

# Annual Audit Letter

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**North East Ambulance Service NHS Trust**

**Audit 2009/10**

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

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

# Contents

<b>Key messages</b>	<b>2</b>
<b>Financial statements and Statement on Internal Control</b>	<b>4</b>
<b>Use of resources</b>	<b>6</b>
<b>Additional services outside the Code of Audit Practice</b>	<b>9</b>
<b>Closing remarks</b>	<b>11</b>
<b>Appendix 1 – Audit fees</b>	<b>12</b>
<b>Appendix 2 – Value for money conclusion</b>	<b>13</b>
<b>Appendix 3 – Glossary</b>	<b>15</b>

# Key messages

**This report summarises the findings from my 2009/10 audit. My audit comprises two elements:**

- **the audit of your financial statements (pages 4 and 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 8).**

## Audit opinion and financial statements

**1** I issued an unqualified opinion on the Trust's financial statements on 10 June 2010. I identified a few errors and uncertainties in the draft financial statements and the financial statements and supporting working papers were of a good quality. My audit progressed smoothly and the Trust's finance team were cooperative throughout my audit.

## Use of resources

**2** The Trust has maintained its sound performance on the ALE assessment this year. Using the results from this work, I concluded the Trust had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources and issued an unqualified value for money conclusion on 10 June 2010. The main area for further improvement remains financial reporting.

## Future challenges

**3** The Trust, like the wider NHS and other public bodies faces several significant challenges in the coming years. The environment in which it operates is changing, with changes to both the commissioners and providers of NHS services. Public bodies are also facing very tough financial restraints in the years ahead affected by a planned drop in government expenditure on public services, as well as the effect of a slow property market on asset sales. The Trust's business plans already include cost reduction programmes to preserve the underlying financial health of the Trust, and the change in financial climate puts more pressure on this future financial stability.

4 The Trust is actively seeking to manage future risks in consultation with the other bodies it works with and those that in future may be undertaking the commissioning of NHS services. It is also exploring the scope to improve service delivery and its place in the market. The recent establishment of the pathfinder '111' service is clear evidence of the new business opportunities the Trust is seeking out.

5 Alongside this, the Trust is vigorously pursuing its aim of achieving foundation trust status. In our role as the Trust's external auditors we will continue to support the Trust in this aim by providing robust external challenge where appropriate.

## **Independence**

6 I can confirm the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# 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. I issued an unqualified audit opinion on the financial statements by the required deadline. I did not identify any material weaknesses in internal control.**

## Overall conclusion from the audit

**7** This year, the Trust faced the challenge of producing its financial statements for the first time under International Financial Reporting Standards (IFRS). It responded positively to this challenge and the key findings from my audit. Within this process, the Trust was required to restate its 2008/09 financial statements under IFRS, and we reviewed them. The main challenge for the Trust from the move to IFRS was the need to correctly identify and classify leases as either finance or operating leases. This is a technical area, with the different types of classification having significant impact on the financial statements. Like many NHS bodies, the Trust initially encountered difficulties in establishing the information to classify its leases correctly. However, after the Trust undertook further work, it was able to do so. Having classified the leases appropriately it was then able to make the necessary amendments to the financial statements, which were of significant value, before submission to the Department of Health (DH).

**8** The Trust was then required to prepare its 2009/10 financial statements under IFRS. Overall, the draft financial statements and accompanying working papers were of a good quality. My audit progressed smoothly and the Trust's finance team were cooperative throughout. I reported to those charged with governance, in the Trust's case the Audit Committee, on the issues arising from my 2009/10 audit on 8 June 2010. My audit did identify a number of errors, most of which were found in notes, however, as I reported in my Annual Governance Report some of the errors identified were material.

**9** From the work undertaken, I did not identify any significant issues which led me to consider that the Trust does not have adequate internal control. I did not identify any significant weaknesses in your internal control arrangements. My audit identified two areas where controls in place were not operating as designed across the whole of the financial year. I agreed an action plan with the Trust in response to these issues.

### **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 co-operation to reduce the risks that this could occur.

**11** The Audit Committee approved a liaison agreement between internal and external audit in January 2010 for the 2009/10 audit year, and working with Internal Audit, we are currently updating it for 2010/11.

## Use of resources

**I considered how well the Trust is managing and using its resources to deliver value for money and gave a scored Auditor's Local Evaluation (ALE) judgement. The Trust has maintained its sound performance this year, although there is further scope to improve financial reporting.**

**I also assessed whether the Trust put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion. I issued an unqualified conclusion on the Trust's arrangements.**

### **ALE judgements**

**12** The Audit Commission has published Key Lines of Enquiry (KLOE) which auditors use in reaching scored ALE judgements<sup>i</sup>. The KLOE provide consistent criteria for assessing and measuring the effectiveness and efficiency of a Trust's arrangements to deliver value for money.

**13** Using this methodology, I have made a judgement for each KLOE using the Audit Commission's current four-point scale from 1 to 4, with 4 being the highest level. Level 1 represents a failure to meet minimum requirements.

**14** I have also taken into account, where appropriate, findings from previous ALE assessments (updating these for any changes or improvements) and any other relevant audit work.

**15** Table 1 shows the Trust's ALE scores for the five key areas. I have reported my detailed findings in a separate report to the Trust.

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<sup>i</sup> ['ALE for Trusts' guidance available on the Audit Commission website](#)

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Table 1: **ALE scores**

Key area	Scored judgement
Financial reporting	2
Financial management	3
Financial standing	4
Internal control	3
Value for money	3

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**16** The Trust has seen continued improvement in its performance since ALE was introduced and has maintained its performance this year. The main area for improvement relates to the preparation of the financial statements. In particular, the Trust needs to improve quality assurance processes to ensure that there are no material errors in the draft financial statements provided to the DH or ourselves as the Trust's auditors.

### **VFM conclusion**

**17** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. My conclusions on each of the areas are set out in Appendix 2.

**18** I issued an unqualified conclusion on 10 June 2010 stating that the Trust had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Risk-based use of resources reviews**

**19** To support my review of the criteria I undertook the following risk based reviews.

- Review of business continuity planning.
- Follow up of previous recommendations.

**20** I have reported my detailed findings to the Trust in separate reports.

## Review of business continuity planning

**21** This review showed the Trust, in common with other emergency services, has a greater resilience and ability to respond to emergency incidents, than many organisations. We reported that business continuity plans were in place but needed a more formal corporate review and adoption process. The Trust also needed to strengthen its corporate governance arrangements about business continuity planning. We also reported that the Trust has disaster recovery plans in place. There is some evidence that the Trust has tested some aspects of these but more needs to be done. We agreed an action plan with the Trust to assist in making improvements.

## Follow-up of previous recommendations

**22** The Trust has made good progress in implementing previously agreed recommendations. Those that remain outstanding are linked to longer term Trust projects.

## Approach to local value for money work from 2010/11

**23** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**24** My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**25** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Trust in my annual report to those charged with governance and in my annual audit letter.

# Additional services outside the Code of Audit Practice

**During the year I have undertaken other work for which fees are payable. In particular, I reviewed the Trust's corporate governance and board assurance arrangements to support the move to foundation trust status. This work identified some areas for improvement that the Trust is addressing.**

## Additional services

**26** The Trust commissioned me to undertake work in three areas in the past year. All were outside the scope of my statutory audit:

- review of corporate governance and board assurance;
- back office benchmarking; and
- benchmarking support services.

**27** My review of corporate governance was commissioned by the Trust as part of its plans to achieve foundation trust status. I reported my findings to the Trust through two workshops, followed by a formal report. The Trust Board considered my findings and the areas I highlighted where improvements could be made. The Trust has developed its own action plan in response to these.

**28** Both pieces of benchmarking work used data obtained whilst undertaking similar work across a number of public sector bodies, including bodies outside the NHS. The Trust asked to be involved in this work and I have drafted our findings which I plan to agree with the Trust in the coming weeks. The findings should be useful to the Trust as it develops its back office and support arrangements over the coming years.

## Other activity

**29** During the year we have continued to support the Trust in other ways. This included:

- 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 'High Performing Boards' events, and the 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

**30** 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 in October 2010 and will provide copies to all board members.

**31** 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
Audit fee letter	April 2009
External Audit/Internal Audit Liaison Agreement	November 2009
Restatement of 2008/09 financial statements to an IFRS basis	February 2010
Review of Business Continuity Planning	February 2010
Audit Opinion Plan	February 2010
Annual Governance Report	May 2010
Follow up of previous recommendations	June 2010
External Audit Progress Report and Briefing	To each Audit Committee meeting, as and when held
Auditors' Local Evaluation	August 2010
Annual Audit Letter	September 2010

**32** The Trust has continued to take a positive and constructive approach to our audit and I wish to thank the Trust staff for their support and co-operation over the last year.

Cameron Waddell  
District Auditor  
September 2010

## Appendix 1 – Audit fees

Table 2:

Statutory audit fees	Actual (plus VAT)	Proposed (plus VAT)	Variance
Financial statements and statement in internal control	£55,500	£52,700	£2,800*
Value for money	£34,500	£37,300	(£2,800)*
Total audit fees	£90,000	£90,000	NIL

*\* As reported in my Audit Opinion Plan in February 2010, I have increased the opinion element of the fee by £2,800 to reflect the additional work required in reviewing the Trust's restated 2008/09 IFRS financial statements, offset by a reduction in the fee for the ALE assessment/VFM conclusion element of the audit to reflect the more risk based approach to ALE in 2009/10, and the reduced work required.*

Table 3:

Other services	Actual (plus VAT)	Proposed (plus VAT)	Variance
Non-audit work:			
■ Review of Corporate Governance and Board Assurance	£20,000	£20,000	NIL
■ Back office benchmarking	£6,000	£6,000	NIL
■ Benchmarking support functions	£1,850	£1,850	NIL
Total	£27,850	£27,850	NIL

## Appendix 2 – Value for money conclusion

Code criteria	Adequate arrangements?
1. The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	Yes
2. The body has put in place channels of communication with patients and their representatives and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Yes
3. The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary and reporting to the board.	Yes
4. The body has put in place arrangements to monitor the quality of its published performance information and to report the results to board members.	Yes
5. The body has put in place arrangements to maintain a sound system of internal control.	Yes
6. The body has put in place arrangements to manage its significant business risks.	Yes
7. The body has put in place arrangements to manage and improve value for money.	Yes
8. The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Yes
9. The body has put in place arrangements to ensure that its spending matches its available resources.	Yes
10. The body has put in place arrangements for managing performance against budgets.	Yes
11. The body has put in place arrangements for the management of its asset base (only applicable to organisations with a significant asset base).	Yes

Code criteria	Adequate arrangements?
12. The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Yes

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## Appendix 3 – 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 accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **Value for money conclusion**

**33** 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 money, people and time.

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