

# Annual Audit Letter

## London Ambulance Service NHS Trust

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<b>Reference:</b>	LO001 Annual Audit Letter
<b>Date:</b>	December 2004

## The purpose of this letter

This annual audit letter to the Board summarises the significant issues and conclusions from our 2003/04 audit, together with our comments on other current issues.

More details are in the separate reports we issued this year. These reports are discussed and agreed with officers and presented to the Audit Committee.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

- Appendix 1 lists the reports issued this year.
- Appendix 2 provides information about the fee charged for our audit.

## Background to our audit

The London Ambulance Service is integral to the NHS in London, serving an area of some 620 square miles covering 31 primary care trusts and five different strategic health authorities. The Trust delivered key NHS Plan targets, and achieved a two star rating for 2003/04, improving from one star in 2002/03.

The Trust's Service Improvement Programme has contributed to a significant improvement in the Trust's performance in recent years, and this was reflected in the Healthcare Commission awarding the Trust two stars in its performance ratings for 2003/04.

However, budgetary constraints remain an issue, and to date 2004/05 has seen a marked increase in the financial risks faced by the Trust, although these have been successfully managed to date. Agenda for Change will also involve potentially radical changes to working conditions, allowances and pay structures.

It is against this background that we present our Annual Audit Letter for 2003/04.

## Audit objectives

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

### Accounts

- Whether the **accounts** give a true and fair view of the financial position of London Ambulance Service NHS Trust.

### Financial aspects of corporate governance

- How well the Trust manages its **finances**.
- Whether the Trust has effective **financial systems** and **internal controls**.
- How the Trust ensures that its financial decisions remain within its **legal** powers.
- How well the Trust works to stop or find **fraud and corruption**.

### Performance management

- Whether the Trust has adequate arrangements to ensure the **best use of the resources** at its disposal.

## Key messages

### Accounts

We gave an unqualified opinion on the Trust's accounts on 19 July 2004. There were no matters which needed to be brought to the attention of the Board.

### Financial aspects of corporate governance

#### Financial standing

The Trust achieved break even on its income and expenditure account in 2003/04 and is projecting an under-spend for 2004/05. At the same time, a number of significant financial risks require careful management to ensure that the Trust continues to maintain a sound financial footing.

#### Systems of internal financial control

The Trust has sound arrangements for ensuring effective internal financial control. In undertaking our assessment, we were able to rely on the work of the Trust's Internal Auditor.

#### Standards of financial conduct & prevention and detection of fraud and corruption

Satisfactory arrangements are in place to maintain standards of conduct. The Trust is taking action to meet issues raised by last year's NHS Counter Fraud Service review.

#### Legality of transactions

The Trust has satisfactory overall arrangements for ensuring the legality of transactions, and continues to work towards resolving its potential tax liability arising from subsistence payments.

## Performance management

### Service Improvement Programme

The Trust continues to make good progress in implementing its Service Improvement Programme, although some elements have been postponed for a further year. The Trust now needs to focus on how to maintain the momentum achieved once the programme is completed.

### Star ratings and NHS Plan

The Trust has made good progress in implementing the NHS plan, as reflected in its two-star rating for 2003/04. Having achieved the crucial target for Category A response times, the Trust now needs to move forward its performance across all indicators.

### Reference costs

The Trust has satisfactory systems in place to collect and report reference costs. The cross-subsidy between the Patient Transport Service and Accident and Emergency services needs to be addressed.

## Key actions

We wish to highlight to the Board action points aimed at supporting the trust's drive for continuous improvement in the delivery of patient focused services in an economic, efficient and effective way. We recommend that the Board:

- ensures that effective measures are implemented so that the Trust achieves break even for 2004/05;
- monitors progress on the Service Improvement Programme and ensures that planning is under way to maintain momentum after the programme is completed in 2005/06;

- ensure that the Trust builds on its success in meeting the Category A/8 minute response target by improving performance across all call categories to national target levels; and
- considers measures to reduce the extent of cross-subsidy between the Trust's Patient Transport Service and Accident and Emergency services.

## Accounts

*We gave an unqualified opinion on the Trust's accounts on 19 July 2004. There were no matters which needed to be brought to the attention of the Board.*

A set of draft accounts and working papers were presented on a timely basis at the start of the audit, and we found staff helpful and co-operative. As in previous years, the standard of working papers provided was high, and relatively few amendments were needed.

### SAS 610

Statement of Auditing Standard (SAS) 610 'Reporting to those charged with governance' applies to the audit of your accounts for the first time in 2002/03. The SAS requires auditors to report to those charged with governance (as distinct from management) certain matters before they give an opinion on the financial statements. These are:

- expected modifications to the auditors' report;
- unadjusted misstatements;
- material weaknesses in the accounting and internal control systems identified during the audit;
- their views about the qualitative aspects of the entity's accounting practices and financial reporting;
- matters specifically required by other auditing standards to be communicated to those charged with governance; and
- any other relevant matters relating to the audit.

We reported to the Audit Committee under SAS 610 on 12 July 2003. There were no significant matters to report.

## Financial aspects of corporate governance

### Financial standing

*The Trust achieved break even on its income and expenditure account in 2003/04 and is projecting an under-spend for 2004/05.*

*At the same time, a number of significant financial risks require careful management to ensure that the Trust continues to maintain a sound financial footing.*

### 2003/04 performance

The Trust met three of its four statutory duties in 2003/04 as detailed in Exhibit 2. The Trust's capital cost absorption rate was slightly above the upper limit, due to slippage in the capital programme. This is the fourth successive year that the Trust has achieved its breakeven target.

#### EXHIBIT 2: FINANCIAL PERFORMANCE 2003/2004

Target	Performance	Target met?
Breakeven on income and expenditure account.	Retained surplus of £89k.	✓
Capital cost absorption rate.	4.1 per cent achieved (target between 3.0 per cent and 4.0 per cent).	✗
External financing limit.	Target of £3.6 million achieved.	✓
Capital resource limit.	Underspend of £74k against limit of £6.8 million.	✓

### 2004/05 budget

In presenting the budget to the Board in March 2004, the Director of Finance and Business Planning identified a higher level of risk than in 2003/04. The Trust has secured additional funding from commissioners for 2004/05 of £22.5 million but the bulk of this is required to fund inflationary pressures, costs arising from Agenda for Change and increased superannuation contributions.

To date the Trust has successfully contained these pressures. As at 31 October 2004, the Trust's income and expenditure account was underspent by £0.64 million, with a projected £0.97 million underspend for the year. This includes recently secured funding of £4.1 million to assist in planning for Chemical, Biological Radiological or Nuclear threats.

However, the Trust's financial risk register includes a number of significant risks which will continue to require careful management, including the need to cover increased employer's superannuation contributions of £6.1 million and absorb the impact of fuel price inflation.

### Better Payment Practice Code

The Trust also has an administrative duty to ensure that non-NHS creditors are paid within 30 days of the invoice date. In 2003/04, 78.9 per cent of such payments met this target (compared to 80.2 per cent in 2002/03).

The Trust needs to ensure that action is taken to improve its performance with regard to the Better Payment Practice Code.

### Audit Commission report on financial management in the NHS

In April 2004 the Audit Commission issued a report '*Achieving First Class Financial Management in the NHS.*' The briefing that accompanied the report poses some detailed questions which Board members will wish to ask of the Trust.

The key issues raised by the Commission's report have been considered by the Director of Finance and his senior staff and should be incorporated into the Finance Department strategy.

## Systems of internal financial control

*The Trust has sound arrangements for ensuring effective internal financial control.*

*In undertaking our assessment, we were able to rely on the work of the Trust's Internal Auditor.*

### Internal Audit

Under our managed audit programme, we work closely with internal audit to ensure that audit resources are deployed effectively, and that duplication of effort is minimised.

For joint working to be effective, it is essential that both internal and external audit are clear about their objectives, that plans are shared at an early stage, and that work programmes are properly co-ordinated.

Our review of the work of Bentley Jennison, the Trust's Internal Auditors, concluded that we are able to place reliance on their work as part of the managed audit process and as a means of internal financial control for the Trust.

### Financial systems

Our review of the Trust's core financial process and of the work of Internal Audit has confirmed that the Trust has maintained systems capable of producing reliable financial information and proper accounting records.

### Statement on internal control

In 2003/04 the NHS introduced a new style statement on internal control. All NHS bodies were required to report on the extent to which a system of internal control designed to manage risk to reasonable level was in place. The Trust was able to report that such a system was in place at the year end and up to the date of approval of the annual accounts. This was supported by Internal Audit's opinion that an assurance framework is now in place and that there is an effective system of internal control to manage the organisation's principal risks.

## Standards of financial conduct & prevention and detection of fraud and corruption

*Satisfactory arrangements are in place to maintain standards of conduct. The Trust is taking action to meet issues raised by last year's NHS Counter Fraud Service review.*

Satisfactory arrangements are in place to ensure that standards of financial conduct are maintained. As part of our interim audit, as a follow up to the 2002 quality assurance review by the NHS Counter Fraud and Security Management Service (CFSMS), we briefly assessed the work of the Trust's Local Counter Fraud Service (LCFS). We found that the majority of expected good practice was being followed, although more use could be made of analytical review to target LCFS work.

## Legality of transactions

*The Trust has satisfactory overall arrangements for ensuring the legality of transactions, and continues to work towards resolving its potential tax liability arising from subsistence payments.*

The Trust has continued to maintain satisfactory overall arrangements for ensuring the legality of financial transactions.

As noted in previous Annual Audit Letters the Trust is continuing to seek clarification from the Inland Revenue as to the status of subsistence payments to staff, and has made a provision of £7 million in respect of the estimated liability. A satisfactory resolution of this issue continues to be pursued.

## Performance management

Our performance management audit programme for 2003/04 was included in our two-year Audit Plan for 2002 to 2004 (which was issued in February 2003). Most of the performance management element of that plan was completed by the end of 2003 and covered by last year's Annual Audit Letter. The following sections update on key developments in the main areas covered.

## Service Improvement Programme

*The Trust continues to make good progress in implementing its Service Improvement Programme, although some elements have been postponed for a further year. The Trust now needs to focus on how to maintain the momentum achieved once the programme is completed.*

2003/04 was the third year of the Trust's ambitious four year service improvement programme (SIP), through which the Trust aims to transform itself by changing both the organisation's culture and its procedures. The programme underpins the Trust's response to the NHS Plan.

The Board receives regular updates on the progress of the SIP. As at July 2004, there were 330 items in the programme and it was reported that 190 of the 204 items scheduled for completion had been completed.

Funding constraints have meant that the Trust has had to postpone a number of projects, and the programme is being extended for a further year.

Progress on 40 key outcomes under the headings People, Patients and Performance are reported bi-annually using a 'traffic lights' system. The outcomes assessed as 'red risks' included:

- category B/C response times;
- response times for urgent GP calls; and
- answering Doctors' calls within 30 seconds.

Although the Trust is to be commended for its achievement in meeting the national standard for Category A calls (as discussed in the section below) the other response time targets clearly remain key challenges for the Trust.

It is essential that the momentum and improvements achieved by the SIP are maintained if the Trust is to make progress on NHS Plan targets and star ratings (or their successor). As the SIP begins to near its conclusion, the Trust now needs to consider how it will continue to improve performance after the programme is completed.

## Star ratings and NHS Plan

*The Trust has made good progress in implementing the NHS plan, as reflected in its two-star rating for 2003/2004. Having achieved the crucial target for Category A response times, the Trust now needs to move forward its performance across all indicators.*

### Star ratings

The Trust achieved a two-star rating in the Healthcare Commission's 2003/04 performance ratings, an improvement on its one-star rating in 2002/03. Crucially, the Trust achieved the target of responding to 75 per cent of Category A (life-threatening) calls within eight minutes. Exhibit 3 summarises the Trust's performance.

#### EXHIBIT 3: STAR RATINGS PERFORMANCE 2003/2004

Target	Performance
Responding to 75 per cent of category A (life-threatening) calls within eight minutes or less.	Achieved.
Responding to 95 per cent of category A calls within 14 minutes in urban areas.	Under-achieved.
Achievement of financial plan without unplanned financial support.	Achieved.
Improving Working Lives.	Achieved.
Clinical focus.	Placed in <b>top</b> band of performance.
Patient focus.	Placed in <b>middle</b> band of performance.
Capacity and capability.	Placed in <b>middle</b> band of performance.

Source: Healthcare Commission

### NHS Plan implementation

The NHS Plan provided a radical re-think of the way that health services should look over the next ten years. It set out a vision of a health service designed around the patient, recognising that this will require investment and major reform. The new planning framework recently announced for 2005/06 will require NHS bodies to meet additional targets over and above the current ones.

Reviews of progress in implementing the NHS Plan have been carried out by local auditors at all NHS Trusts and PCTs, focusing on input to the local delivery plan (LDP) process and achievement of key national targets.

Our approach was to assess whether the trust was likely to achieve key targets and whether that performance is both sustainable and likely to improve.

Overall in our review of progress in implementing the NHS Plan we found strong leadership and effective management processes. At the time of our review in late 2003, there were some targets we considered to be a high risk, but as reflected by the Healthcare Commission's two-star rating, the Trust was able to ensure that most of its key targets were met.

Although the Trust is to be commended for its achievement in respect of the Category A/8 minute target, the Trust still has much to do before it can deliver satisfactory performance across all response targets. Response times for Category B and urgent GP calls were all significantly below the national target throughout 2003/04.

The work to improve performance of the service is underpinned by the SIP, which relates changes to measured outcomes and in particular to meeting the national performance targets. However, as noted earlier, funding to complete the SIP is not guaranteed and elements of the programme have had to be postponed.

Performance improvements are also to be delivered through improved ways of working. An important next stage in the organisational development process was the establishment in February 2004 of a new middle management structure. Ambulance Operations Managers' roles now include taking a more outward looking perspective, which should support more proactive involvement in emergency care networks and contribute for example to faster turn around at hospital A&E departments.

Patient care is also a priority and training programmes and clinical audit are in place. The Trust's planning and budgeting processes are effective and internally consistent and have strong local ownership - external relationships to the whole system are less strong. The Trust now needs to move forward implementation of the SIP so as to score well on all performance indicators.

## Reference costs

*The Trust has satisfactory systems in place to collect and report reference costs.*

*The cross-subsidy between the Patient Transport Service and Accident and Emergency services needs to be addressed.*

For a number of years the Department of Health (DoH) has used reference costs to compare the cost of services. Trusts are required to produce these annually, for the DoH, analysing costs and activity data based on individual specialties. These costs produce an index, which demonstrates how Trust's costs compare nationally.

Trusts will need to understand how their costs compare to the income received in relation to individual areas of activity. Within the next few years, a trust's ability to meet financial targets will depend to a large extent on whether its costs are at or below the national tariffs.

We reviewed the Trust's arrangements and found that its reference costs were not at risk of material inaccuracy. We were able to agree costing information to the accounts but experienced some difficulties in agreeing activity data. We found the cost apportionment process to be satisfactory, although the results highlighted cross-subsidy of PTS by some £1.6 million from A&E services.

Looking ahead to 2004/05, the Trust has agreed an action plan to improve its arrangements in the following areas:

- more detailed reconciliation of activity data with the reference costs submission;
- improved data capture arrangements; and
- reducing the extent of cross-subsidy between A&E services and Patient Transport Services.

## Conclusion

### Future audit work

We discussed and agreed our proposals and planned work for 2004/05 in detail with the Audit Committee on 12 July 2004.

### Local risk based work

The Audit Commission has highlighted six key risks which absorb a significant amount of public money and impact comprehensively across the NHS as a whole. Some of these are also high risk locally. For 2004/05 these risks are:

- core financial management;
- new funding flows;
- managing resources for improvement;
- implementing new workforce contracts;
- information management and technology; and
- projects within the national programme for IT.

The Commission expects its auditors to prioritise their work over each of these risks, over the short and medium term. We will use the results of our local audit planning and our cumulative knowledge of the Trust and the local health economy to do this.

We do not plan to cover all topics in 2004/05 and we have agreed that locally the key area for review this year is:

- information management and technology – governance.



We will also carry out a review of the Trust's capacity to work effectively in partnership with other organisations. The agreed 2004/05 Audit Plan outlines reporting arrangements and expected outputs.

## Work on behalf of the Healthcare Commission

There will be some changes in audit approach following the establishment of the Healthcare Commission in April 2004. The Audit Commission is no longer responsible for national performance work within the NHS however, for 2004/05, the Healthcare Commission has requested that external auditors carry out the programme of national work on its behalf

The Healthcare Commission has not requested that we carry out any work on its behalf in respect of ambulance trusts for 2004/05.

## Closing remarks

This letter has been discussed and agreed with the Chief Executive and Financial Controller. A copy of the letter will be presented at the audit committee on 6 December 2004. The audit has covered a wide range of the Trust's arrangements and activity supporting the Trust's continuing improvement and development.

## Acknowledgement

We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit by trust staff. Our aim is to deliver a high standard of audit that makes a positive and practical contribution to support the trust's own agenda. We recognise the value of your co-operation and support.

## Availability of this letter

This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Trust's website.

S. M. Exton

**Susan M Exton**  
**District Auditor**  
**6 December 2004**

## Status of our reports to the Trust

*Our annual audit letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit letters are prepared by appointed auditors and addressed to directors and officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any director or officer in their individual capacity, or to any third party.*

## Reports issued during the 2003/2004 audit

Report	Date issued
Audit Plan	February 2003
Reference Costs	February 2004
NHS Plan Implementation and LDP Review	March 2004
Interim Audit: <ul style="list-style-type: none"><li>• Core Financial Processes; and</li><li>• Financial Aspects of Corporate Governance.</li></ul>	June 2004
Final Accounts - SAS 610 Report	July 2004
Final Accounts - Detailed Findings	September 2004
Annual Audit Letter	December 2004

## Audit fee

The fee for the audit was set out in our audit plan agreed at the start of the audit. Board members should note that in order to bring the Audit Commission financial year in line with the NHS, the plan covered the period from November 2002 to March 2004. In this time we delivered two statutory audits and two annual audit letters.

## Audit fee update

Audit area	Plan 2003/2004	Actual 2003/2004
Accounts	£39,000	£39,000
Financial Aspects of Corporate Governance	£22,000	£22,000
Performance	£54,000	£54,000
<b>TOTAL CODE OF AUDIT PRACTICE AUDIT FEE</b>	<b>£115,000</b>	<b>£115,000</b>