

# Annual Audit Letter

South Central Ambulance Service NHS Trust

Audit 2007/08

September 2008



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Summary

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## Key messages

- 1 The Trust is entering a crucial period as it prepares for application for Foundation Trust status. I have seen a continued improvement in the financial position of the Trust and in the financial operation of the Trust during 2007/08. This is reflected in the good and improved ALE scores for financial reporting, financial management, and financial standing.
- 2 The Trust Board need to formally consider and document their judgement on the applicability of accounting standards and policies. This is particularly relevant with 2008/09 being the transitional year for the move to International Financial Reporting Standards (IFRS) but needs to become an embedded part of the annual accounting process.
- 3 The Trust will be looking for improved scores in future periods and it is important that the quality and timeliness of appropriate evidence supplied to us is adequate. The deadlines for the annual ALE assessments are challenging and to support higher scores the Trust needs to embed its process for monitoring and documenting evidence to support judgements. These arrangements need to form part of the operational processes rather than a year-end data collection.
- 4 Whilst good progress is being made in delivering the IM&T strategy there is a need to raise staff awareness of key governance policies such as Data Protection and Freedom of Information as well as develop data sharing protocols for information it shares with other organisations, both within and outside the NHS.

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## Recommendations

- 5 I make the following recommendations to the Trust Board.

Recommendation	
<b>R1</b>	The Trust Board should formally consider and document their judgement on the applicability of all relevant accounting standards and policies. Implementation benefit Improved approach to IFRS requirements
<b>R2</b>	Information systems need to be established to collect accurate data for Service Line Reporting and Segmental Analysis in future. Implementation benefit Improved financial reporting and lower risk of audit qualification

<p><b>R3</b> The Trust needs to prepare and collect evidence in advance to support the ALE assessment.</p> <p>Implementation benefit</p> <p>Better managed process and early identification of where processes are embedded and evidence available and where gaps exist.</p>
<p><b>R4</b> Monitoring of the ALE action plan needs to be used to embed responsibility for value for money processes across the organisation.</p> <p>Implementation benefit</p> <p>Embedded ownership across the organisation of value for money with potential for improved ALE scores</p>
<p><b>R5</b> The Trust Board should monitor the implementation of the recommendations made in our Information Management &amp; Governance report.</p> <p>Implementation benefit</p> <p>Improved governance arrangements and reduced risk of inappropriate data sharing.</p>
<p><b>R6</b> The Trust needs to review the messages provided by the responses to the "Your Business @ Risk" and ensure they are addressed through awareness training.</p> <p>Implementation benefit</p> <p>Improved governance arrangements</p>

# Purpose, responsibilities and scope

- 6 This Annual Audit Letter (letter) summarises the key issues arising from our work carried out during the year. I have addressed this letter to the directors and members of the Trust as it is the responsibility of the Trust to ensure that arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. I have made recommendations to assist the Trust in meeting its responsibilities.
- 7 The letter also communicates the significant issues to key external stakeholders, including members of the public. I will publish this letter on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). In addition the Trust is planning to publish on its website.
- 8 I have prepared this letter as required by the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).
- 9 As your appointed auditor, I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
  - the Trust's accounts; and
  - whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 10 Also, the Audit Commission uses my assessments to provide scored judgements for the Healthcare Commission to use as part of its Annual Health Check.
- 11 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that I consider the Trust should be addressing. I have listed the reports issued to the Trust relating to the 2007/08 audit at the end of this letter.

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# Audit of the accounts

- 12 I issued an unqualified opinion on the Trust's accounts on 20 June 2008, before the deadline set by the Department of Health for NHS bodies to submit audited accounts. In my opinion the accounts give a true and fair view of the Trust's financial affairs and of its income and expenditure for the year.
- 13 Before giving my opinion I reported to those charged with governance, in this case the Audit Committee on the issues arising from the 2007/08 audit. I issued this report on 17 June 2008 and only the most significant issues arising are repeated in this letter.
- 14 The improvements reported in the delivery of working papers have continued with the Trust achieving a score of 3 on the financial reporting aspects of the ALE assessment.

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## Accounting issues

- 15 In our Annual Governance Report we raised one key recommendation concerning the need for the Trust Board to formally consider and document their judgement on the applicability of accounting standards and policies. This is particularly relevant with 2008/09 being the transitional year for the move to International Financial Reporting Standards (IFRS) but needs to become an embedded part of the annual accounting process.
- 16 In particular the Board need to evaluate whether the delivery of non-emergency patient transport services should be considered as a material segment. Information systems need to be established now to be able to collect accurate data for Service Line Reporting and Segmental Analysis in future periods. Detailed matters arising and actions agreed with officers are included as an appendix to our governance report. There are no additional issues I wish to bring to the Boards attention.
- 17 I also undertook our triennial review of internal audit during 2007/08 to ensure that we could place reliance upon the work of Internal Audit and that our programme of work dovetailed with theirs. We concluded that Parkhill Audit complies with the Internal Audit Standards in all material respects and provides a satisfactory level of assurance to its audited bodies. As part of our review we have agreed a joint working protocol to ensure we can continue to place reliance on them in planning future audits.

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# Trust's use of resources

- 18 I am required to conclude on whether the Trust has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money conclusion.
- 19 I am also required to assess how well NHS organisations manage and use their financial resources by providing scored judgements on the Trust's arrangements in five specific themes. This is known as the Auditor's Local Evaluation (ALE). The Audit Commission provides the scores to the Healthcare Commission (HC) to use as part of its Annual Health Check.

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## Value for Money conclusion

- 20 I concluded that the Trust had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources. I issued an unqualified Value for Money conclusion on 20 June 2008.

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## Auditor's Local Evaluation judgement (including financial standing)

- 21 I assessed the Trust's arrangements in five themes. I scored each theme from 1 to 4 (1= inadequate and below minimum standards, 2 = adequate, 3 = performing well and 4 = performing strongly). I will issue a more detailed report supporting my assessment and highlighting areas for improvement to the Trust.

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**Table 1     ALE scores**

Theme	Assessment
Financial reporting	3 out of 4
Financial management	2 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	2 out of 4
Overall assessment of the Audit Commission	2 out of 4

(Note: 1 = lowest, 4 = highest)

- 22 The overall assessment for the Trust remains at level 2 and indicates that the Trust's arrangements are meeting the minimum requirements - an adequate level of performance. This is a sound performance given that the requirements for meeting level 2 year on year become harder and that organisational structures and processes are still developing. The methodology for determining the overall score places greater emphasis on some areas than others. This masks the increase in scores in a number of areas reflecting the improved financial and governance performance of the Trust.
- 23 Our assessments have been made against expected standards published by the Audit Commission in agreement with the Healthcare Commission. No significant weaknesses have been identified but there are a number of recommendations in our detailed ALE report to embed processes and improve scores for future periods
- 24 Significant progress has been made in the areas of financial reporting and internal control as reflected by level 3 scores in these areas and there was some notable practice in the level of detailed analysis included in the financial commentary to the Audit Committee to support the accounts. The key issue to address to further improve scores in to embed single processes for ensuring value for money throughout the Trust.
- 25 Once again the Trust took a realistic approach to the ALE scoring process and focused its efforts on ensuring level 2 processes were fully embedded this year rather than trying to support a level 3 assessment. An ALE action plan is in place and is regularly monitored through the Audit Committee. This will need to be updated in response to the detailed areas for the Trust to address as identified in our ALE report.
- 26 In order to support future assessments where the Trust will be looking for improved scores it is important that the quality and timeliness of appropriate evidence supplied to us is adequate. We found that the delivery of appropriate evidence on a timely basis to support the VFM lines of enquiry was just adequate as we were focusing on level 2 criteria only. As we move to assessing level 3 there are increased evidential requirements and it is vital the Trust are prepared and collecting evidence in advance.
- 27 The monitoring of the ALE action plan provides a sound platform for continuous assessment and referencing of evidence. The deadlines for the annual ALE assessments are challenging and where we are still being given large amounts of information to review towards the end of March it allows little time to unpick and assess all of the detail being provided.
- 28 The 2008/09 KLOE's have been finalised and are available to the Trust. We would recommend that the Trust reviews these and starts to gather evidence to support its achievement of them as earlier as possible. As usual there have been some revisions to the KLOE's and the Trust needs to be aware of these to ensure that they are able to capture information to support their achievement. The review of progress against the revised KLOEs will be a useful part of the Trust's preparations for its Foundation Trust application.

### Specific risk-based work

29 I carried out specific pieces of work as follows.

- Information management and governance arrangements
- Your business @ risk survey

30 The key issues arising from the work in these areas are as follows.

- Information management and governance arrangements.
  - the Trust has demonstrated the importance it attaches to the support that Information Management and Technology (IM&T) provides to its business by the level of investment it has made. The appointment of a Director of IM&T has provided leadership for a programme of improvement to information systems, information and its governance. There are issues still to address, but generally the Trust has assessed the risks, identified further developments required and has put plans in place to address these.
  - strategic use of information to report on performance is not well developed and reports on performance are not integrated with financial information to provide a view of the Trust's progress against its vision and strategy. However, the Trust is making good use of information to plan, manage, and monitor its operational activities.
  - staff awareness of key governance policies such as Data Protection and Freedom of Information is weak.
  - the Trust shares information with other organisations, both within and outside the NHS, but is not using data sharing protocols. This may led to inappropriate data sharing and is a risk to the Trust.
- Your Business @ Risk
  - This work involved the use of an electronic "snap" survey to staff throughout the organisation covering their experiences of IT security issues. The response rate to the survey was low and the Trust needs to understand the reasons behind this. There were some issues of concern within the responses received particularly around passwords, virus protection, and information security policies. The Trust needs to review the messages provided by these responses and ensure they are addressed through awareness training.

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### National Fraud Initiative

31 The National Fraud Initiative is a data matching exercise that compares sets of data to identify inconsistencies or other circumstances that might indicate fraud or error. It also helps auditors to assess the arrangements that audited bodies have put in place to deal with fraud. CEAC, as the Trust's counter fraud provider, has undertaken work to filter and check the 117 data matches identified. This work did not identify any data matches that indicated any monetary loss to the Trust.

# Closing remarks

- 32** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I also presented this letter at the Audit Committee on 17 September 2008 and have provided copies of the final letter to all Board members.
- 33** Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Trust during the year.

**Table 2     Reports issued**

Report	Date of issue
Audit plan	March 2007
Interim audit memorandum	<b>May</b> 2008
Report to those charged with governance	June 2008
Opinion on financial statements	June 2008
Value for money conclusion	June 2008
Information Management and Governance	September 2008
Your business @ risk final feedback	September 2008
Auditor's local evaluation	September 2008
Annual audit letter	September 2008

- 34** The Trust has taken a positive and constructive approach to our audit. I wish to thank the Trust's staff for their support and cooperation during the audit.

Maria Grindley  
Engagement Lead  
September 2008

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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