



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Annual Audit Report 2012

Welsh Ambulance Services NHS Trust

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Status of report

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The status box above applies to draft versions of this report that are to be discussed with the audited body. A different status box will be used for the finalised report reflecting the fact that the document will be placed on the Wales Audit Office website.

The work was delivered by KPMG on behalf of the Auditor General for Wales.

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Summary

1. This report summarises my findings from the audit work I have undertaken at the Welsh Ambulance Services NHS Trust (the Trust) during 2012.
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 their factual accuracy 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 2011-12 financial statements of the Trust, although in doing so I have brought some audit matters and observations to the attention of officers and the Audit Committee. These relate to:
 - Key financial targets
 - Financial Performance 2011-12
 - Presentation and narrative adjustments
 - Annual Governance Statement
 - Remuneration report
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 2011-12, through higher than expected resource allocation due to revisions by Welsh Government regarding the inclusion of depreciation in funding calculations. However, this income was largely offset by a contribution of £1.3 million towards the NHS Wales efficiency target.

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. This work has led me to draw the following conclusions:

The Trust's arrangements to support governance and board assurance are in place but need further development, and although transformational change processes are in place they are not yet leading to sustainable finances or improved services

- The Trust must develop and implement integrated workforce plans and the Trust and its health partners need to work more effectively together to realise the benefits of the on-going transformational change, with the Trust developing sustainable service improvements supported by robust medium term financial plans and funding regimes.
- Corporate arrangements are in place to support good governance and board assurance but risk frameworks and management information, in particular, need further development.
- The Trust has improved its emergency response times since 2008 but has recognised that that sustained improvements need to be made in order to meet the required targets. The Trust will need to ensure that changes to its management structure and the introduction of the new clinical response model achieve the desired benefits and support the partnership working that is going to be necessary with Local Health Boards

The factual accuracy of this report has been agreed with the Executive Team

9. The factual accuracy of this report has been agreed with the Chief Executive and the Director of Finance. It was presented to the Audit Committee on 20 February 2013. It will then be presented to a subsequent Board meeting and a copy 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 is 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 have undertaken between December 2011 and November 2012.
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 2011-12. 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 2011-12 financial statements of the Trust, although in doing so I have drawn some audit matters and observations 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. We received information in a timely and helpful manner and were not restricted in our work.

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 30 May 2012. **Exhibit 1** summarises the key Audit Matters and observations set out in that report.

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

Issue	Auditors' comments
It was identified during our audit that a small number of inventory items had been manually added to the count sheets during the counts as they did not appear on the pro-forma and had not been included in the year-end stock listing.	This was in part due to being obsolete stock but part due to manual error; however the extrapolated value was not material. The Trust has agreed to increase awareness on how local personnel should account for potentially obsolete stock by directing them towards the existing relevant 'Stock control procedure'.
A number of areas of improvement to the IT General controls were noted regarding password complexity, IT policy updates, communication of business continuity and disaster recovery plans and opportunities to utilise IT resource more efficiency.	While we did not identify any significant weaknesses in the IT audit work which would impact on the financial statements. We made some recommendations for the Trust to investigate further to improve and enhance the control environment.

24. As part of my financial audit I also undertook the following reviews:
- Whole of Government Accounts return – I concluded that the counterparty consolidation information was consistent with the financial position of the Trust at 31 March 2012 and the return was prepared in accordance with the Treasury's instructions.
 - Summary Financial Statements and Annual Report – I concluded that the summary statements were consistent with the full statements and that the Annual Report was compliant with Welsh Government guidance.
25. My separate audit of Welsh Ambulance Services NHS Charity financial statements is now complete and an unqualified audit opinion was issued on 5 December 2012.

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

26. We did not identify any material weaknesses in your internal controls. We report these where you are not already aware of them or where they may be symptomatic of broader weaknesses in the overall control environment.

The Trust achieved financial balance at the end of 2011-12, through higher than expected resource allocation due to revisions by the Welsh Government regarding the inclusion of depreciation in the funding calculation. However, this income was largely offset by a contribution of £1.3 million towards the NHS Wales efficiency target

- 27.** The Trust has reported a small surplus for the year ended 31 March 2012 of £54,000.
- 28.** In 2011-12, a saving of £1.6 million was made through the non return of WHSSC income for under-spend of depreciation against budget. This is in line with revised Welsh Government instruction that depreciation allocation forms part of the overall revenue spending and is not ring-fenced. However, there was a £1.3 million reduction in WHSSC income to support the achievement of the overall NHS Wales financial balance.
- 29.** Ambulance crew pay was £3.1 million over a budgeted figure of £81.4 million, attributed largely to a higher level of overtime against planned in order to maintain operational performance and difficulties caused by delayed handover times. The effect of this overspend was negated by savings of £0.9 million on senior and admin staff and on non-pay areas such as ICT and software, £2.2 million.

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

- 31.** 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 resource management arrangements, as part of my Structured Assessment work, including financial management, workforce and performance and engagement;
 - assessing the effectiveness of the Trust's governance arrangements through my Structured Assessment work with a particular emphasis on the robustness of the overall Board assurance framework and internal control environment; and
 - finalising my work on Transforming Unscheduled Care.
- 32.** It is important that these findings are also read in the context of the following factors:
- Improving the effectiveness of unscheduled care is the responsibility of both the Trust and the seven Health Boards in Wales. Delayed patient handovers at emergency departments have a significant impact on the ability of the Trust to meet its performance targets. The solution lies in the Trust securing support from and working well with the Health Boards to ensure delays are minimised and crews are freed up to respond to other emergencies.
 - The Trust has fixed revenue for each financial year and must budget for and manage its costs so that it does not incur a deficit. A key element of its operating costs are staff costs. Increases in revenue since 2008 have been absorbed by increased staff costs predominately resulting from the All Wales pay agreement. The Trust, along with all NHS bodies in Wales is covered by the national pay and conditions of service. Average headcount of ambulance staff has not changed significantly over the past 3 years. In a report prepared by Lightfoot in 2009 the consultants concluded that the level of ambulance staffing did not allow the Trust to meet the response time targets for former Category B calls. The report estimated that at least £3.7 million was required in additional ambulance staff costs to meet the Category B performance targets. Due to budget constraints the level of ambulance staffing has not increased significantly since the Lightfoot report was written. This has a detrimental impact on the ability of the Trust to meet its performance targets for both Category B response times and overtime levels.
- 33.** The main findings from this work are summarised under the following headings.

Arrangements to support governance and board assurance are in place but need further development, and although transformational change processes are in place, they are not yet leading to sustainable finances or improved services

The Trust must develop and implement integrated workforce plans and the Trust and its health partners need to work more effectively together to realise the benefits of the on-going transformational change, with the Trust developing sustainable service improvements supported by robust medium term financial plans and funding regimes

- 34. The Trust is operating in a financially constrained environment and has work to do to support local budget holders in achieving its strategic objectives. The executive team recognise that sound and sustainable financial management will be key to achieving transformational change and ensuring patient safety.**
35. Although the Trust's core funding had been agreed with WHSSC, some aspects of the budget for 2012-13 were not finalised with the Health Boards until November 2012. This will impact on the implementation of the Trust's strategic objectives. A strategy needs to be agreed for negotiating future funds with the Trust's healthcare partners to ensure that revenue is agreed in advance of the financial year starting.
36. Financial plans need to take account of medium to long term objectives and not be discussed one year at a time. A longer term funding contract would facilitate medium term planning.
37. There was a deficit of £1 million against the draft budget at the end of August 2012 and there is a significant challenge to achieve the planned £5.5 million of savings in the second six months of the year in order to achieve break-even. Trust needs to ensure that service quality and patient safety are not compromised by the need to make savings. Going forward, a proactive central finance function will be important to support and advise budget holders in the monitoring and assessment of in-year financial performance.
- 38. The Trust is close to finalising its core strategies and it now needs to develop and implement its Integrated Workforce Plan to deliver its objectives.**
39. A clear clinical strategy is close to being finalised and once this is agreed the Integrated Workforce Plan can be developed and implemented pulling together the Trust's work to date which has included review of rotas, rest break policies and competency requirements for different grades of staff. The development and implementation of an integrated workforce plan is a critical area that the Trust needs to work on to ensure its deadline of December 2013 is achieved.
40. The Trust is actively involved in the 1000 lives plus campaign which is a positive focus on patient safety and experience, but responses time have dipped slightly and the impact of changes on patient safety will need to be closely monitored.

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- 41. The Trust has now completed its upper level organisational restructure and it is now better placed to enact change and to improve the cohesion of the organisation.** Engagement events have been held to communicate the impact of organisational change to staff. It will be important that the Trust used the Staff Survey in January 2013 to assess morale and issues and develop action plans accordingly especially during this period of change.
 - 42. The Trust has increased its focus on clinical outcomes, it also needs to ensure the continued clinical development needs and training of staff are met.** The Clinical Response Model 'CRM' was introduced in December 2011, revising the categorisation of calls. However the Trust recognised that some aspects of the model, when in the operational environment, were not working as well as designed. The use of the CRM was also not used consistently across Wales. The ongoing review of the Clinical Response Model needs to be completed promptly and re-introduced consistently across emergency control rooms.
 - 43. The Trust has worked hard to identify and collate information and review trends in relation to rota reviews and sickness absence to address the issue of high and rising sickness absence levels.** As noted above, it has made good progress in identifying the critical workforce issues and it is now at a stage where action plans need to be implemented and the impact of addressing the issues is monitored.
 - 44.** The Trust is experiencing an increase in sickness absence; sickness absence increased to 6.77 per cent between August 2011 and July 2012 compared to 6.55 per cent for prior year. The Trust is investigating sickness absence trends and have introduced initiatives such as the in-house Occupational Health service, Staff Support Service and a Well Being Group. It will be important that the Trust monitors the impact and effectiveness of these initiatives and develop action plans to address sickness issues where problem areas have been identified.
 - 45. The Trust and the Health Boards need to work more effectively together to minimise delayed patient handovers at hospital emergency departments and provide good patient service.**
 - 46.** As reported in last year's structured assessment work, the Trust and its Health Board partners need to work more effectively together, especially in relation to delayed patient handovers. These have increased in 2012-13 and pose a significant risk to patient safety, both for the patient being treated and the unavailability of the ambulance crews to respond to emergency calls. The proposed closures to some Minor Injury Units may also impact on handover times.
 - 47.** The new organisational structure aligns heads of service with Health Board localities, which should facilitate closer working which is urgently needed to address patient handover delays.

Corporate arrangements are in place to support good governance and board assurance but risk frameworks and management information, in particular, need further development

48. **The Trust has an internal control environment which should support effective Board assurance. Risk identification and management has been identified by the Trust as an area for review to enhance the alignment of risk against strategic objectives.** This will be important area for the Trust to review to ensure the adequate management of risk especially due to the operational changes the Trust is implementing.
49. **There are arrangements in place for testing and improving the effectiveness of governance and assurance arrangements.** There are clear reporting lines between the Board and its sub-committees and good corporate support function assisting in bring papers and updated action points to the right committees. The Trust has identified some minor areas for reporting clarification, namely financial reporting and workforce issues
50. The Audit Committee has considered the requirements of the new Audit Committee handbook and are largely content that the requirements are being achieved with a small number of minor revisions to arrangements being made to comply with best practice.
51. **The Trust has appropriate arrangements for testing the effectiveness of the systems of internal control and responding to the results of internal control testing. The Trust has also made progress in its management and monitoring of concerns and learning from concerns.**
52. The Trust has an opportunity to enhance its assurance framework by creating a mechanism for bringing all the assurance strands together, for example concerns, committee annual reports. This would facilitate the wider review of performance.
53. The Trust has developed a process that supports the Board's participation in the development, clearance and publication of the Annual Governance Statement.
54. The Trust has worked hard to improve the management and monitoring of complaints and concerns. A Concerns Monitoring Group has been set up which gathers and analyses issues and trends in relation to concerns. The Trust needs to continue to translate analysis of complaints into solutions.
55. **The Board and its sub-committees have access to relevant management information to plan, make decisions and underpin effective scrutiny and board assurance, although the timeliness of information provided to sub-committees could be improved.**
56. Generally, from the documentation reviewed, the information received by the board and its subcommittees is of good quality with appropriately balanced summaries and there is appropriate scrutiny and challenge. Improvements have been made in the information included in the Trust's 'Performance Scorecard' and there is better exception reporting.

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57. Continued improvement is required to ensure data is captured on a timely basis and clearly presented in the Performance Scorecard and that this is given to the non-executives on a regular basis. The current planned trial of digital pens to capture patient information, although not a replacement of the need for electronic records, should help in the more timely capture of information.
 58. Regular patient surveys would support the triangulation of performance and progress with patient experience. There is potential for the Trust to work in collaboration with Health Boards and be involved in the Health Board patient surveys.
 59. The Board Member survey noted that Non-executives would like to see more performance comparators with other Ambulance services. Although direct comparisons are sometimes difficult they can be a useful reference point.

The Trust has improved its emergency response times since 2008 but has recognised that sustained improvements need to be made in order to meet the required targets.

The Trust will need to ensure that changes to its management structure and the introduction of the new clinical response model achieve the desired benefits and support the partnership working that is going to be necessary with Local Health Boards

60. Unscheduled care services are some of the most pressurised parts of the health and social care system. The Trust plays a pivotal role in providing unscheduled care and in planning and designing the system of unscheduled care alongside its health and social care partners. During late 2011 and early 2012 KPMG carried out work on behalf of the Auditor General which examined whether the Trust was contributing effectively to the sustained improvements that are necessary in unscheduled care services across Wales.
61. The work consisted of interviews with staff and document and data reviews. In addition, the review drew on findings from interviews with 75 ambulance crews which were carried out as part of the Wales Audit Office's work in health boards.
62. The overall conclusion from the work was that the Trust has improved its emergency response times and it has been recognised that sustained improvements need to be made which is why the Trust has embarked on a restructure of management arrangements which will support the delivery of the Trust's service strategy, Working Together for Success. The Trust now needs to move forward on this and grasp the opportunities provided by the new clinical response model and strengthen its use of data and its partnerships with Local Health Boards.
63. In reaching this conclusion we found that:
 - the Trust has improved its emergency response times, which has included additional expenditure, but other, more outcome focused, measures of performance remain below target;
 - the Trust now needs to move forward and grasp the opportunities provided by the new clinical response model to address remaining cultural and organisational challenges;

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- the Trust and its partners need to work more closely to manage demand and make sustainable improvements to the unscheduled care system; and
 - performance monitoring and data quality have improved but the Trust, in conjunction with NHS Wales, needs to improve the timeliness of data capture and use data more intelligently.
- 64.** Our report was issued in May 2012 and the Trust has made progress against a number of the recommendations that were contained in the report. Our work in 2013 will include a further review of the progress that is being made.

Appendix 1

Reports issued since my last Annual Audit Report

Report	Date
Financial audit reports	
Audit of Financial Statements Report	30 May 2012
Opinion on the Financial Statements	27 June 2012
Opinion on the Summary Financial Statements	27 June 2012
Whole of Government Accounts assurance statement	25 July 2012
Opinion of Welsh Ambulance Services NHS Charity Financial Statements	5 December 2012
Performance audit reports	
Structured Assessment 2012	28 November 2012
Structured Assessment and Transforming Unscheduled Care	30 May 2012
Other reports	
Outline of Audit Work 2012	22 February 2012

Appendix 2

Audit fee

The Outline of Audit Work for 2012 set out the proposed audit fee of £119,260 (excluding VAT). The actual fee is in accordance with this proposal of £119,260 (excluding VAT).



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