Annual Audit Letter

North East Ambulance Service NHS Trust

Audit 2010/11

audit commission

Contents

Key messages **2**
Audit opinion and financial statements 2
Value for money 2
Current and future challenges **3**
Financial statements and statement on internal control **4**
Overall conclusion from the audit 4
Significant weaknesses in internal control 4
Value for money **5**
Other activity **7**
Review of the Trust's Quality Report 7
Making effective use of the Trust's audit resources 7
Ongoing independent support 8
Closing remarks **9**
Appendix 1 - Fees **10**
Appendix 2 - Glossary **11**

Traffic light explanation
Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Audit area	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

My audit progressed smoothly and I issued an audit report including an unqualified opinion on the financial statements for 2010/11 on 9 June 2011.

Value for money

I issued an unqualified Value for Money conclusion on 9 June 2011 stating that North East Ambulance Service NHS Trust (the Trust) had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

Current and future challenges

The draft NHS bill currently going through Parliament and the new government's health policy priorities are underpinned by a drive to make the NHS more efficient by cutting costs to deliver more for less and re-investing savings in frontline service delivery. The Trust is continuing to ensure it delivers its key role in delivery of NHS services, and at the same time is looking at the future by developing new services, such as '111' and reducing its costs.

The Trust is continuing to pursue its aim of becoming a Foundation Trust, and we will continue to support the Trust in this aim by providing robust external challenge where appropriate, in our role as the Trust's external auditors.

The Trust faces considerable financial pressure in the coming years, and it is likely that it will need to deliver more for less. The Trust's business plans already include cost reduction programmes to preserve the underlying financial health of the Trust. It is well placed, having delivered efficiency savings for a number of years, but the Trust continues to recognise the need to ensure future financial risks are identified early and managed appropriately.

Financial statements and statement on internal control

The Trust's financial statements and Statement on Internal Control are an important means by which the Trust accounts for its stewardship of public funds.

Overall conclusion from the audit

1 I issued an audit report including an unqualified opinion on the financial statements for 2010/11 on 9 June 2011.

2 My audit of the financial statements progressed smoothly with the Trust's finance team being very cooperative and responsive throughout. Working papers were also of a good quality.

3 My audit did identify several errors in the draft financial statements, the most significant of which were corrected. Some of the errors identified were material, but were solely in the Property, Plant and Equipment disclosure note. I recommended to the Trust that it improve its quality assurance processes in future years to reduce the risk that presentational and disclosure errors of this nature reoccur.

Significant weaknesses in internal control

4 My audit identified that internal control could be improved in relation to the evidence retained for the authorisation of journals. As part of our work to obtain assurance over journal processing we placed some reliance on Internal Audit work. When reviewing that work, we found that Internal Audit had identified that for one journal from a sample of 20, there was no written evidence of authorisation. I recommended to the Trust that it reinforces to all staff the need to comply with Trust journal authorisation procedures. Other than this area, I did not identify any other significant weaknesses in your internal control arrangements.

Value for money

I considered whether the Trust is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

5 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Trust had adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

6 My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
1. Financial resilience **The organisation has proper arrangements in place to secure financial resilience.** Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	My work for this criterion focused on the robustness of the Trust's arrangement for its Cost Improvement Programme (CIP) for future years. The Trust has strengthened its CIP arrangements over the past few years to help manage its medium term CIP. Clear financial tracker reports are presented, and progress is monitored and planned over a one and a five year profile. Progress has been made in setting up suitable project documentation and project management across the programme.

Criterion	Key messages
2. Securing economy efficiency and effectiveness	
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	For this criterion, I focused my work on the Trust's arrangement for its CIP in year, and the management of its sickness absence project. The Trust achieved its CIP in 2010/11. The Programme Office is actively managing the performance of the overall CIP programme, and where monitoring procedures identified that projects were not to be likely to deliver the expected savings, then action was taken. The Trust has established a sickness absence project to manage its higher than average level of sickness absence. From my review of the project, management information is at a good standard. Frontline activity is demanding and the Trust faces big challenges. Systems to support employee welfare have been put in place. The Trust has made improvements in policy content and implementation. Further improvements, particularly in cultural and management consistency, are possible.

Other activity

Review of the Trust's Quality Report

7 The foundation trust regulator (Monitor) defines the extent of the work auditors carry out on Quality Reports in Foundation Trusts. In preparation for becoming a foundation trust, the Trust asked that I undertake a review of its 2010/11 Quality Report, using that guidance.

8 I agreed the scope of my work with the Trust. This included to:

- review the content of the Trust's 2010/11 Quality Report against the content requirements included in the NHS Foundation Trust Annual Reporting Manual 2010/11, issued on 31 March 2011;
- review the content of the Trust's 2010/11 Quality Report for consistency against the other information sources (set out in more detail in the guidance);
- rely on Internal Audit's work, who undertook substantive sample testing of two performance indicators (that were mandated in Foundation Trusts) and one locally selected indicator. This testing included:
  - an evaluation of the key processes and controls for managing and reporting the indicators; and
  - sample testing of the data used to calculate the indicator back to supporting documentation;
- provide a report to the Trust board of my findings and recommendations for improvements concerning the content of the Quality Report and the mandated indicators; and
- provide a report to the Trust board of their findings and recommendations for improvements concerning the local indicator.

9 I reported my findings to the Trust from my review in a detailed report. Overall, I found that the report contained all relevant information, but that there was some scope to enhance the information contained within the Quality Report to ensure compliance with the Monitor requirements, and the Trust acted on this before producing the final version of its Quality Report. Based on Internal Audit's work, I reported that data supporting the indicators was substantiated, but that the information in the local indicator was not complete across the Trust. I made a small number of recommendations from my work, which were accepted, to assist in the Trust's preparation of its 2011/12 quality report.

Making effective use of the Trust's audit resources

10 Although external auditors and internal auditors have different roles and responsibilities, there are areas of overlap in the controls and risks they consider, with the potential for duplication and wasted resources. I have therefore developed with the Trust's Internal Auditors, an agreement for liaison and cooperation to reduce the risks that this could occur. The Audit Committee approved an updated liaison agreement between internal and external audit in October 2010 for the 2010/11 audit year.

Ongoing independent support

11 During the year we have continued to support the Trust in other ways, including:

- attendance at Audit Committees. At these meetings, we inform the Committee about progress on the audit, report our key findings, and update it about developments in the NHS, foundation trusts, and the wider environment;
- hosting seminars and events for trust staff, such as our popular NHS Accounts workshops; and
- facilitating quarterly meetings of our North East Audit Committee Chairs' network. This supports sharing of information and views, and encourages audit committee development across NHS bodies in the North East.

Closing remarks

12 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 13 September 2011 and will provide copies to all board members.

13 Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Trust during the year.

Report	Date issued
2010/11 Audit Fee Letter	April 2010
External Audit Progress Report and Briefing	To each Audit Committee meeting, as and when held
External Audit/Internal Audit Liaison Agreement	September 2010
Audit Plan	January 2011
Financial statements audit arrangements and working paper requirements	March 2011
Annual Governance Report	June 2011
Audit Opinion on the Financial Statements and the VFM conclusion	June 2011
Additional Services; External Assurance on the Trust's Quality Report	July 2011

The Trust has continued to take a positive and constructive approach to my audit. I wish to thank the Trust staff for their support and co-operation during the audit.

Cameron Waddell
District Auditor

August 2011

Appendix 1 - Fees

	Actual	Mid year update	Proposed	Variance (Actual to Mid Year)
Audit fee (Opinion on the Financial Statements and VFM conclusion) [i]	£80,000	£80,000	£53,300	NIL
Total audit fees	£80,000	£80,000	£53,300	NIL
Additional services: External Assurance on the Trust's Quality Report	£7,500	£7,500	£0	NIL
Total	**£87,500**	**£87,500**	**£53,300**	**NIL**

Note: The Audit Commission scale fee for North East Ambulance Service NHS Trust for 2010/11 was £93,200 .

i The mid year update reflects a change to the scope of the audit to reflect a full year audit under the Audit Commission's Code of Audit Practice, and the Trust's request for us to undertake additional work outside of the Code

Appendix 2 - Glossary

Statement on internal control

Public bodies must provide assurance that they are appropriately managing and controlling their money, time and people. The Statement on Internal Control (SIC) is an important document for communicating these assurances to Parliament and citizens.

The SIC is the means by which the Chief Executive Officer declares his or her approach to and responsibility for, risk management, internal control and corporate governance. It is also used to highlight weaknesses which exist in the internal control system within the organisation. It forms part of the Annual Report and Accounts.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

If I agree that the financial statements give a true and fair view and that the spending and income was regular, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view; or
- I find that some spending or income was irregular.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;

- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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September 2011