



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

Annual Audit Report 2011

Welsh Ambulance Services NHS Trust

Issued: June 2012

Document reference: 374A2012

Status of report

This document has been prepared for the internal use of the Welsh Ambulance Services NHS Trust as part of work performed in accordance with statutory functions, the Code of Audit Practice and the Statement of Responsibilities issued by the Auditor General for Wales.

No responsibility is taken by KPMG, the Wales Audit Office (the Auditor General and his staff) in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales (and, where applicable, his appointed auditor) is a relevant third party. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

Contents

Summary report	4
Detailed report	
About this report	6
Section 1: Audit of accounts	7
I have issued an unqualified opinion on the 2010-11 financial statements of the Trust, although in doing so I have brought several matters to the attention of officers and the Audit Committee	7
Section 2: Arrangements for securing efficiency, effectiveness and economy in the use of resources	10
Achieving recurring cost savings is proving challenging, however, the Trust is predicting a balance position for the 2011-12 financial year	10
The 2011 Structured Assessment performance work is ongoing, and initial findings indicate that there has been overall positive progress although some challenges still exist	11
While there were significant deficiencies in the procurement process for new ambulances, there was no impact on services to the public and management are making improvements to address the issues identified	12
Appendices	
Reports issued since my last Annual Audit Report	13
Audit fee	14

Summary report

1. This report summarises my findings from the audit work I have undertaken at the Welsh Ambulance Services NHS Trust (the Trust) during 2011.
2. The work I have done at the Trust allows me to discharge my responsibilities under the Public Audit (Wales) Act 2004 (the 2004 Act) in respect of the audit of accounts and the Trust's arrangements to secure efficiency, effectiveness and economy in its use of resources.
3. My audit work has focused on strategic priorities as well as the significant financial and operational risks facing the Trust, and which are relevant to my audit responsibilities. More detail on the specific aspects of my audit can be found in the separate reports I have issued during the year. These reports are discussed and agreed with officers and presented to the Audit Committee. The reports I have issued are shown in [Appendix 1](#).
4. The key messages from my audit work are summarised under the following headings.

Audit of accounts

5. I have issued an unqualified opinion on the 2010-11 financial statements of the Trust, although in doing so I have brought several matters to the attention of officers and the Audit Committee and they were detailed more fully in the ISA 260 report presented to the Audit Committee in May 2011. These relate to:
 - Key financial targets
 - Financial performance 2010-11
 - Prior period adjustments
 - Conversion of short-term loan to Public Dividend Capital (PDC)
 - Fixed assets – capitalisation of salaries
 - Presentation and narrative adjustments
 - Statement on Internal Control
 - Remuneration Report
 - IT General Controls
 - Business Support Partnership
6. I have also concluded that:
 - the Trust's accounts were properly prepared and materially accurate;
 - the Trust had an effective internal control environment to reduce the risks of material misstatements to the financial statements; and
 - the Trust's significant financial and accounting systems were appropriately controlled and operating as intended.
7. The Trust achieved financial balance at the end of 2010-11. The target for cash releasing savings in year was £8.9 million of which £8.3 million was achieved. However, £3.1 million of these savings were achieved through non-recurrent savings schemes (non-recurring income of £2 million for Hospital Turnaround delays in compensation for issues at hospitals that prevented the Trust from achieving identified efficiency savings through reducing handover times at hospitals and £1.1 million of

non-recurring savings relating to the inclusion of stock items on the Balance Sheet, which was previously expensed). The Trust recognises that it will need to continue to identify and deliver cost and efficiency savings.

Arrangements for securing efficiency, effectiveness and economy in the use of resources

8. I have reviewed the Trust's arrangements for securing efficiency, effectiveness and economy in the use of its resources. My work has involved gauging progress that has been made in addressing the areas for further development identified as part of last year's Structured Assessment work. Performance audit reviews have also been undertaken on specific areas of service delivery including Unscheduled Care. Due to delays in receiving audit documentation this work is currently ongoing and will be reported to the Audit Committee in May 2012. The work carried out to date has led me to draw the following conclusions:
- achieving recurring cost savings is proving challenging, however, the Trust is predicting a balanced financial position for the 2011-12 financial year;
 - the 2011 Structured Assessment performance work is ongoing and, initial findings indicate that there has been overall positive progress, although some challenges still exist; and
 - while there were significant deficiencies in the procurement process for new ambulances there was no impact on services to the public, and management are making improvements to address the issues identified.

Agreeing my findings with the Executive Team

9. This report has been agreed with management. It was presented to the Audit Committee on 22 February 2012. It will then be presented to a subsequent Board meeting and a copy will be provided to every member of the Trust Board. We strongly encourage wider publication of this report by the Trust Board. Following Trust Board consideration, the report will also be made available to the public on the Wales Audit Office's own website (www.wao.gov.uk).
10. The assistance and co-operation of the Trust's staff and members during the audit are gratefully acknowledged.

Detailed report

About this report

11. This Annual Audit Report to the Board members of the Trust sets out the key findings from the audit work that I undertook between December 2010 and January 2012, and the Structured Assessment and unscheduled care work is still ongoing and will be reported to members on its finalisation.
12. My work at the Trust is undertaken in response to the requirements set out in the 2004 Act. That Act requires me to:
 - a) examine and certify the accounts submitted to me by the Trust, and to lay them before the National Assembly;
 - b) satisfy myself that the expenditure to which the accounts relate has been incurred lawfully and is in accordance with the authorities which govern it; and
 - c) satisfy myself that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
13. In relation to (c), I have drawn assurances or otherwise from the following sources of evidence:
 - the results of audit work on the Trust's financial statements;
 - work undertaken as part of my latest Structured Assessment of the Trust, which examined the arrangements for financial management, governance and accountability, and management of resources;
 - the Trust's self-assessment against the Governance and Accountability module of the Standards for Health Services in Wales;
 - performance audit examinations undertaken at the Trust;
 - the results of the work of other external review bodies, where they are relevant to my responsibilities; and
 - other work, such as data matching exercises and certification of claims and returns.
14. I have issued a number of reports to the Trust this year. The messages contained in this Annual Audit Report represent a summary of the issues presented in these more detailed reports, a list of which is included in [Appendix 1](#).
15. The findings from my work are considered under the following headings:
 - audit of accounts; and
 - arrangements for securing efficiency, effectiveness and economy in the use of resources.
16. Finally, [Appendix 2](#) presents the latest estimate on the audit fee that I will need to charge to cover the actual costs of undertaking my work at the Trust, alongside the original fee that was set out in the Audit Outline.

Section 1: Audit of accounts

17. This section of the report summarises the findings from my audit of the Trust's financial statements for 2010-11. These statements are the means by which the organisation demonstrates its financial performance and sets out its surplus or deficit, recognised gains and losses, and cash flows. Preparation of an organisation's financial statements is an essential element in demonstrating appropriate stewardship of public money.

My responsibilities

18. In examining the Trust's financial statements, I am required to give an opinion on:
- whether they give a true and fair view of the financial position of the Trust and of its income and expenditure for the period in question;
 - whether they are free from material misstatement – whether caused by fraud or by error;
 - whether they are prepared in accordance with statutory and other applicable requirements and comply with all relevant requirements for accounting presentation and disclosure;
 - whether that part of the Remuneration Report to be audited is properly prepared; and
 - the regularity of the expenditure and income.
19. In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).
20. In undertaking this work, auditors have also examined the adequacy of the:
- Trust's internal control environment; and
 - financial systems for producing the financial statements.

I have issued an unqualified opinion on the 2010-11 financial statements of the Trust, although in doing so I have brought several matters to the attention of officers and the Audit Committee

The Trust's accounts were properly prepared and materially accurate

21. We have no concerns about the qualitative aspects of your accounting practices and financial reporting. We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
22. We did not encounter significant difficulties during the audit with the exception of Inventories. There was a delay in receiving information required for auditing the stock balance, and information could have been prepared in a more coherent manner. As a result, the audit team had to spend additional time on the audit of inventories.

The delay is understood to be a result of this being the first year of audit of the inventory balance and will be addressed in future years. This work has now been completed.

23. I am required by ISA 260 to report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues to the Trust's Audit Committee on 24 May 2011. **Exhibit 1** summarises the key issues set out in that report.

Exhibit 1: Issues identified in the Audit of the Financial Statements Report

Issue	Auditors' comments
The Trust achieved its break-even target for the year and savings plans are in place going forward.	£8.7 million of the £9 million identified target savings were achieved. £2.7 million of these savings were achieved through non-recurrent savings schemes. The Trust is aware that it will need to generate further recurrent savings going forward.
No IT Disaster Recovery test has been run within the last financial year 2010-11.	In the event of a disaster at any of the Trust's sites there would be no way of ensuring that systems are kept up and running without any disruptions. This could lead to severe problems in ensuring that the Trust's systems stay online and that the Trust is able to provide services to the public at the levels required of it. This may also lead to loss of data at sites, which may also lead to difficulties later on if any data is requested by the public.
There are no password history or complexity requirements within the password configuration for the Command and Control System.	Passwords which are not complex, and not changed frequently, are more easily guessed/cracked – and more likely to become known to others with the passage of time. It should also be noted that on review the Trust's network password parameters were also found to be weak with limited history and no complexity requirements activated.
There was neither a systematic nor a standard methodology applied to the valuation of inventories held by the Trust, with different approaches being used at different sites. Regular stock takes should also be undertaken at all sites by an independent member of staff or internal audit to ensure inventories are appropriately controlled.	This is being addressed by the Trust for 2011-12, by the introduction of a formalised standard methodology.

Issue	Auditors' comments
<p>There were no formal procedures in place for ambulance staff to exchange drugs and certain consumable medical equipment approaching the end of its shelf life with hospitals. We understood that ambulance staff do undertake these reviews on a daily basis.</p>	<p>There is a risk of ineffective stock management leading to write-offs if the process is not formalised. We understand a formal policy has been implemented to ensure that all such items held by the Trust are reviewed on a regular basis and a formal agreement with Health Boards has been put in place.</p>

The Trust had an effective internal control environment to reduce the risks of material misstatements to the financial statements and the Trust's significant financial and accounting systems were appropriately controlled and operating as intended

24. The Trust's internal controls were considered in order to design audit procedures, to provide sufficient assurance to allow the Auditor General to express an opinion on the truth and fairness of the financial statements. They were not considered for the purposes of expressing an opinion on the effectiveness of internal control. No significant deficiencies were identified.

The Trust achieved financial balance at the end of 2010-11, but only as a result of additional non-recurring funding from the Welsh Government and transfer of inventory to the Balance Sheet

25. At the start of the year the Trust set a savings scheme target of £8.9 million to bridge the funding gap of which £8.3 million has been achieved. This together with other in-year savings achieved by budgetary control has resulted in the Trust reporting a small surplus at the year-end. Budgets and progress against savings plans are closely monitored throughout the year.
26. During the year, additional non-recurring funding of £2 million was received in compensation for issues at hospitals that prevented the Trust from achieving identified efficiency savings through reducing handover times at hospitals. The Trust is expecting to absorb this going forward, increasing pressure on resources and efficiency.
27. The impact of the transfer of stock to the balance sheet, which was previously expensed, was £1.1 million. Other larger savings achieved include NHSDW staff turnover management of £0.7 million (against a target of £0.4 million) AFC annual leave of £0.4 million (target: £Nil) and ICT savings of £1 million (target: £0.8 million). Vacancy management targets were largely achieved.

-
28. Sickness absence management has been less successful and savings targets (£0.7 million) relating to sickness absence have not been met. The Trust recognises that activities and initiatives to reduce sickness levels will take time and there is no quick fix.

Section 2: Arrangements for securing efficiency, effectiveness and economy in the use of resources

29. I have a statutory requirement to satisfy myself that NHS bodies have proper arrangements in place to secure efficiency, effectiveness and economy in the use of their resources. I have undertaken a range of performance audit work at the Trust over the last 12 months to help me discharge that responsibility. This work has involved:
- reviewing the Trust's financial management arrangements, including the progress being made in delivering cost saving plans and their contribution to achieving financial balance; and
 - assessing the progress the Trust has made in addressing the 'areas for development' we identified in last year's Structured Assessment work.
30. The work in the following areas is still ongoing and findings will be reported to the Trust on its completion:
- assessing the extent to which the Trust has developed its arrangements in order to contribute effectively to sustained improvements in unscheduled care services across Wales; and
 - reviewing the Trust's arrangements to secure good quality data.

Achieving recurring cost savings is proving challenging, however, the Trust is predicting a balance position for the 2011-12 financial year

31. Management are confident that a break-even position will be achieved at the 2011-12 year-end. The key savings target for 2011-12 is largely to be delivered by productivity improvements including sickness and overtime management. At month 9, £4.8 million of the £5.5 million planned savings had been achieved. Budgets, spending and progress against saving targets are closely monitored throughout the year. Key points include:
- only £0.65 million of the £2.6 million productivity target savings had been achieved;
 - the vacancy management and removal target of £1.4 million has been largely met already; and
 - savings in excess of targets have been achieved in ICT of £0.6 million and the Hazardous Area Response Team (HART) of £0.5 million.

-
32. The SCEP savings plans for 2011 and 2012 have mainly focused on lower-level 'housekeeping' projects, for example, vacancy and sickness absence management. The Trust will need to develop more formal medium and longer-term financial management plans linked to strategic objectives in order to deliver efficiency targets and to support the modernisation agenda.
 33. The Trust recognises that workforce and operational plans are key to achieving its strategic objectives and as they become embedded productivity should increase, but this takes time and therefore there is still a reliance at this point on vacancy management and smaller projects to meet efficiency targets.
 34. The Annual Development Plan is supported by the individual directorate plans. There are some areas of good practice identified with the plans being expressly linked to strategic objectives and a summary of the cost improvement plans in place to bridge the funding gap. However, this was not standard practice across all directorates and in some cases there is little or no financial information regarding the financial implications of plans and cost pressures. Going forward the Trust should ensure that there is closer integration with business plans and budgets.

My performance audit work on structured assessment and unscheduled care is ongoing and initial findings indicate that while there has been overall positive progress some challenges still exist

35. The emerging findings from my work so far indicate that the Trust has made positive progress with the implementation of *Working Together for Success* alongside the introduction of the new Clinical Response Model in December 2011. However, there are challenges facing the Trust in relation to staff morale, communications and workforce planning, which will need to be overcome to ensure that strategic objectives are met.
36. The reporting of my 2011 work on Structured Assessment and unscheduled care has been delayed as a result of problems my team has encountered in receiving the data and documents requested to support their work. Going forward, I will require management to respond more promptly to performance audit requests to ensure messages I report remain current and of value to the Trust.

While there were significant deficiencies in the procurement process for new ambulances, there was no impact on services to the public, and management are making improvements to address the issues identified

37. In response to a request from the management team, I undertook additional audit work involving a review of the procurement of 42 ambulance conversions.
38. The main issues identified at the time of my report were presented to the Audit Committee in December 2011 and are set out below. Management are making improvements to address the issues for 2012:
- Due procurement process was not followed – There were several points in the procurement where the process was not followed and the actions taken were not in accordance with the organisation’s documented procedures and controls.
 - Significant turnover at board level had a negative effect on the procurement process – Lack of continuity at board level for fleet and general high turnover across board level of the Trust have resulted in an environment where the responsibility for decision making has not been clear and senior management have not always seen it as their responsibility to challenge the process followed.
 - Formal project management processes were not adopted – Previous reports have highlighted the need for fleet procurement to be managed using formal project management processes. Given the high risk nature of this procurement, in terms of its value and complexity there should have been a requirement for the exercise to be project managed.
 - Risk management was weak in some areas – There were several opportunities during the process where, given the circumstances, the risk surrounding the project and certain key staff absences should have been considered and further efforts made to mitigate the risk.
39. Management have introduced a number of steps to address these issues including the set-up of a procurement board with stakeholders from across the Trust to manage and monitor the 2011-12 procurement process, and we understand internal audit are planning to follow up on this report in 2011-12.

Appendix 1

Reports issued since my last Annual Audit Report

Report	Date
Audit reports	
Audit of the Financial Statements Report	24 May 2011
Opinion on the Financial Statements	7 June 2011
Audit of Funds held on Trust Report	10 September 2011
Opinion on the Funds held on Trust	21 October 2011
Whole of Government Accounts Opinion	28 June 2011
Opinion on the Annual Report and Summary Financial Statements	21 October 2011
Other reports	
Outline of Audit Work 2011	January 2011 and May 2011
Procurement Tender Review	September 2011

There are also two performance audits that are still underway at the Trust. These are shown below, with estimated dates for completion of the work.

Report	Estimated completion date
Structured Assessment 2011	April 2012
Unscheduled Care	April 2012

Appendix 2

Audit fee

The Outline of Audit Work for 2011 set out the proposed audit fee of £116,780 (excluding VAT). The actual fee is in accordance with this proposal of £116,780 (excluding VAT). The procurement review was an additional piece of work requested by management which cost a further £21,000 (excluding VAT).



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Tel: 029 2032 0500

Ffôn: 029 2032 0500

Fax: 029 2032 0600

Ffacs: 029 2032 0600

Textphone: 029 2032 0660

Ffôn Testun: 029 2032 0660

E-mail: info@wao.gov.uk

E-bost: info@wao.gov.uk

Website: www.wao.gov.uk

Gwefan: www.wao.gov.uk