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Auditor General for Wales



WALES AUDIT OFFICE
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Annual Audit Report 2014

Welsh Ambulance Services NHS Trust

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Status of report

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

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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 2014.
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 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 8 January 2015. 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).
5. The key messages from my audit work are summarised under the following headings.

Section 1: Audit of accounts

6. I have issued an unqualified opinion on the 2013-14 financial statements of the Trust, although in doing so I have brought some matters and observations to the attention of officers and the Audit Committee. These relate to:
 - Key financial targets
 - Financial performance 2013-14
 - Presentation and narrative adjustments
 - Annual Governance Statement
 - Remuneration Report
7. I have also concluded that:
 - the Trust's accounts were properly prepared and materially accurate;
 - the Trust had an effective 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.
8. The Trust achieved its statutory break-even target for 2013-14. I set out more detail about the financial position and financial management arrangements in [Section 2](#) of this report.

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

9. I have reviewed the Trust's arrangements for securing efficiency, effectiveness and economy in the use of its resources. My Structured Assessment work has examined the robustness of the Trust's financial management arrangements and the adequacy of its governance arrangements, including arrangements to plan effectively and gauging progress on quality governance and arrangements since last year. I have also reviewed the arrangements to support good use of resources as part of the Structured Assessment work, which is informed by performance audit on specific areas of service delivery. This work has led me to draw the following conclusions.

The Trust is working to implement its savings plans to address the significant ongoing challenge of breaking even whilst maintaining service delivery

10. Despite receiving additional funding in 2013-14, the Trust recorded a small deficit by the end of the financial year.
11. The Trust is reporting at month 7 of 2014-15 a deficit of £3.6 million and has noted that the planned £0.1 million surplus is unlikely to be achieved. The Trust is forecasting a deficit of £8.5 million at the year-end.

Arrangements to support governance and board assurance are broadly sound and some progress has been made to address development areas highlighted in my last report, but further development is needed to ensure sustainable finances and improved services

12. The Trust is working towards developing Integrated Medium Term Plans as part of its Strategic Transformation Programme. These are important documents for the Trust, but a lack of clarity on future commissioning requirements is hindering development of robust and realistic workforce, clinical and asset plans.
13. New governance structures developed to facilitate transformation are still bedding in. Progress in transforming the Trust is slower than planned but is moving forward.
14. The overall assurance framework and internal controls are sound and supported by effective Board and committee scrutiny.
15. A new performance management framework is being developed including improved performance reporting to senior managers and the Board. Reporting could be improved further with more benchmarking, clearer performance forecasting and discussions with the Welsh Government on how to achieve more timely reporting within the national reporting framework.

The Trust is addressing many of the other areas for development identified in last year's structured assessment, but challenges remain

16. My Structured Assessment work has indicated that the Trust is making progress in addressing some areas for development identified in last year's report related to senior management capacity, the development of new workforce policies and in developing relationships with partners. It still has work to do to ensure that its workforce plans are fit for purpose and implemented, that it is maximising the learning from service user

feedback, that performance reporting is timely and contextualised by comparisons with other similar service providers, and that engagement with stakeholders leads to the development of an effective commissioning framework.

- 17.** We gratefully acknowledge the assistance and co-operation of the Trust's staff and members during the audit.

Detailed report

About this report

18. 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 2013 and November 2014.
19. 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 and income to which the accounts relate have been applied to the purposes intended and 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.
20. 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;
 - performance audit examinations undertaken at the Trust; and
 - the results of the work of other external review bodies, where they are relevant to my responsibilities.
21. 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](#).
22. The findings from my work are considered under the following headings:
 - Section 1: Audit of accounts; and
 - Section 2: Arrangements for securing efficiency, effectiveness and economy in the use of resources.
23. [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 Annual Audit Outline.
24. Finally, [Appendix 3](#) sets out the significant financial audit risks highlighted in my Outline of Audit Work for 2014 and how they were addressed through the audit.

Section 1: Audit of accounts

- 25.** This section of the report summarises the findings from my audit of the Trust's financial statements for 2013-14. 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.
- 26.** 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 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.
- 27.** In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).
- 28.** 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 2013-14 financial statements of the Trust, although in doing so I have brought some matters and observations to the attention of officers and the Audit Committee

The Trust's accounts were properly prepared and materially accurate

- 29.** I did not encounter significant difficulties during the audit. We received information in a timely and helpful manner and were not restricted in our work.
- 30.** 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 29 May 2014. **Exhibit 1** summarises the key issues set out in that report.

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

| Issue | Auditors' comments |
|------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Compensation Recovery Unit (CRU) debtors | We recommend that the Trust begin to split their CRU debtors into current and non-current where possible in order to best display which proportion of debtors are likely to be receivable within 12 months. |

31. 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 2014 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. My comments in relation to the Annual Report are set out in [Exhibit 2](#) below.

Exhibit 2: Issues identified in the review of the Trust's Annual report

| Issue | Auditors' comments |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Annual report preparation | The Chairman and Chief Executive decided to significantly change the format of the Trust's Annual Report to make it more relevant, dynamic and readable. The first version of this report sent to KPMG and the Wales Audit Office for review did not comply with Welsh Government guidance in terms of its content, as it was an early draft which was issued to show the Audit Committee members the proposed changes to the format. The final version reflected the requirements of the guidance, following extensive input from KPMG and the Wales Audit Office. Going forward, we recommend that where significant changes are made to published documents, sufficient time and appropriate resources are assigned in order to ensure compliance with the Welsh Government guidance. |

32. My separate audit of funds held on trust financial statements is substantially completed and no issues have been identified which require reporting to the Audit Committee. The financial statements were formally approved, by the Board, on 19 November 2014, were signed by officers in December 2014 and signed by the Auditor General on 8 January 2015.

The Trust had an effective 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

33. I reviewed the Trust's internal control environment by assessing the Trust's control arrangements over the main accounting and budgetary control systems, the local IT infrastructure and the work of Internal Audit. I did not identify any material weaknesses in your internal controls and noted that controls were operating as intended and formed a reliable basis for preparing the financial statements. I report these where you are not already aware of them or where they may be symptomatic of broader weaknesses in the overall control environment. However, there were some less significant areas for improvement identified during the audit, and recommendations have been made to management to address these and appropriate action agreed.
34. My review of the Audit and Assurance Service provided by the NHS Wales Shared Services Partnership concluded that the Audit and Assurance Service are planning to provide an all-Wales service that is compliant with the Public Sector Internal Audit Standards (PSIAS).
35. The work that I have undertaken supports my opinion on the financial statements and does not constitute an assessment of internal audit under the Standards. Under PSIAS (which came into effect on 1 April 2013) organisations are required, every five years, to conduct an external assessment of internal audit. This goes beyond the work that external audit undertake to place reliance upon, or take assurance from, the work of internal audit.

The Trust achieved statutory financial balance at the end of 2013-14 following additional funding from the Welsh Health Specialist Services Committee and the delivery of savings

36. At the beginning of the year the Trust identified cost pressures of £13.7 million, with £7.5 million of these costs funded by additional Health Board funding provided through the Welsh Health Specialist Services Committee with the remainder being internally financed.
37. Staff costs increased by £2.5 million primarily due to a one per cent pay rise in the year. This offset the reduction in impairments of £5.6 million which reduced total operating costs by £3.1 million.
38. £414,000 of income was generated through the sale of assets held for sale.
39. Compared to the 2013-14 budget (based on recurrent flat cash and therefore excluding the £7.5 million additional funding) the Trust overspent by £7.6 million in the year, of which £5.8 million related to staff costs. This overspend was largely cleared with the additional funds received, and the Trust reported a deficit of £112,000 in the year to 31 March 2014.
40. As a deficit has been made in 2013-14 the Trust was required to prepare a financial recovery plan (FRP) in order to meet its statutory responsibilities in relation to achieving a financial break-even position. The FRP was approved by the Chief Executive of NHS Wales in June 2014. More detail on financial targets is provided later in this report.

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

41. 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;
 - assessing the effectiveness of the Trust's governance arrangements through my Structured Assessment work, including review of the progress made since last year; and
 - assessing the progress the Trust has made in addressing the issues identified by previous audit work on its arrangements for tracking external audit recommendations.
42. The main findings from this work are summarised under the following headings.

The Trust is working to implement its savings plans to address the significant ongoing challenge of breaking even whilst maintaining service delivery

Despite recording a small deficit by the end of the financial year, the Trust met its financial targets after receiving additional funding in 2013-14

43. In March 2013, the Trust identified a gap of £13.7 million between the Trust's funding for 2013-14, and the best estimates of cost pressures and planned service development costs. The Trust has assessed that there were £5.7 million of potential cost pressures which have historically been experienced, some of which is largely outside the Trust's control which could not be funded from their revenue allocation. These included:
- cost of hospital handover delays;
 - demand increases which would require additional staff resources; and
 - covering sickness absence.
44. Despite having secured additional funding of £7.5 million during the year, the Trust has faced a significant challenge to reach its break-even target. At 31 March 2014 the Trust recorded a small deficit of £0.1 million.
45. Legislation requires NHS trusts to break even each financial year, defined as being a surplus or deficit that is within a materiality threshold of £0.5 million or 0.5 per cent of operating income. If the Trust is within this materiality limit there is no breach of statutory duty if any deficit is recovered by a similar underspend in 2014-15, or if it has sufficient reserves to cover any deficit. The Trust has already incorporated this deficit

into its financial plans for 2014-15 which were financially balanced and approved by the Board in May 2014. In June 2014 the Trust received formal approval of these plans from the Welsh Government and, therefore, met its required break-even targets at that time.

- 46.** The Trust's year-end financial position has been affected by both its ability to achieve its savings plans, and by its ability to remain within target budgets. At January 2014 overspends against 2013-14 budget targets mainly related to:
- Overall overspend on staff costs of £6.1 million, with overtime spend being £7.3 million. Sickness, demand and handover delays have impacted on the level of overtime required to maintain the service delivery.
 - Non-pay costs at November 2013 were £2.7 million over budget, due to higher-than-planned fleet maintenance costs, and increases in the use of private healthcare services and clinical operating expenditure in order to maintain services.
- 47.** After excluding the historical cost pressures of £5.7 million noted above, the Trust identified the need to make savings of an additional £8 million in 2013-14, of which £6.1 million has been made. Savings plans mainly focused on the achievement of efficiency gains resulting from workforce and operational modernisation initiatives. The Trust had been unable to significantly progress the modernisation agenda, and workforce and demand pressures noted above have increased the pressure on costs.

The Trust is reporting a month 7 deficit of £3.6 million, with a forecast deficit of £8.5 million for the year-end against a planned surplus of £0.1 million. The Trust is working towards developing Integrated Medium Term Plans as part of its Strategic Transformation programme

- 48.** NHS Trusts are required to prepare an Integrated Medium Term Plan, reflecting longer-term planning and delivery objectives which support the safe and sustainable delivery of patient centred quality services. The Integrated Medium Term Plan is a three-year rolling plan which focuses on service planning, workforce and financial decisions. These plans must be submitted to, and approved by, the Minister for Health and Social Services (the Minister) prior to the beginning of the financial year of implementation.
- 49.** The Trust is working towards the development of an Integrated Medium Term Plan. It recognises that longer-term savings plans are indicative at this stage in their reform programme and need to be worked up in greater detail. The Trust's Strategic Transformation Programme includes a Resource Utilisation workstream headed by the Director of Finance and ICT. This project represents some major work for the Trust in the identification of efficiencies and service improvements, including a review of Clinical Contact Centres, and Administrative bases.
- 50.** Annual savings plans and projects are developed in conjunction with internal stakeholders, namely, budget holders, finance and the executive team. Savings plans and developments go through a risk assessment and approval process which incorporates impact assessments on quality and safety of operational delivery.

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- 51.** The Trust identified the need to deliver £7.6 million of savings plans in 2014-15 to achieve a budget surplus of £0.1 million. The majority of the 2014-15 savings plans are focused on workforce modernisation, with only a handful being classed as 'unidentified' or 'unallocated' in contrast to prior years. Savings plans include:
- Service delivery savings, £5.3 million
 - Finance and ICT savings, £0.8 million
- However, the Trust notes that excessive handover times will impact on the delivery of rota review efficiencies.
- 52.** The Trust faces a significant challenge in 2014-15 to achieve its statutory break-even duty and to repay last year's deficit of £0.1 million. At month 7 the Trust is reporting a deficit of £3.6 million largely as a result of:
- pay overspend of £1.2 million against budget as a result of continued overtime requirements to maintain operational performance and operational sickness; and
 - non-pay overspend for the period was £2.5 million; of this, £1.2 million related to overspending on private health care services such as St Johns Ambulance to maintain operational services.
- 53.** Actual performance against savings plans are reported to the Board at a high level illustrating graphically actual results against profiled savings plans. The high level savings plans/projects are also included in an appendix to the Finance report. However, actual performance against individual savings projects is not reported nor is any commentary provided on the progress of key savings plans such as the rota review. It is recommended that the Trust enhances its financial reporting to provide regular commentary to allow the Board to make appropriate challenge and fully informed decisions.
- 54.** The Trust was reporting an adverse variance against planned savings for the period to 31 October 2014 of £1.7 million (planning savings to Month 7 £4.4 million). Key variances being:
- no savings from the review of staff rotas have been made to October 2014 against a target of £2.0 million, although the profiling of the savings was subject to change due to the more complex nature of the project;
 - positive variance related to VAT recovery income £0.3 million; and
 - the majority of other savings plans are reported as being on track.
- 55.** The Trust's main capital projects include fleet upgrades and replacement vehicles, £4.3 million a number of station upgrades and refurbishments, £1.5 million and the Ambulance and Fire Service Regional Centre Wrexham scheme. The Trust needs to ensure focus is not diverted from key capital projects which support operational delivery. The Trust needs to ensure sufficient and appropriate resources are allocated to projects such as fleet replacement to make sure they are delivered on budget and are fit for purpose.

Arrangements to support governance and board assurance are broadly sound and some progress has been made to address development areas highlighted in our last report, but further development is needed to ensure sustainable finances and improved services

56. This section of the report considers my findings on governance and board assurance, presented under the following themes:
- strategic planning;
 - organisational structure;
 - board assurance and internal controls;
 - performance management;
 - information governance; and
 - progress in responding to governance issues identified in last year's Structured Assessment.

The Trust is developing new Integrated Medium Term Plans. These are important documents for the Trust, but a lack of clarity on future commissioning requirements is hindering development of robust and realistic workforce, clinical and asset plans

57. The Trust has not yet agreed an Integrated Medium Term Plan with the Welsh Government for approval by the Minister. This is in part due to a lack of clarity at the beginning of 2014 on the commissioning framework for ambulance services, and a lack of strategic planning capacity at the Trust to develop a robust plan. The Trust did produce an interim Annual Delivery Plan for 2014-15 which was agreed with the Welsh Government and approved by the Minister.
58. The commissioning framework for ambulance services is now in place and a Transitional Commissioner for Ambulance Services has been appointed. However, arrangements are still bedding in and a future specification for the provision of ambulance services is yet to be drafted. The Trust now has additional planning expertise and capacity in place or planned, through the appointment of a new Director of Strategic Planning and Performance in April 2014, and additional staff resources for planning and programme management. The Trust has an internal timetable in place to agree its Integrated Medium Term Plan by March 2015. This includes Board development sessions to determine a Trust vision, strategic objectives and a future financial model.
59. The new Integrated Medium Term Plan is an important document for the Trust that will clarify its future business model. Plans to address clinical, asset and workforce development are progressing but are dependent on a clear understanding of the future business requirements articulated by commissioners. Any delay in developing a robust Integrated Medium Term Plan will hinder improvement in these key development areas for the Trust.

New governance structures developed to facilitate transformation are still bedding in.
Progress in transforming the Trust is slower than planned but is moving forward

60. The Trust set up new governance arrangements in January 2014 to help support its transformation programme. The formal governance structure now consists of two formal sub-committees - the Quality Delivery Committee (QDC), overseeing delivery and quality, and the Audit Committee, overseeing assurance and risk management. The Trust has also established a Strategic Transformation Board (STB), an executive programme board that reports to the Trust Board. As the STB is not a formal Board committee, it enables external partners, such as the Director of the Ambulance Reform Programme, to be represented. The new governance structure aims to focus the Trust on delivering change as well as the necessary scrutiny the previous structure provided.
61. The governance structures have been in place for several months but non-executive directors are not always clear on their role on the STB, where a number sit as observers, or reporting lines through committees of STB-related matters. The Chair is taking the opportunity to review the effectiveness of committee arrangements which will include reviewing structures, the frequency of meetings and the relative balance of business between committees.
62. The STB is supported by executive work streams relating to clinical transformation, workforce development, non-emergency patient transport services and resource utilisation. Transformation plans are progressing, such as the Paramedic Pathfinder and the adoption of revised working practice policies, but progress has been slower than planned due to stretched senior manager capacity. Additional programme management capacity has been secured to help address this. The Trust is adopting a formal programme management approach which utilises UK Government (OGC) best practice in the 'Managing Successful Programmes' (MSP) methodology. This brings a level of assurance and rigour to the work. A recently developed project tracker tool highlights that of 22 projects planned this year, 16 are on track, five are off track and one has been completed. Key projects behind schedule include the Clinical Response Model and Sickness Absence projects.
63. The organisational structure was revised in 2012-13 to more closely align heads of service with health board localities. The arrangement has been further enhanced this year with the alignment of non-executive director portfolios to health board localities. Each non-executive director has been tasked with developing board level relationships in these localities. The Trust feels that this is supporting closer working relationships and building wider understanding of Trust issues.
64. A Staff Survey in 2013 highlighted that communication between staff and managers was not effective. The Trust has responded by introducing more frequent staff communications through team briefs, the use of social media, and in-vehicle messaging, and has introduced an engagement toolkit to support managers. Early indications from staff are positive about improved communication routes.
65. Accountability for delivery is clear. However, some initiatives take a long time to implement as managers can often lack the capacity or motivation to implement them. For example, the use of the HR self-service components of a new IT system has been

slow to be implemented as they have not yet been rolled out across the whole organisation, and the timely completion of the Trust's audit recommendations tracker by managers has been patchy. The Board had made it clear that it expects managers to comply with such systems.

The overall assurance framework and internal controls are sound and supported by effective Board scrutiny

66. The Trust has a relatively new Board, but members are experienced, demonstrate a good level of challenge and an appropriate development programme is in place. A new group of experienced non-executive directors with a range of appropriate skills was appointed to the Trust in April 2014. A comprehensive two-day induction was provided for the non-executive directors and a Board Development Programme is in place that includes a mix of briefings and sessions to develop the Trust's vision and future plans.
67. The Board demonstrates effective administration and conduct. The new Board is demonstrating skill and insight, supporting managers, while being challenging and ambitious for improvement. The Board has already had an impact by demonstrating its ability to make difficult decisions on long-running issues such as approving workforce related policies, and pressing for completion of actions such as the implementation of an audit recommendations tracker.
68. Roles and responsibilities are clearly set out for Board members and clear schemes of delegation are in place. An Accountability Framework drafted by the Chair clearly identifies who is responsible for which part of the business. For example, it sets out the portfolios of the non-executive directors and how they align with executive responsibilities. Each non-executive director has been set objectives that support the objectives of their respective Director.
69. The Trust receives good quality management information to support scrutiny and inform decision-making. The Trust has developed a comprehensive and easy-to-understand Integrated Performance Report (IPR) that is presented monthly to QDC and Board with good coverage of the Trust's activities. The report clearly sets out summary information on the quality and safety of services, and financial performance. Some performance information, such as ambulance response times, is shown by station to give internal comparison, and previous 12-month trends show how performance compares over time. More detailed reports on some aspects of the Trust's business, such as finance, support the IPR. A Quality Improvement Tracker has recently been developed that highlights progress with corporate transformation projects. The provision of four-hourly 'splash reports' of operational performance has proved helpful to managers in keeping abreast of ambulance performance during an intense period of performance management over the summer, related to ambulance response times. An analysis of service user complaints and how they are handled is regularly reported to Board members. The Trust has plans to revise its reporting template to make the quality of reports more consistent, and the process for handling complaints is under review to improve performance.

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70. The Trust has a well-structured Corporate Risk Register and a good understanding of the strategic risks facing the organisation, however, the systems underpinning the management of risk are not yet fully effective. The process of identifying, assessing and reviewing corporate risks has been undertaken as a separate exercise from the strategic planning process, meaning that risks identified as part of the Annual Delivery Plan may not be fully aligned with the Corporate Risk Register. The Trust recognises it needs to strengthen risk management arrangements and is proposing to merge the strategic planning and risk management process. This will enable risk mitigation to be reported as part of the IPR. It has recently developed a risk radar to summarise the overall risk picture by financial, strategic, hazard and operational risks.
71. As part of my commitment to help secure and demonstrate improvement through audit work, I have reviewed the effectiveness of the Trust Board's arrangements to manage and respond to recommendations made as part of our nationally mandated and local programme of audit work. This work has found that the Trust's ability to monitor progress against improvement recommendations has recently improved. A more formal approach to monitoring progress against audit recommendations has been put in place, following challenge from non-executive directors. However, audit reports can take a while to receive management responses and clearance due to a lack of management engagement and capacity.
72. The Trust has appropriate policies and procedures in place to ensure probity such as a Register of Interest, and Registers of Gifts and Hospitality. Declarations of interest are taken at each committee or board meeting, and Board members have signed up to a values and behaviours protocol.

The Trust is strengthening its performance management framework with improved reporting arrangements, though performance against targets remains a significant concern

73. The Trust has developed a new performance management framework that includes a monthly IPR, quarterly reviews of directorate performance and a monthly contract performance review. The most recent IPR provides a comprehensive account of performance across a full range of Trust activities. The report contains a suite of management information that is clearly presented and supported by summary narrative. Reporting could be improved further with more benchmarking, clearer performance forecasting and more timely reporting as some measures reported to Board refer to performance three or four months previously. As the Trust agrees its Integrated Medium Term Plan the performance report should be revised to ensure it reports on progress against meeting strategic objectives.
74. Recognition by the Trust of the need to improve performance in ambulance response times resulted in an intense focus on improvement over the summer. The Trust has worked with local health boards to change the way services are delivered such as introducing hospital ambulance liaison officers at each hospital and trialling, in partnership with a number of local health boards, a new taxi service for people not requiring an ambulance. The Trust saw improvements in hospital handover times during the summer, with the percentage of handovers within 15 minutes being

67.7 per cent in July and 65.9 per cent in August, compared to an average for the previous 10 months of 60.2 per cent. However, since the summer, the percentage of handovers within 15 minutes has decreased to 59.2 per cent for October, which is still below the 95 per cent target. Performance for Category A response times within eight minutes remains below the Welsh Government's 65 per cent target at a year-to-date (October 2014) average of 56.2 per cent. Sustained and step change performance relies on some of the longer-term plans the Trust has developed.

The Trust has a sound information governance framework in place

75. An audit by the Information Commissioner's Office in May 2013 provided reasonable assurance on data protection. The report identified some areas of good practice at the Trust such as the development of Information Governance Stewards at localities across the Trust, a well-designed Information Governance Assurance Process and regular compliance checks. Areas identified for development by the Trust included delivering mandatory staff training and reviewing access controls regularly. The QDC receives regular monitoring reports on information governance status.

The Trust is addressing many of the other areas for development identified in last year's structured assessment, but challenges remain

76. My Structured Assessment work has indicated that the Trust has made progress in addressing the areas for development identified in previous years' work. In addition to the progress detailed above, such as senior level capacity constraints, a summary of progress in implementing other 2013 Structured Assessment action points is detailed below.
77. In addition to strengthening Board level management capacity since last year, senior managers are also being supported through the appointment of service heads to some long-standing vacant posts such as planning and fleet management. Much needed capacity and capability have been secured in programme management and strategic planning.
78. The Trust has made some progress in developing its workforce plans to support change and improved performance. The Trust's current workforce strategy is not up to date as it relates to current rather than future business needs. A revised strategy is dependent on identification of future needs by commissioners which is in development. However, actions are underway to support future workforce development. Additional funding has been secured to fill known frontline staff gaps and a plan to recruit to these positions by January 2015 is on track. A partner and funding have been secured to develop up-skill training for technicians to become paramedics. The Trust has developed a number of new policies/procedures such as meal breaks, lone working, and roster changes. The revised workforce policies should support more efficient use of workforce resources but they are not yet fully implemented pending negotiations with staff representatives. Reducing high levels of staff sickness remains a focus for the Trust.

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79. In line with ministerial requirements the Trust has further developed its relationships with local health boards through aligning non-executive director portfolios to local health board localities. The establishment of the commissioning framework for ambulance services is helping to clarify partnership relationships and responsibilities. However, these arrangements are not yet mature and as a result benefits are not yet apparent. An intense focus on category A eight-minute response performance over the summer, where the Trust worked in partnership with several local health boards, resulted in improved performance over the summer months for some local health boards.
80. Last year's report noted that the Trust needed to ensure it uses service user feedback and patient data to identify emerging themes and further use the information to improve service quality. To improve the learning from service user and partner feedback the Trust has set up an Organisational Learning Group. However, capacity constraints mean the Group has not met as frequently as expected and so it is too early to assess its impact.
81. Our report in 2012 noted that the Trust could improve its performance reporting to sub-committees and the Board by including more comparisons with other ambulance trusts and by ensuring that the reporting of performance data was timelier. Although the Trust has significantly improved its reporting of performance in its new IPR, the report continues to lack comparative information and some data relates to performance three to four months in arrears.

The Trust has identified the key strategic risks arising from the Ambulance Reform Programme but has more work to do to fully identify the operational risks and the actions to mitigate them

82. My work to review the arrangements in place at the Trust for assessing the risks arising from the Ambulance Reform Programme found that the Trust is aware of the key strategic risks arising from the Programme, and is developing mitigations to minimise many of these risks. Reform Programme activities do not have a specific profile within the Trust as they are integrated with existing business and transformation programmes. At the time of my review in June 2014 the Trust had more work to do to fully identify the operational risks arising from the Programme, and it was yet to develop evidence based monitoring mechanisms to give assurance that actions it is taking to mitigate risks are having an impact. Since the review, the Trust has agreed a risk management strategy for the Transformation Programme which will outline how risks and issues will be identified and managed. A risk register for the STB is also now in place. I have made recommendations to the Trust in relation to the identification and management of risks associated with the Ambulance Reform Programme, and will monitor progress with the implementation of these during 2015.

Appendix 1

Reports issued since my last Annual Audit Report

| Report | Date |
|----------------------------------------------------------------------|-------------------|
| Financial audit reports | |
| Audit of Financial Statements Report | 29 May 2014 |
| Opinion on the Financial Statements | 24 June 2014 |
| Opinion on the Summary Financial Statements | 10 September 2014 |
| Whole of Government Accounts Assurance Statement | 21 August 2014 |
| Opinion of Welsh Ambulance Services NHS Charity Financial Statements | November 2014 |
| Performance audit reports | |
| Structured Assessment for 2014 | December 2014 |
| Managing the Risks of the Ambulance Reform Programme | June 2014 |
| Other reports | |
| Outline of Audit Work for 2014 | April 2014 |

The local audit team is currently discussing priorities for further performance audit work with the Trust. These will be reflected in the Outline of Audit Work for 2015.

Appendix 2

Audit fee

The Outline of Audit Work for 2014 set out the proposed audit fee of £129,750 (excluding VAT). My latest estimate of the actual fee, on the basis that some work remains in progress is in accordance with the fee set out in the outline.

Appendix 3

Significant audit risks

My Outline of Audit Work for 2014 set out the significant financial audit risks for 2014. The table below lists these risks and sets out how they were addressed as part of the audit.

| Significant audit risk | Proposed audit response | Work done and outcome |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33]. | My audit team will: <ul style="list-style-type: none">• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;• review accounting estimates for biases; and• evaluate the rationale for any significant transactions outside the normal course of business. | We have: <ul style="list-style-type: none">• Documented and tested the authorisation controls over journal entries.• Reviewed and tested journal entries using computer-aided audit techniques to identify any unusual or potentially fraudulent transactions. No significant transactions outside the normal course of business were identified.• We have reviewed accounting estimates (eg, provisions) for indications of bias. No issues were identified as part of our audit work. |

| Significant audit risk | Proposed audit response | Work done and outcome |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>The Trust is predicting a 2013-14 deficit of £0.5 million. Legislation requires NHS trusts to break even each financial year, defined as being a surplus or deficit that is within a materiality threshold of £0.5 million or 0.5 per cent of operating income. If the Trust is within this materiality limit there is no breach of statutory duty if any deficit is recovered by similar underspend in 2014-15. The position potentially impacts my regularity opinion.</p> <p>The current financial pressures on the body increase the risk that management judgements and estimates could be biased in an effort to achieve the material break-even target.</p> <p>Ongoing financial pressures could also impact on the Trust's ability to recover the deficit position in 2014-15.</p> | <p>My audit team will review 2014-15 forecasts to assess the robustness of forecasts to recover the 2013-14 deficit.</p> <p>My audit team will also focus its testing on areas of the financial statements which could contain reporting bias.</p> | <p>We have reviewed financial forecasts to recover the deficit in 2014-15.</p> <p>We also reviewed and tested the key judgement area, ie, provisions for indications of management bias.</p> <p>No issues were identified as part of our audit work.</p> |
| <p>There is a risk that the Trust will not comply with ISA 27 <i>Consolidated and Separate Financial Statements</i> (see Exhibit 4 for details).</p> | <p>My audit team will discuss the accounting requirements of ISA 27 with officers to ensure they are understood and liaise with the Welsh Government audit team to clarify and agree the requirements for 2013-14.</p> | <p>The Trust has a charitable fund which as its sole Trustee the Trust is deemed to control. The charitable fund has been deemed not material to the Trust and therefore has not been consolidated in the financial statements for 2013-14.</p> |

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