

East of England Ambulance Service NHS Trust

Annual Audit Letter for the year ended 31 March 2016

July 2016

Ernst & Young LLP

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Directors/Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to the East of England Ambulance Service NHS Trust following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Trust's:	
▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Trust as at 31 March 2016 and of its expenditure and income for the year then ended
▶ Parts of the remuneration and staff report to be audited	We had no matters to report.
▶ Consistency of the Annual Report and other information published with the financial statements	Financial information in the Annual report and published with the financial statements was consistent with the Annual Accounts

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Trust
▶ Referrals to the Secretary of State	We had no matters to report
▶ Public interest report	We had no matters to report in the public interest
▶ Value for money conclusion	We had no matters to report

Area of Work	Conclusion
Reporting to the Trust on its consolidation schedules	We concluded that the Trust's consolidation schedules agreed, within a £250,000 tolerance, to your audited financial statements
Reporting to the National Audit Office (NAO) in line with group instructions	We had no matters to report

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Trust communicating significant findings resulting from our audit.	Our Audit results report was issued on 25 May 2016
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 1 June 2016

We would like to take this opportunity to thank the Trust staff for their assistance during the course of our work.

Janet Dawson
Partner
For and on behalf of Ernst & Young LLP



Purpose

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Directors and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Trust.

We have already reported the detailed findings from our audit work in our 2015/16 annual results report to the 25 May 2016 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Trust.

A person wearing teal scrubs is holding a yellow folder. A yellow rectangular box is overlaid on the folder, containing the text "Responsibilities".

Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 25 January 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

Expressing an opinion:

- ▶ On the 2015/16 financial statements;
- ▶ On the parts of the remuneration and staff report to be audited;
- ▶ On the consistency of other information published with the financial statements, including the annual report; and
- ▶ On whether the consolidation schedules are consistent with the Trust's financial statements for the relevant reporting period.

Reporting by exception:

- ▶ If the annual governance statement does not comply with relevant guidance or is not consistent with our understanding of the Trust;
- ▶ To the Secretary of State for Health if we have concerns about the legality of transactions or decisions taken by the Trust;
- ▶ Any significant matters that are in the public interest;
- ▶ Forming a conclusion on the arrangements the Trust has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ Reporting on an exception basis any significant issues or outstanding matters arising from our work which are relevant to the NAO as group auditor.

Responsibilities of the Trust

The Trust is responsible for preparing and publishing its statement of accounts, annual report and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

A close-up photograph of a person's hand holding a blue pen, writing on a document. The hand is positioned on the right side of the frame. In the background, a calculator and a laptop are visible on a desk. A white mug is on the left side. A yellow rectangular box is overlaid on the left side of the image, containing the text "Financial Statement Audit".

Financial Statement Audit

Financial Statement Audit

Key Issues

The Annual Report and Accounts is an important tool for the Trust to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Trust's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 1 June 2016.

Our detailed findings were reported to the 25 May 2016 Audit Committee.

The financial statements presented for audit were not fully supported by adequate working papers and contained disclosure items that required amendment, both of which required additional audit time to resolve. Although we completed our work in line with NHS reporting requirements, these issues delayed the completion of our audit work. We will work with Trust staff so the 2016/17 financial statements are adequately supported.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Management override of controls	We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied.
Revenue and expenditure recognition	Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition.

Other Key Findings	Conclusion
Review of lease arrangements entered in 2015/16	We reviewed and assessed a sample of new vehicle leases to ensure they have been correctly accounted in the financial statements. Our testing did not identify any material misstatements concerning the classification and treatment of leases.
Valuation of land and buildings	<p>Our review of management’s valuations expert work and testing the accounting treatment of valuations did not identify any material misstatements concerning the valuation of land and buildings.</p> <p>The Trust’s assets were last subject to a full revaluation exercise in 2013/14. The Trust should consider whether a professional valuation is required in 2016/17 so that the carrying amount of assets does not differ materially from its fair value at the balance sheet date.</p>

Value for Money

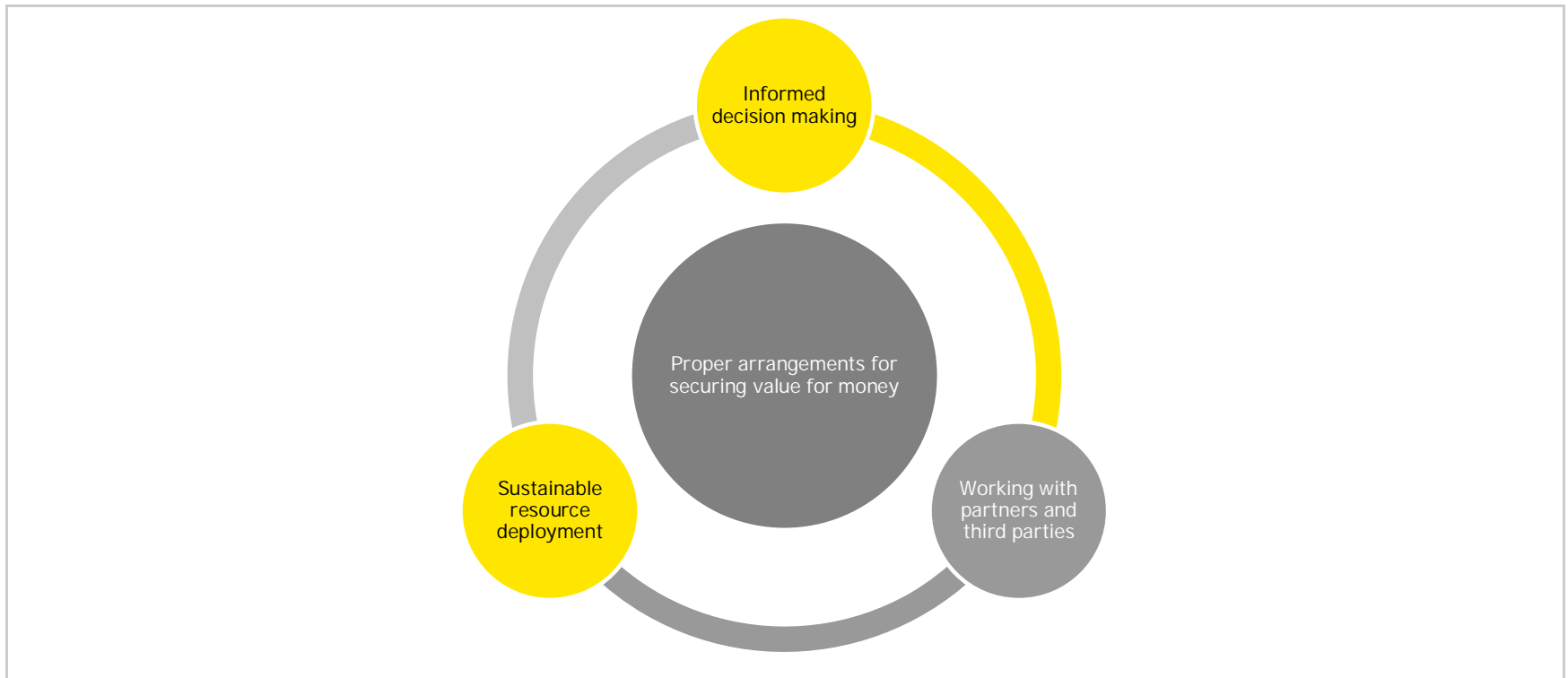


Value for Money

We are required to consider whether the Trust has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



Our audit did not identify any significant matters in relation to the Trust's arrangements. We did however identify the following areas to bring to your attention.

Key Findings

The Trust set an annual budget and longer term financial plan. The plans document the assumptions used, these are based on historic trends and national guidance. The assumptions cover key areas such as activity levels, tariffs, capital investment, efficiency savings and key risk areas. The plan shows a base case, downside without mitigation and downside with mitigation. This demonstrates the Trust has adequate arrangements to set a balanced budget and secure financial resilience over the medium term.

The 2015/16 Cost Improvement Plans (CIPs) were monitored throughout the year with reports to the Trust Board via the Finance Report. The 2015/16 CIPs target of £10.2m was achieved. The Trust has established arrangements to identify, assess, monitor and deliver CIPs.

Challenges for the next year:

- The Trusts Long Term Financial Model shows a surplus for each year through to 2020/21, and reducing CIPs. The model shows the Trust is able to maintain adequate cash resources throughout the period. However, the Trust will need to maintain the LTFM as a live document to assess future challenges on its services and the wider health economy. Key risk areas include changes in activity levels, additional use of private ambulance service, performance penalties and non-recurrent CIP Delivery.
- The Trust has a challenging CIPs target of £6.7m in 2016/17. As of May 2016 the Trust had identified £4.1m CIPs. The Trust need to prepare full plans, including risk and quality assessment for them. The Trust also need to identify schemes for the £2.6m unidentified CIPs.



Other Reporting
Issues

Other Reporting Issues

Department of Health Group Instructions

We are only required to report to the NAO on an exception basis if there were significant issues or outstanding matters arising from our work. There were no such issues.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Trust's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Trust or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

A man in blue scrubs and a surgical cap is shown in profile, focused on operating a piece of medical equipment. He is wearing a silver watch on his left wrist. The background consists of a wall of medical cabinets with various drawers and controls. A yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
NHS provider financial pressures	<p>Draft 2015/16 financial statements show NHS providers overspent by a record £2.45 billion for the year. The scale of this overspending is unprecedented. Despite additional funding and significant efforts to reduce deficits, record numbers of trusts overspent and the overall deficit is likely to be three times higher than in 2014/15. Some 48 trusts reported a deficit of more than £20 million, including 11 trusts reporting an individual deficit of more than £50 million.</p> <p>At the same time, performance against key targets is continuing to deteriorate and there are increasing concerns over the quality of services. Providers as a whole missed the Accident and Emergency waiting target of seeing 95 percent of patients within four hours for the final quarter of the year, and waiting lists for routine operations reached 3.34 million.</p> <p>It is not yet clear whether trusts' financial performance for the year will cause the Department of Health to exceed its spending limit for 2015/16, a serious breach of parliamentary protocol. Whether or not there is a breach, NHS trusts will start 2016/17 with a collective deficit of around £1 billion more than planned. Without change there is the potential for the increasing financial pressure to impact further on levels of patient care.</p>	<p>The scale of the financial challenges faced by NHS providers impacts all aspects of their operations. It is therefore a key driver of audit risk and impacts our approach.</p>
Sustainability and Transformation Plans	<p>NHS England's document, Delivering the Forward View: NHS planning guidance 2016/17-2020/21, published in December 2015, asks local health systems, including local government, voluntary and community partners, to work together to secure transformation change in healthcare planning and delivery.</p> <p>For this purpose England has been divided into 44 local health systems, made up of local councils, CCGs and NHS and other providers. Each health system needs to produce, by the end of June 2016, a Sustainability and Transformation Plan covering the next five years.</p> <p>The initial requirement is for CCGs and providers to control</p>	<p>Bodies will need to work together to a far greater extent than ever before to ensure that sustainability and financial plans are viable, and successfully delivered. Failure to do this could have wider adverse financial and service delivery consequences across the whole local area.</p> <p>As your external auditor we need to gain an understanding of your wider approach and plans, and the impact of greater partnership working on your governance, internal control and financial reporting.</p>

Area	Issue	Impact
	<p>expenditure and stay within budget in 2016-17. Subsequently, spending and performance will need to be managed sustainably over the following four years in order to access the available transformation funding. This is intended to fund changes to service delivery while maintaining and improving patient safety and quality over the years 2017-21. Failure to deliver on targets agreed will result in bodies being unable to access transformation funding, which will from now on be the only additional funds available.</p>	
<p>EU referendum</p>	<p>The decision of the UK to begin the process of leaving the EU has introduced a period of significantly increased uncertainty for the UK and indeed Global economy. The Leave vote will lead to a significant impact for the public sector as it will be the sector that has to deliver the implementation of Brexit. We now know that there will be a change of Tory PM plus it is likely that there will be other changes to the cabinet as part of a new PM's reshuffle. In addition it is possible that an opposition leadership contest will also take place in the near future depending on how events continue to develop. It is evident at this point that there is a danger of a political vacuum for a number of months – this will only increase uncertainty both within the public sector and in the business world.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of Brexit and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will talk with you on the concerns and questions you may have and provide our insight at key points along the path. We will provide our June 2016 paper on the EU Referendum, and the impact of Brexit on the Government and Public Sector market.</p>



Appendix A

Audit Fees

Appendix A Audit Fees

Our fee for 2015/16 is £2,371 higher than the scale fee set by the PSAA and reported in our 26 January 2016 Audit Plan.

Description	Final Fee 2015/16 GBP	Scale Fee 2015/16 GBP	Final Fee 2014/15 GBP
Total Audit Fee – Code work	68,131	65,760	87,680

The additional fee concerns our additional audit time due to the financial statements presented for audit not being fully supported by adequate working papers and containing a number of issues that required audit adjustment.

We are awaiting final approval from Public Sector Audit Appointments Ltd (the regulator), for the additional fee.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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ED None

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