
London Ambulance Service NHS Trust

Annual Audit Letter
Audit 2005-2006
November 2006



External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Commission's statutory Code of Audit Practice.

Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Trust

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director or officer in their individual capacity; or
- any third party.

Copies of this letter

If you require further copies of this letter, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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Contents

Purpose, responsibilities and scope	4
The purpose of this letter	4
The responsibilities of the auditor and the Trust	4
The scope of our work	4
Key messages	5
The audit of the accounts	6
Accounting issues	6
Financial standing	6
The Trust's use of resources	8
Value for money conclusion	8
Auditor's Local Evaluation	8
Specific risk-based work	9
Closing remarks	11

Purpose, responsibilities and scope

The purpose of this letter

- 1 The purpose of this Annual Audit Letter (letter) is to summarise the key issues arising from the work that we have carried out during the year. Although this letter is addressed to the directors of the Trust, it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk and also on the Trust website.
- 2 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

The responsibilities of the auditor and the Trust

- 3 We have been appointed as the Trust's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public sector bodies in England, including NHS trusts.
- 4 As the Trust's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Trust achieving its objectives. It is the responsibility of the Trust to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Trust is fulfilling these responsibilities.

The scope of our work

- 5 We plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
 - the Trust's accounts; and
 - whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 In addition to this, we use our assessments to provide scored judgements for the Healthcare Commission to use as part of its Annual Healthcheck.
- 7 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that we consider should be addressed by the Trust. A list of all reports issued to the Trust in relation to the 2005/06 audit is provided in the closing remarks section at the end of this letter.

Key messages

- 8 The following matters should be considered by the Trust Board.

Table 1 Key conclusions and required actions

Area	Issue/conclusion	Recommended action
Accounting issues	<p>There were no material matters to draw to the attention of the Audit Committee before giving the audit opinion.</p> <p>The Trust's draft annual report was not available for review at the time of our accounts audit.</p>	The Trust should aim to prepare its annual report prior to the deadline for the audit opinion on the accounts, to enable it to be covered by the opinion.
Financial standing	<p>The Trust achieved a surplus of £1.3m, continuing its record of sound financial management.</p> <p>All financial targets were met except the Capital Cost Absorption Rate, which was above the target range.</p>	Ensure that the Capital Cost Absorption Rate is within the target range of 3-4 per cent.
Value for money	We concluded that the Trust had proper arrangements in place to secure value for money in the use of resources.	None required.
Auditor's local evaluation	The Trust achieved a score of 3 (above minimum requirements) in 4 of the 5 areas.	The Board should monitor progress and outcomes against the various plans in place to further improve the Trust's performance under the Auditor's Local Evaluation.

The audit of the accounts

- 9 We were able to issue an unqualified opinion on the Trust's accounts on 6 July 2006, in advance of the deadline set by the Department of Health. In our opinion, the accounts give a true and fair view of the Trust's financial affairs and of the income and expenditure recorded by the Trust during the year.
- 10 Before we give our opinion on the accounts, we are required to report to those charged with governance, in this case the Trust's audit committee, significant matters arising from the audit. A detailed report was issued on 28 June 2006 and only the key issues are summarised here.

Accounting issues

- 11 The accounts were produced on time and complete and the Trust responded well to our requests for further information during the audit. There were no material matters to draw to the attention of the Audit Committee before giving the audit opinion. However, the Trust's draft annual report was not available for review at the time of our accounts audit, so we were unable to cover the annual report in our audit opinion.

Recommendation

R1 The Trust should aim to prepare its annual report prior to the deadline for the audit opinion on the accounts, to enable it to be covered by the opinion.

Financial standing

- 12 Table 2 shows the Trust's performance against its key financial targets for 2005/06.

Table 2 Financial performance

Target	Achieved?	Performance
Statutory breakeven duty	✓	The Trust's in-year surplus was £1.26 million and its cumulative surplus was £1.33m.
Capital Resource Limit	✓	The Trust undershot its limit of £6.69m by £1.25m.
External Financing Limit	✓	The Trust met its limit of £9.64m.
Capital Cost Absorption Rate	✗	The Trust's rate of 4.1 per cent was outside the target range of 3 to 4 per cent.

- 13 The Trust made a surplus in 2005/06 of £1.26m. Within this overall position, expenditure on the Accident and Emergency (A&E) service was overspent against budget by £2.54m, reflecting the additional burden of dealing with the terrorist incidents of 7 July 2005. The Trust obtained extra funding from the Department of Health for this, resulting in a surplus for A&E of £1.18m. The Patient Transport Service made a deficit of £0.16 million.
- 14 For 2006/07, the Trust is forecasting a surplus of £1.3m. The Trust has achieved in-year surpluses since 2000/01, providing a sound financial platform which has underpinned a period of successful service improvement. However, the pressures within the London health economy as a whole may impact upon the Trust's ability to benefit from any surplus for 2006/07 - NHS London's economy-wide financial plan requires the Trust to contribute its surplus into a 'pool' to offset deficits expected to be made by other NH organisations in London.

The Trust's use of resources

- 15 We are required to issue a conclusion on whether we are satisfied that the Trust has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.
- 16 We are also required to assess how well NHS organisations manage and use their financial resources by providing scored judgements on the Trust's arrangements in five specific areas. This is known as the Auditor's Local Evaluation.

Value for money conclusion

- 17 We concluded that the Trust had proper arrangements in place to secure value for money in the use of resources.

Auditor's Local Evaluation

- 18 We assessed the PCT/Trust's arrangements in five areas. Each area was scored from 1 to 4 (1 = below minimum requirements - inadequate performance, 2 = only at minimum requirements - adequate performance, 3 = consistently above minimum requirements - performing well and 4 = well above minimum requirements - performing strongly). The individual scores as shown in Table 3 resulted in an overall rating of 'Good' for the Trust's use of resources within the Healthcare Commission's Annual Health Check.

Table 3 ALE scores

Area	Score	Recommended action
Financial reporting	3	Covered under 'Accounting issues' above.
Financial management	3	Formalise the Trust's medium term financial strategy and perform benchmarking exercises on the use of the Trust's assets.
Financial standing	3	Ensure that the Capital Cost Absorption Rate is within the target range of 3-4 per cent.
Internal control	2	Review standing orders, standing financial instructions and the scheme of delegation at least annually. Formal agreements need to cover all the Trust's significant partnership arrangements. Provide regular ethical conduct training for both board members and employees.
Value for money	3	Provide further evidence of progress in the Trusts' drive for improvement.

- 19 The Trust has performed well, with just one area - internal control - being only at minimum requirements rather than above them. A detailed report supporting our assessment and highlighting areas for improvement was issued to the Trust on 14 September 2006.

Recommendation

R2 The Board should monitor progress and outcomes against the various plans in place to further improve the Trust's performance under the Auditor's Local Evaluation.

Specific risk-based work

- 20 Our audit plan also included specific pieces of work as follows.

- Managing Resources for Improvement.
- Computer Aided Despatch (CAD) system implementation review.

Managing Resources for Improvement

- 21 Our review assessed the contribution the Trust is making to strategic service improvement within the wider context of its key role in delivering urgent care services. The Trust has made significant progress in recent years in improving its services, although the Healthcare Commission's Annual Health Check rating of the Trust's quality of care as 'Weak' - due to not meeting national targets for Category B calls and provision of thrombolysis - indicates a need for continuing advances.
- 22 The audit assesses arrangements that support improvement against five key improvement themes:
- strategic fit;
 - service redesign and modernisation;
 - financial management;
 - realising patient benefits; and
 - value for money.
- 23 Our review found that the Trust faces a number of challenges in securing strategic service improvement, in particular:
- urgent Care Networks in London have had limited impact to date, making service redesign across the whole health economy problematic; and
 - whilst the Trust's financial management is good, a clear basis is needed on which to share benefits and risks with other trusts and PCTs in the service redesign process.

24 Our review found evidence of progress by the Trust.

- The Trust's strategy from 2000 to 2005, as realised through the Service Improvement Programme, was effective at securing improvement and the Trust has built on this to develop a new strategy aimed at delivering transformational change, closely aligned with national priorities.
- The Trust has already made progress in modernising its services through initiatives such as fast response units and emergency care practitioners.
- The Trust is making good progress in developing performance measures, and should aim to maximise the benefits from using more comparative data now that other ambulance trusts in England are organised on a regional basis.

25 However, improvements are needed in realising patient benefits, and the Trust's efforts to improve the patient experience would benefit from more input from public health experts.

CAD implementation review

26 This review has been postponed at the request of Trust management pending full implementation of the new system.

Closing remarks

- 27 This letter has been discussed and agreed with the Chief Executive and Director of Finance. A copy of the letter will be presented at the Audit Committee on 4 December 2006 and copies will be provided to all Board members.
- 28 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Trust during the year. These are listed in the following table.

Table 4 Reports issued in relation to the 2005/06 audit

Planned output	Actual date of issue
Audit Plan	March 2005
Annual Governance Report	June 2006
Opinion on Financial Statements	July 2006
Value for Money Conclusion	July 2006
Final Accounts Memorandum	August 2006
Auditors' Local Evaluation	September 2006
Annual Audit Letter	November 2006

- 29 This has been a challenging year for the Trust. Management and staff have taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Trust's assistance and co-operation.

Susan M Exton

Engagement Lead

November 2006