchanged.

# Key Messages

We have issued an unqualified opinion on:

- True and fair view of the financial statements
- Regularity
- Other prescribed matters

This report is a summary of our findings from our external audit work for the financial year ended March 2017. Our work has been undertaken in accordance with International Standards on Auditing (UK & Ireland) and the Code of Audit Practice (2016).

Our report is addressed to the Board (in their role as those charged with governance) and the Auditor General for Scotland. This report will be published on the Audit Scotland website at: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

This report has been discussed and agreed with management, and presented to the Audit Committee on 14 June 2017. We would like to thank management and staff for their co-operation and assistance throughout our audit work.

## Our work included:

- An audit of the 2016/17 Annual report and accounts
- A review of the Performance Report and Accountability Report (including governance statement and remuneration report)
- Completion of the 'Role of Board's' return submitted to Audit Scotland to inform a future performance publication
- The annual NHS Minimum dataset return
- Completion of the National Fraud Initiative (NFI) return and review of data matching progress

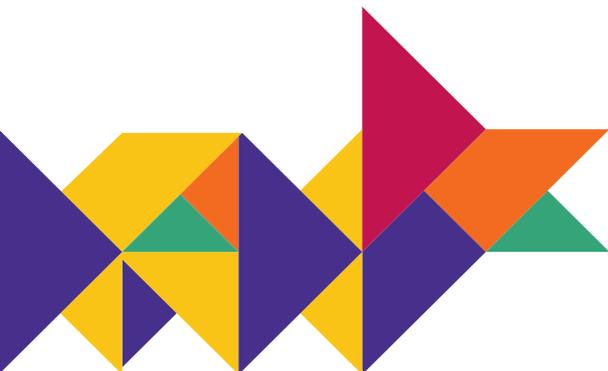
We received good a good quality annual report and accounts at the start of our audit. The supporting working papers were excellent and the Finance team were quick to answer our queries ensuring an efficient audit process.

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 certain aspects of Scottish Ambulance Service's arrangements as they relate to: financial management; financial sustainability; governance and transparency and value for money.

2017/18 will be an important year for the service as will see the first full year of reporting against the revised performance targets, including the new response model. Like all other NHS Boards in Scotland the Service continues to focus on the identification of recurring savings and ongoing service redesign aligned to the Service's 2020 vision. There is a continued capital investment in upgrading the fleet and also ongoing commitments to workforce redesign by considering the staffing needs of the future.

For and behalf of Grant Thornton UK LLP

28 June 2017



# The Financial Statements Audit



Our audit plan was presented to the Audit Committee on 7 December 2016. We have not altered our planned audit approach. However, we have updated our final materiality figures based on the unaudited 2016/17 accounts. Our planned materiality was £2.385 million. Based on actual 2016/17 gross expenditure we adjusted our materiality to £2.498 million.

Our audit work commenced on-site on 15 May and we had a complete set of the annual report and accounts with excellent supporting working papers. Management and staff were quick to respond to our queries which has ensured an efficient audit process and a good working relationship with Management.

In line with triviality we have reported all potential audit adjustments identified above £24,980 to management along with identified disclosure enhancements.

A summary of corrected and uncorrected adjustments are set out in Appendix 1/

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## Internal Control Environment

During the year we sought to understand Scottish Ambulance Service's overall control environment as related to the annual accounts. In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls
- Performed procedures around IT general controls. A separate IT Key Issues Memorandum has been issued and there are no significant matters that we wish to draw to your attention.
- Performed walkthrough procedures on key controls around identified risk areas.

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

Within our payroll substantive testing we could not locate an employee contract for one individual. We did find the new start form that was signed and submitted to payroll, and at the time of our audit HR were investigating the location of the employee contract. **Action 1.**

Under ISA's we are required to report to those charged with governance the main issues arising from our audit of the annual accounts and report. This report discharges our obligations under the relevant ISA's.

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## Internal Audit

As set out in our plan we have not placed formal reliance on the work of Scott Moncrieff as internal auditors during 2016/17, but have been informed by their work throughout the year. We have reviewed the annual internal audit plan, and specifically reports around fixed assets, financial ledger and workforce planning.

We note there were no significant findings in these areas which impacted on our planned audit approach.

The internal audit opinion for the year stated:

*"In our opinion, the Scottish Ambulance Service has a framework of controls in place that provide reasonable assurance regarding the organisation's governance framework, effective and efficient achievement of objectives and the management of key risks, and proper arrangements are in place to promote value for money and deliver best value."*

The findings do not disagree with our knowledge and understanding of Scottish Ambulance Service as an organisation and its risk profile.

Overall, the internal audit service has reported to management that it complies with Public Sector Internal Audit Standards and has sufficient resources and budget to deliver an annual opinion.

# Our identified audit risks

Our audit plan identified a number of significant and other audit risks and our planned approach. We have set out below a summary of the work undertaken over these risks and our conclusions.

Audit plan identified risk and work completed	Our conclusion
<p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is presumed risk that the risk of management over-ride of controls is present in all entities (fraud risk).</p> <p><b>Work undertaken:</b></p> <p>Completed a walkthrough of the controls and procedures in place around journal entries</p> <p>Reviewed the key accounting estimates, judgements and decisions made by management in particular property valuation, injury benefit provision, bad debt provision and PPE depreciation policies</p> <p>Tested journal entries with a focus on large and/or unusual values; posting sources; and unexpected timing as identified using our IDEA data analysis software</p> <p>Reviewed unusual and/or significant transactions.</p>	<p><b>Key accounting estimates:</b> We did not identify any significant areas of bias in key judgements by management and these were consistent with prior years.</p> <p><b>Key accounting estimates included:</b> Provisions in year were £16.9 million, compared with £13.0 million in 2015/16. The most significant provision is related to injury benefit provision of £9.0 million (2015/16 £8.0 million). There has also been a £2.3 million increase in the CNORIS provision allocated by Scottish Government.</p> <p><b>Journals:</b> We made inquiries of those members of staff who can post and authorise journals related to inappropriate or unusual activity with no concerns noted. We confirmed completeness of journals identifying 2,315 journals during the year. We targeted large and/or unusual journals and noted no issues from our testing.</p> <p>Through our substantive audit testing we did not identify any significant transactions out with the normal course of business for Scottish Ambulance Service.</p>
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA 240 (UK&amp;I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. Scottish Ambulance Service income is composed of £6.6 million hospital and community income and £2.1 million of other income. We rebutted this assumption for income received from the Scottish Government via allocations.</p> <p><b>Work undertaken:</b></p> <p>Completed a walkthrough of the controls and procedures in place around sales invoicing and sales ledger</p> <p>Agreed recognised NHS Scotland revenue to underlying SFR 30 confirmations and investigated any material differences</p> <p>Agreed other revenue to cash receipts in the year / post period end to gain comfort over validity of these transactions</p> <p>Performed cut off testing to gain comfort around the completeness and accuracy of recognised income</p> <p>Considered the recoverability of any outstanding balances at year end.</p>	<p>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).</p> <p>We have performed our year-end cut-off procedures and assessed recoverability of outstanding amounts at year-end on a sample basis.</p> <p>Specifically in relation to Hospital and Community Income; and other Income we completed detailed procedures on all material income streams for example Board income, compensation income and contribution in respect of clinical and medical negligence.</p> <p>No issues noted from our review of the treatment of income in the year, which has been accounted for in line with the NHS Manual for Accounts.</p> <p>We rebutted the risk of fraud related to the income stream from the Scottish Government given the nature of the funding received. For Scottish Government income we agreed this to the final allocation letter and income received to bank.</p>

Audit plan identified risk and work completed	Our conclusion
<p><b>Injury benefit provision</b></p> <p>The injury benefit provision totalled £9.0 million (2015/16 £8.0 million) and continues to represent a significant financial obligation to the Service. The calculation includes complexity and judgement, particularly around life expectancy and discount factors. There is therefore a risk that this balance is materially misstated as at 31 March 2017.</p> <p><b>Work undertaken:</b></p> <p>Agreed monthly payments to confirmation from SPPA.</p> <p>Evaluated the reasonableness of life expectancy and discount factors</p> <p>Substantively tested a sample of new cases, and existing individuals with a significant change in current year</p> <p>Ensured that disclosure of injury benefit provisions is adequate, complete and correctly allocated.</p>	<p>The provision of £9.013 million at year end was made up of 45 individuals (2015/16: 44), and the key movement was driven by the reduction in the discount rate provided by HM Treasury from 1.37% to 0.24% in the year. We identified no matters we wish to bring to your attention.</p>
<p><b>Completeness of operating expenditure</b></p> <p>Operating expenses are understated or not recorded in the right period. This risk also relates to Practice Note 10 (revised) in respect of public sector entities which outlines that auditors should also consider the risk that misstatement may occur by the manipulation of expenditure recognition (Fraud risk).</p> <p><b>Work undertaken:</b></p> <p>Completed walkthrough of the controls and procedures in place around purchase ordering, procurement and general payment and recording of expenditure.</p> <p>Reconciled creditors ledger to the general ledger and financial statements</p> <p>Performed cut-off testing on pre-year end and post year end transactions to gain comfort around the completeness and accuracy of recognised expenditure</p> <p>Gained comfort around the regularity of expenditure and the application of public funds in accordance with the FReM and Scottish Public Finance Manual (SPFM)</p>	<p>Through the performance of our year end procedures we can conclude that the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and the expenditure is valid and correctly classified between revenue and capital.</p> <p>We confirm that Scottish Ambulance Service 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 (Revenue Resource Limit/Cash Limit/Capital Resource Limit)</p> <p>Through our pre and post year end cut off testing sample we did not identify any expenditure that was incorrectly accounted for.</p>
<p><b>PPE valuation</b></p> <p>SAS own a significant number of properties at a variety of locations across the country, and revalue all properties on an annual basis. There is a risk that the revaluation is incorrectly accounted for and/or impairments are incorrectly treated.</p> <p><b>Work undertaken:</b></p> <p>Completed an assessment of the credentials and independence of the valuers (management expert). Obtained and reviewed the valuers report.</p> <p>Recalculated and agree valuation movements for a sample of assets.</p>	<p>During 2016/17 land and buildings were revalued to £27.4 million (£27.3 million in 2015/16) resulting in an upward revaluation of £0.3 million, and a net reversal of impairment of £0.6 million. We can confirm that the revaluation has been correctly accounted for.</p> <p>We have concluded through the performance of our year end procedures that the revaluation adjustments were correctly reflected and allocated in the annual accounts. We have agreed ownership of properties to the title deeds held by the Central Legal Office with no exceptions noted.</p>

# The narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts. We note that the format of the front half has been enhanced for 2016/17 in line with Audit Scotland Good Practice guidelines and that this continues to improve the overall content and readability of the annual accounts.

We have considered the consistency of this narrative with our understanding of Scottish Ambulance Service and the financial information set out in the accounts and set out our observations below.

## Performance report

- The report outlines performance analysis and highlights the key issues and risks facing the Service.
- All required disclosures included in line with financial reporting manual
- Financial performance analysis included is in line with our understanding
- There is clear narrative setting out analysis of performance against efficiency savings targets
- Key issues and risks in line with our understanding and expectations
- LDP performance is currently set out in one table – it would be helpful to split performance into those which are meeting and missing targets, with explanations and proposed future action for those not currently meeting the performance targets. See **Action Point 2**

## Annual Governance Statement

- All key required elements included within the corporate governance statement.
- Each Board Committee produce an annual report setting out the Committee’s work for the year; key areas discussed and membership and attendance – this information is used to inform the Board of the governance structures in place and support the Accountable Officer in producing the statement.
- There were no significant or material deficiencies management has reported – and this is consistent with our understanding.

## Remuneration report

- The remuneration report has been completed in line with guidelines and the NHS Manual of Accounts
- We have audited the financial information included in the remuneration report (marked audited information). Our testing identified one minor incorrect pay banding which has been corrected in the final accounts.
- We have no further matters we wish to bring to your attention.



# Judgements and estimates

We consider other aspects of your annual report and accounts, in particular key areas of judgement. We have summarised below our observations in these key areas:

## Accounting Policies

- Accounting policies are in accordance with the NHS Manual of Accounts and we consider these to be appropriate to Scottish Ambulance Service.

## Accounting estimates and judgements

- Property valuation including impairment risk and the property portfolio is revalued annually
- Injury benefit provision estimates as informed by SPPA third party confirmation, discount rates in line with Treasury guidance and latest life expectancy tables
- Bad debt provision calculations – bad debt is £0.34 million compared with £0.27 million in prior year and represents 0.1% of expenditure
- Plant, Property and Equipment (PPE) depreciation policies are in line with prior year and the manual

## Going Concern

- Scottish Ambulance Service has an agreed budget for 2017/18 and continues to discuss future funding with Scottish Government.
- Given the nature of Scottish Ambulance Service activities delivering specialised services across Scotland, as set out in various legislation, we do not have reason to consider that Scottish Ambulance Service will not continuing to operate over the next 12 months from the account signing date.

## Timing of transactions and period in which they are recorded (Cut off assertion)

- Through our substantive audit testing we did not identify any concerns over timing of transactions or the period in which they were recorded.

## Impact on the financial statements of any uncertainties

- No uncertainties have been identified which have an impact on the final annual accounts.

# Financial management

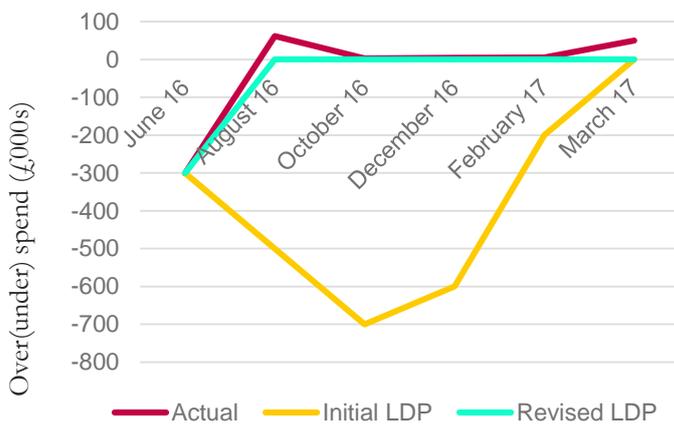


Scottish Ambulance Service met all financial targets in year:

	Target £'000	Actual £'000	(Over)/ Under £'000
Core Revenue Resource Limit (RRL)	221,165	221,115	50
Non-core Revenue Resource Limit	20,120	20,115	5
Capital Resource Limit (CRL)	22,965	22,964	1
Cash requirement	244,495	244,495	0

During the year financial performance was reported to the Board, alongside specific actions to address fluctuations from planned budget. Net performance tracked consistently in line with the revised LDP targets as shown below:

### Performance against LDP



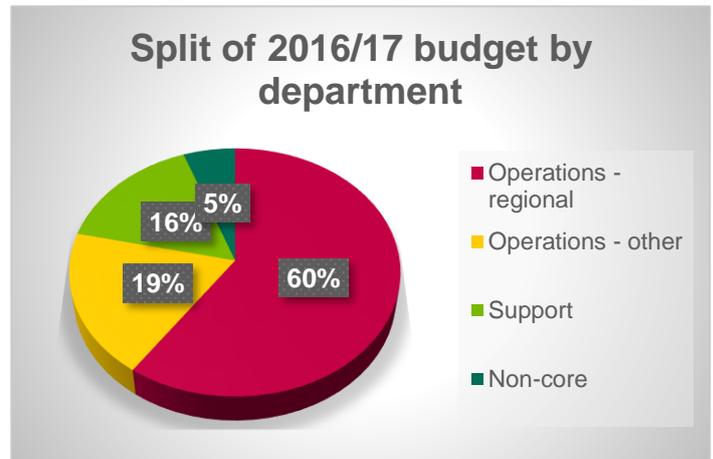
Areas of overspend (compared to budget) have primarily arisen in areas including cleaning and building maintenance, travel and accommodation with overhead spend £0.204 million over budget in the year.

Compared to budget, pay underspends were £0.233 million with a continued reduction of £1.1 million in the period to £10.7 million of overtime due to pro-active management.

Work continues to be ongoing in this area to identify further savings for example ongoing rostering analysis in the South West region as part of the abstractions pilot.

### Financial performance against budget

The financial budget was set by directorates:



Actual performance has noted operations overspending by £2.41 million due to a number of factors including travel and accommodation associated with the backfill of vacancies, while support directorates have delivered a £2.46 million underspends through tighter cost control.

This incorporates a £1.65 million reallocation of savings between the two core elements of operations (regional and other).

Total savings of £9.9million were delivered, although £4.5 million were delivered on a non recurring basis.

This planned recurring savings which were not achieved in 2016/17 will need to be delivered in 2017/18 and have been carried forward adding to ongoing financial pressures.

### Reporting financial performance

Financial performance reports are provided bi monthly to the main Board from June through to year end. They track performance against each target, and sub-divide core financial performance into element (income, pay, non, pay) and by business element (region, Air Ambulance, Scotstar, Support directorates). Balance sheet and capital performance are also clearly set out. Explanations are provided for all significant movements. Commentary is included on trajectory and expected future position

The reporting provides the quality of information that we would expect on a regular basis throughout the year.

## Capital programme

Capital expenditure is set out within each financial performance report. The key revision in year related to the £4.9 million of 2017/18 fleet expenditure brought forward into 2016/17. There was an unbudgeted £0.4 million of VAT recovery received which provided flexibility to invest in other projects in year for example equipment. Performance against the revised budget was:

2016/17 Capital Budget	Budget £000	Expenditure £000	Under (over) £000
E-health	1,266	1,740	(474)
Minor projects	822	766	56
Equipment	704	708	(4)
Total vehicle projects	19,884	19,970	(86)
Fleet - damage	314	267	47
VAT recovery	-	(411)	411
Capital receipts	(25)	(75)	50
<b>Net capital expenditure</b>	<b>22,965</b>	<b>22,965</b>	<b>-</b>

## Capacity and Capability of Financial Leadership

The finance team is structured between management accounts and financial accounting functions. These are overseen by the General Manager – Finance who reports directly into the Director of Finance and Logistics.

Overall we note that the finance team is of an appropriate size for the nature and complexity of the organisation. There is a clear and concise timeline for month end close which is in line with our expectations. Similarly, there was a detailed timetable in place for year end close and the finance team met all the deadlines as planned.

The quality of working papers and draft accounts provided were of a high quality. Based on our walkthrough of key financial controls we noted these were designed as intended and operated during the year for example bank reconciliations; suspense accounts reconciliations; follow up of outstanding debt.

## NHS overview report

The NHS Overview report produced in October 2016 set out a number of challenges for NHS Boards. We have summarised below the key findings and impact on Scottish Ambulance Service:

Financial and Service Performance Area	Impact
Financial challenge, struggle for financial balance and stretching savings targets	The future financial sustainability of the Service continues to be an area of focus, with savings of £8.6 million needed for 2017/18, and the need to continue to identifying savings of a recurring nature.
Difficulties achieving financial balance	Financial balance achieved in 2016/17 and forecasted for 2017/18
Recruiting and retaining staff, and levels of temporary staffing.	Recruitment and retention of paramedics and technicians, particularly in rural areas continues to be a challenge for the service .

# Financial Sustainability



We identified a wider scope risk in our plan related to Scottish Ambulance Service’s longer term financial sustainability:

Risk of financial sustainability in 2017/18 and beyond (Financial sustainability wider scope risk)	Conclusion
<p>The Scottish Ambulance Service faces a significant financial challenge in 2017-18 and beyond, with continued cost pressures particularly around staff costs and fuel.</p> <p>The Service are in the process of producing the Local Development Plan for 2017/18 and considering the implications of the financial budget for 2017/18.</p> <p><b>Work undertaken:</b></p> <p>During the year we have had a number of discussions with the Director of Finance related to financial and service sustainability</p> <p>We have reviewed the various 2017/18 budget setting papers and supporting savings plans that have been to the Board</p> <p>We have considered Scottish Ambulance Service’s previous record of delivering against saving plans in prior years</p> <p>We have considered the draft Local Delivery Plan.</p> <p>We have considered the nature of the savings delivered to date, in particular the balance of recurring/non – recurring savings.</p>	<p>Overall for 2017/18 the Scottish Ambulance Service needs to deliver savings of £8.65 million in order to achieve financial balance and deliver against its statutory targets. This is against a backdrop of delivering £5.4 million recurring savings in 2016/17 (compared with a recurring savings plan of £6.6 million)</p> <p>The budget set for 2017/18 reflects the need for further recurring savings in part to offset those that were not delivered on a recurring basis in 2016/17. The budget for 2017/18 shows the need to save 3.77 % of baseline financial funding.</p> <p>Budget savings will need to be delivered in a context of delivering continued improvement against Scottish Government’s suite of performance targets including those related to hear and treat, see and treat and emergency response times.</p> <p>Key savings planned for 2017/18 include: review of operational infrastructure within Service delivery directorate with Finance savings of £1.2 million recurring and £1.0 million non-recurring), and review of service delivery models and productivity improvements within the regions of £4.6 million.</p> <p>Scottish Ambulance Service recognise a number of risks associated with these savings including a £1.2 million balance of unidentified savings as at June 2017, and 54% of “high risk” savings identified when setting the LDP.</p> <p>Overall the Service continue to focus on identifying and achieving the financial savings set out in the draft LDP. However, over the last 3 years the service has continued to evolve and deliver service re-design. Therefore, there is a risk that the savings will need to come from an already re-designed service. Lastly, the Service has an ambitious 2020 vision which will need further investment in, to ensure the full plan is delivered. We will continue to review financial sustainability during 2017/18.</p>

## Budget 2017/18

A balanced budget has been set for 2017/18, which was submitted in February 2017:

	£000s
<b>Income</b>	
RRL allocations	236,064
Strategy investment	6,300
Divisional income	4,690
	<b>247,054</b>
<b>Expenditure</b>	
Operations	191,782
Support Services	34,965
Depreciation	13,000
Cost pressures	2,785
eHealth	1,165
Strategy investment	9,762
Inflation and contractual pressures	2,248
Cash releasing efficiency savings	(8,652)
	<b>247,054</b>
<b>Budgeted year end position</b>	<b>-</b>

The slight increase in RRL allocations, compared with prior year, is driven by a number of individual items below.

	£000s
Opening baseline	225,920
1.5% uplift	3,388
SCOTSTAR	4,958
Air Ambulance (earmarked)	466
Other allocations (earmarked)	1,332
Strategy investment (earmarked)	6,300
<b>Total</b>	<b>242,364</b>

We note that the SCOTSTAR funding is currently being received on a non-recurring basis but that discussions are ongoing to convert this to recurring funding from 2018/19.

## Additional strategy investment

The Service received recurring funding of £5 million in 2015/16 and a further £6.3million in 2016/17 to support the delivery of 'Towards 2020: Taking Care to the Patient'. Total proposals of £12.5million have been identified for this additional income, and Board approval was received to allocate the money to support longer term workforce planning. This means that all identified programme investment can be funded in practice.

Further funding is expected to be received to advance the Major Trauma network and specialist capability during 2017/18. No amounts have been assumed in this regard and detailed expenditure plans will be formulated once there is more clarity around the value and timing of funding received.

## Expenditure

Key expenditure uplifts relate to £2.2million of inflationary pressures and £2.8million of unavoidable cost pressures:

### Unavoidable pressures

- Apprenticeship levy (£750k)
- Auto enrollment (£660k)
- Exchange rate movements (£464k)
- Full year cost of Peterhead rota (£458k)
- Other (£453k)



In addition, the price of diesel is a key variable which is difficult to predict and has the potential to be a significant additional pressure for the Service. Currently this is budgeted at 1.24p per litre which would cost £7.4 million; but the impact of a 3p per litre movement would be an additional £0.2million and therefore management has highlighted price volatility as a risk.

## 2018-2021 indicative financial figures

The Service have been advised to budget based on GDP uplifts to funding, estimated at 2.1% for 2018/19, and 1.8% and 1.5% for the following subsequent years.

Based on current calculations, a cumulative additional savings target of £12.5million will be required in 2018-2021. This relies on a series of assumptions around fuel prices, pay increases, and the delivery of the total 2017/18 planned savings in the form of recurring savings – any shortfall will increase this net target

### Savings target

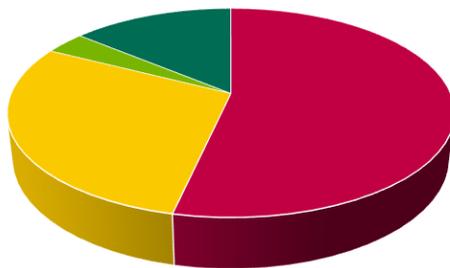
The Service has a savings target of £8.65 million, which represents 3.8% of baseline funding. This has been addressed to date by:

- Ensuring that all departments that did not deliver recurring savings in 2016/17 have had the shortfall carried forward; and
- Minimum 10% recurring savings requirement required for support service departments

The delivery of non-recurring savings represents a short-term solution but drives a requirement to identify and deliver replacement savings in future years.

Recurring savings of £7.4million have been identified representing 86% of the total savings target, with the remainder to be delivered on a non-recurring basis. 54% of these recurring savings are identified as high risk and this represents a significant risk to the delivery of these risks.

Savings split (£m)



- Operations - recurring (£4.6m)
- Finance - recurring (£2.5m)
- Other support functions (£0.3m)
- Non recurring savings to be identified (£1.2m)

### Capital plan – 2017/18 to 2021/22

The capital plan was taken to the March 2017 Board for approval and included in the LDP. The expected 2017/18 income element is set out below:

	£,000s
Formula capital	1,794
Scotstar	200
Telehealth Phase 2	169
Fleet	11,407
Capital Disposals	(95)
<b>Total</b>	<b>13,475</b>

The capital budget continues to be focused on the fleet upgrade, with a further £11.4 million earmarked for fleet upgrades and new vehicles representing a continued investment in new Ambulances. This is part of the £78 million fleet replacement programme delivering nearly 1,000 new vehicles from 2016/17 to 2020/21

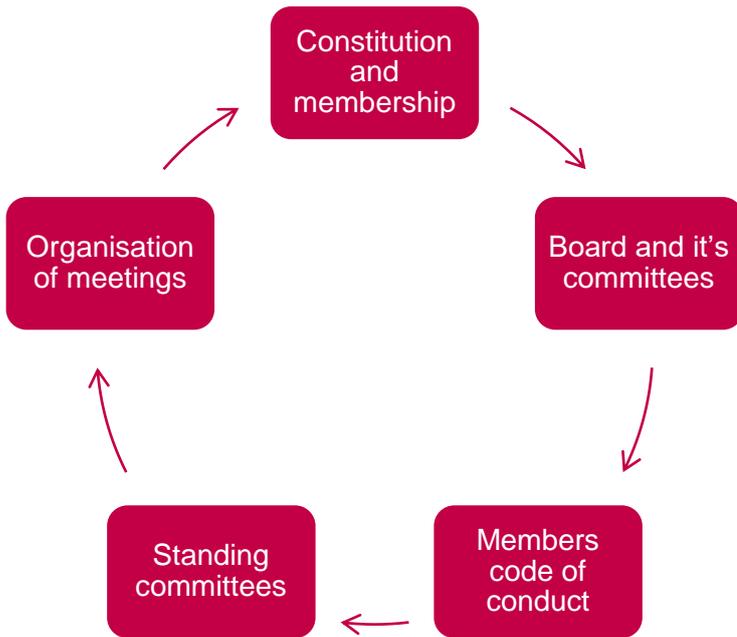
Remaining expenditure is budgeted for £0.4 million equipment expenditure (including £0.2 million Scotstar in line with expected allocation), £1.2 million property investment into Dunfermline, Lerwick and Cardonald / Norseman and £0.5 million of eHealth investment.

# Governance and transparency



## Corporate governance policies

There is a code of corporate governance in place. This is a comprehensive document covering a number of key elements of corporate governance and is updated every 3 years or in the event of significant changes. The scheme of delegation is updated biannually. The key elements included are:



We have reviewed each of the policies above, and note that they are in line with our expectations for an organisation of the size and complexity of Scottish Ambulance Service.

We also reviewed the standing financial instructions and scheme of delegation. These are mandated to be updated every 3 years or on major system changes. They were last updated and approved in July 2015 and are due to be updated and approved in early 2018. We are satisfied that the SFI's are fit for purpose and reviewed and amended as required sufficiently regularly.

## Follow up on internal and external audit findings

Internal audit reports are considered by the Audit Committee, with significant focus on key matters arising and the adequacy of management responses. Quarterly updates are provided on both progress against work plan and progress against closing historic points received from internal audit. External audit points are also noted and follow up on points reviewed annually.

The audit committee have a key focus on challenging management around matters arising from both internal and external audit review.

## Committee structures

The Scottish Ambulance Service committee structure continues to operate as follows:

Committee (frequency)	Remit
Board (bimonthly)	Oversight and strategic matters
Audit committee (quarterly)	Fraud, internal control and internal / external audit.
Staff governance (quarterly)	Assurance to Board on all staff governance matters
Remuneration committee (as required, minimum of two)	Pay and performance management for directors and other pay issues
Clinical governance (quarterly)	Systems assurance Public health governance

The Board reserve powers over the following:

- Standing orders
- Standing financial instructions
- LDP, Financial Plans, Heat Targets and Annual report
- Terms of reference for committees
- Capital plans and business cases for Scottish Government
- Frequency and format of financial and performance reporting

The committee structure and reserved powers are in line with our expectations.

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## Risk Management

Risk management is a standing agenda item for the Audit Committee. The corporate risk register was presented to the Committee for approval in December 2016, and was subsequently reviewed by the 2020 steering group and formally approved by the Board in March 2017. The latest position is reported quarterly, with details around key movements in the quarter.

There has been continued focus on improving the reporting of clinical incidents, by providing clear visual data trends with the identification of target levels and where applicable lower and upper levels of incidents reported. This has enhanced reporting and allowed additional scrutiny around performance trends and underlying variations, including how the Service learns from clinical incidents.

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## Role of Boards

We submitted a return to Audit Scotland in June 2017 in relation to the Role of Boards as part of their wider follow up work in this area. It considered three key areas:

- are governance, decision making and scrutiny arrangements effective
- To what extent do non-executives and staff demonstrate high standards of behaviour
- To what extent do non-executives and staff receive sufficient training and development

This return has been agreed with the Director of Finance and logistics, Chief Executive and Board Chairman. There were no matters from this return we wish to highlight in this report.

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## Non executive training programme

There is a non-executive training programme in place, and it is flexible to emerging areas of need and / or areas of development identified by non-executive directors.

Quality improvement and performance measurement have been key areas of focus during 2016/17 with a series of seminars and sessions held covering these areas.

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## Fraud, regularity and whistleblowing arrangements

Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found that the Service's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

There is a fraud policy in place and fraud updates are regularly circulated to staff.

We note that a fraud report is a standing agenda item that is covered in every meeting of the Audit Committee including fraud lessons learnt from across the NHS and the Committee focus on how lessons can be learned and applied in future to minimise risks. Specific updates during the year included notifications around any NHS wide fraud attempts which may impact on the Service and these are also circulated to relevant staff.

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## National Fraud Initiative

The National Fraud Initiative (NFI) is 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 the Service's arrangements for participation in the NFI were satisfactory. For 2016/17 there was a delay in the receipt of payroll to creditor matches due to a Scotland wide issue impacting all Boards related to the uplift of payroll data.

As at June 2017, all 532 creditor matches have been closed off with no frauds identified. 124 payroll matches were received in late May and will be reviewed in due course.

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## Standards of Conduct

In our opinion the Service's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.

Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and for complying with national and local codes of conduct. We have also considered the controls in place to ensure compliance with the regulatory guidance that is produced by the Scottish Government Health and Social Care Directorate throughout the year for example guidance in respect of business conduct and gifts and hospitality.

# Value for money



Two wider scope risks were identified in our audit plan, in relation to the value for money. We have summarised below our key considerations and conclusions on these areas:

Wider scope area of focus identified	Conclusion
<p><b>Sickness absence</b></p> <p>Scottish Ambulance Service continue to face significant challenges around sickness absence rates, with a 7.6% rate in 2015/16 which is amongst the highest in Scotland and well above the 5% target. We note that there has been a sustained deterioration in this rate over a number of years. We recognise that the target itself is a fixed benchmark across the NHS and is not tailored to take account of the demanding nature of front-line emergency service delivery</p> <p>This places a significant financial burden on the board, with the financial cost of sickness estimated at £1million cost per 1% increase due to requirements for staff cover which often requires overtime rates.</p> <p>This is a key area of focus for the Service, with a revised Attendance Management policy being implemented in 2016/17 alongside a Workplace Practice Steering Group and the employee wellbeing strategy.</p> <p><b>Work undertaken:</b></p> <p>Review progress in implementing the attendance management policy.</p> <p>Considered the progress of the workplace management steering group in developing strategies to support improvement.</p> <p>Reviewed how well-engaged non-executive directors and key stakeholders are in addressing sickness absence challenges.</p>	<p>Deloitte are completing data analysis work on a pilot of 3 stations to identify potential efficiencies around reducing abstractions from scheduled rotas in the South West region.</p> <p>The pilot is being run across 3 stations, Kirkconnel, Vale of Leven and Kilwinning. Work is currently being finalised on data quality checks, and the main body of work commencing in mid June and is expected to report back in early August 2017.</p> <p>The “Developing our Future Workforce Group” has diverse membership across the organisation and senior management representation. It met nine times in the year, with a focus on future developments including specialist paramedics and the driver diagram.</p> <p>We note evidence of strong engagement from non-executive directors in addressing sickness absence rates through a key focus on sickness absence and workforce planning and this is noted as an area with the potential to deliver significant efficiency savings while addressing key concerns of staff around safety.</p>
<p><b>New Emergency Services Network</b></p> <p>The current Airwave contract will be replaced by the new Emergency Services Network (ESN) contract as part of a larger UK-wide project across all blue-light services. The Airwave contract formally ends in December 2020, but migration to the new system was agreed for December 2019. The current status of the national programme would suggest that December 2019 may not be achievable as a go live date. Given the scale of the project and the significant delays experienced in the implementation of the Airwave project, monitoring of progress against the implementation of the new system will be a critical area of focus for SAS over the next 2-3 years.</p> <p><b>Work undertaken:</b></p> <p>Reviewed the status of the contract and ongoing discussions around finer details of this project to ensure it delivers to the requirements of the Service, particularly in relation to coverage within remote and rural locations.</p> <p>Understood and assess the project management processes in place around this key project.</p>	<p>Contracts for all lots have been awarded, and development work is ongoing. A key element of this work is the ‘Extended Area Services’ project to provide infrastructure to extend the ESN along the road network in rural geographies.</p> <p>The Service continues to be engaged in the ESN process, and is reviewing and challenging respective costings and projections. The Service has carefully reviewed projected costs provided by the Programme Team and have highlighted non-core cost projections that are significantly in excess of current estimates.</p> <p>The Service continue to liaise closely with other blue light services to ensure that cost projections are reviewed.</p> <p>While recognising that this is a nationwide project with multiple stakeholders including emergency services across the UK and the UK and Scottish Governments, Scottish Ambulance continue to fully participate in discussions to ensure that the ESN solution fits the requirements of the Service.</p>

## Performance reporting

Performance reports are taken as a standing item to the Board on a bimonthly basis. These reports highlight the key trends in performance, explaining key movements and providing historical and/or national trends as a helpful means of comparison.

There has been significant focus on redesigning performance management and reporting processes. 2020 and performance management were previously reported separately to the Board, but are now amalgamated into one paper in 2016/17. All board papers now have clear identifiers on them identifying which 2020 objectives the paper meets.

Reporting has moved away from a Red/Amber/Green (RAG) basis to an action focused reporting which is on a forward trajectory and when targets will be met.

The reporting focus is on delivering a blend of narrative and data, developing explanations for variances and clearly identifying step changes in performance. This has changed the nature and detail of Board challenge with continued challenge and discussion noted around performance matters.

The change in focus has been accompanied by significant investment in training and development work with the Board with sessions on performance management delivered including:

- Plot your dots (data analysis session)
- Measurement matters
- Performance management masterclass (NHS Scotland wide)

Non-Executives are contributing to the co-design of the next series of charts to ensure data is delivered in the format that is most meaningful and useful to them.

## LDP performance

Performance against LDP targets is set out below:

	2016/17	2015/16
<b>Met</b>	1	3
<b>Missed</b>	3	6
<b>New</b>	3	0
<b>Withdrawn</b>	2	0
<b>Total</b>	9	9

There was significant change to the target measures in current year, agreed with the Scottish Government:

- Patient transport system target was withdrawn for 2016/17.
- The stroke target has been amended from focus on time to deliver to the hospital to receipt of the pre-hospital care bundle. The target of 90% will be reported from April 2017.
- The treatment on the scene measure was replaced by telephone or face to face assessment in line with the focus on changing care pathways through 'hear and treat' and 'see and treat'. The target of 28% will be reported from April 2017.
- Response targets were amended in year following the introduction of the clinical response model. Performance for the period to November 2016 was reported against the old measure and 2015/16 comparative, and a new measure set out with a target of 75% within 8 minutes to an immediately life-threatening incident.

It should be noted that only 4 measures were in place for the full 2015/16 and 2016/17 performance years due to the changes made to the targets. While this makes year on year comparison more difficult, the realignment of these targets is in line with key strategic developments and care models.

# Appendices

	Page
Audit adjustments	24
Follow up on prior year recommendations	25
Action plan for 2016/17	26
Reminder of responsibilities	27



# Audit adjustments

Set out below is a summary of uncorrected and corrected misstatements.

## Uncorrected misstatements

	SOCNE	SOFP	SOCTE
	£000	£000	£000
<b>Projected error around creditor balances in accruals</b>			
Dr Accruals	-	298	-
Cr Creditors	-	(298)	-
<p>This was due to a delay in invoices being provided to finance. The error identified in our sample testing was £22,000. Under our audit methodology we are required to extrapolate this error. On extrapolation this would be an adjustment of £298,000.</p>			

## Corrected misstatements

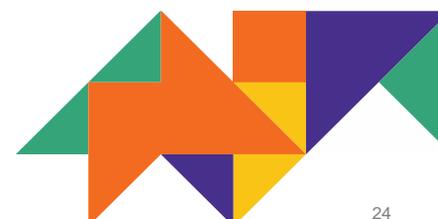
	SOCNE	SOFP	SOCTE
	£000	£000	£000
Opening balance correction to PPE			
Dr PPE cost brought forward	-	78	-
Cr PPE depreciation brought forward	-	(78)	-

In addition, management noted a number of corrections after they had closed the ledger. The most significant was a reclassification between assets under construction and transport equipment. The information surrounding this adjustment was not passed by fleet to the finance team until May 2017. See **Action Point 3**.

## 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. During the course of our audit process we identified some minor disclosure enhancements to the performance and accountability reports and the annual accounts including financial instruments and small differences in directors remuneration disclosures. All recommended disclosure changes have been processed in the final audited annual report and accounts.

There were no material/significant disclosure misstatements identified we wish to bring to your attention.



# Follow up on prior year recommendations

We have undertaken a follow up of outstanding recommendations from prior years raised by the previous external auditors (Deloitte LLP). The results of our work are outlined below:

Prior year finding	Action in 2016/17	Status
<p><b>Valuation of specialised assets</b></p> <p>In the 2015/16 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. 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><b>Status:</b> Implemented</p> <p>All assets have been valued in current year in line with requirements.</p>	

-  Fully implemented (green)
-  Partially implemented (amber)
-  Not implemented (red)

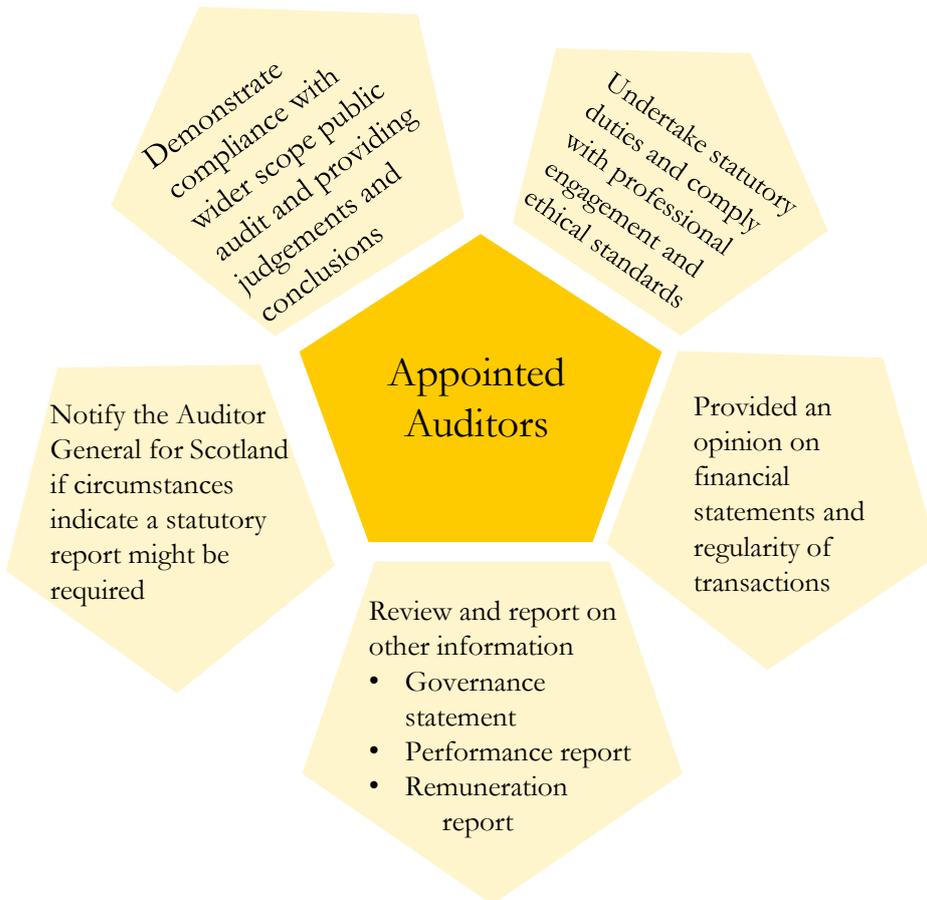
# Action Plan for 2016/17

During the course of our 2016/17 audit work we have identified the following actions for management:

	Area	Issue & Risk	Priority	Recommendation
1	<b>Lack of contractual information for one employee</b>	As part of our sample testing on payroll expenditure, it was noted that one employee had no contract information available. The employee had been set up in the HR system and has been paid but we were unable to view a contract supporting the employment. There is a risk that employees are incorrectly set up on the system without suitable supporting documentation.	Low	<p>We recommend that signed contracts should be retained and filed for all employees.</p> <p><b>Management response:</b></p> <p>Recommendation agreed. The Employee Starter form was located within the Payroll records for this employee. This evidence has been provided to the audit team. This matter is being looked into by the HR team to identify the root cause of this issue,</p> <p><b>Timescale:</b> 30 September 2017</p> <p><b>Action Owner:</b> Head of HR</p>
2	<b>Performance report – LDP performance</b>	LDP performance is currently set out in one table – it would be helpful to split performance into those which are meeting and not meeting targets, with explanations and proposed remedial action for those not currently meeting targets	Medium	<p>We recommend that consideration is given to making these amendments to enhance the quality of reporting of LDP performance.</p> <p><b>Management response:</b></p> <p>Recommendation agreed. In line with good practice we will continue to review the form and content of the Annual Report and Accounts. We will take consideration of this recommendation in the preparation of the 2017/18 Annual Report and Accounts.</p> <p><b>Timescale:</b> March 2018</p> <p><b>Action Owner:</b> Director of Finance and Logistics</p>
3	<b>Fleet information flow processes</b>	A late adjustment was identified relating to the completion of a number of transport vehicles before year end, but this information was not passed to Finance until May. There is a risk that such adjustments are not identified through the timing of information delivered being too late.	Medium	<p>We recommend that processes are put in place to ensure finance are notified of completions by fleet on a timely basis.</p> <p><b>Management response:</b></p> <p>Recommendation Agreed. A meeting has been arranged of the Fleet and Finance teams at the end of June to discuss these processes and identify improvements.</p> <p><b>Timescale:</b> 31 August 2017</p> <p><b>Action Owner:</b> Project Accountant and Fleet General Manager</p>

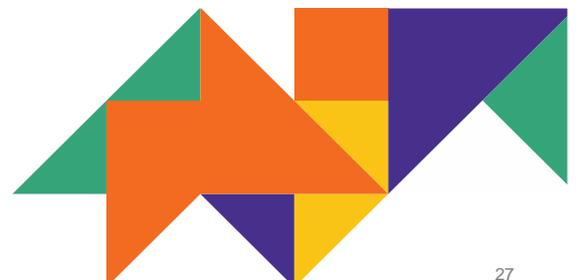
# Reminder of Responsibilities

The Code of Audit Practice sets out responsibilities of the audited body (pages 10, 11 and 12) across: Corporate governance; financial statements and related reports; standards of conduct for prevention and detection of fraud and error; financial position; and value for money (as described in the Scottish Public Finance Manual). As appointed auditors our responsibilities are set out on page 13 and are summarised below.



*An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with ISA's and the Code and may not be all that exist*

*Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control*





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