



WALES **AUDIT** OFFICE
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Annual Audit Report 2011

Abertawe Bro Morgannwg University Health Board

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Status of report

The team who delivered the work comprised Ann-Marie Harkin, Matthew Coe and Carol Moseley on behalf of the Auditor General for Wales.

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Contents

Summary report	4
Detailed report	
About this report	6
Section 1: Audit of accounts	7
I have issued an unqualified opinion on the 2010-11 financial statements of the Health Board, although in doing so I have brought several issues to the attention of officers and the Audit Committee	7
Section 2: Arrangements for securing efficiency, effectiveness and economy in the use of resources	10
The Health Board faces a significant financial challenge to achieve year-end break even and although additional funding has been allocated by the Welsh Government, there is a risk that the required cost savings will not be achieved	10
Good overall progress has been made in addressing the areas for development identified in my 2010 Structured Assessment, and while further challenges remain, a continued focus on improvement is evident	11
Specific action in a number of areas is needed to improve operating theatre utilisation and to increase day surgery rates	13
Action to address the issues identified in a number of previous performance audit reviews has resulted in improvements, although further action is still needed in some areas	14
Appendices	
Reports issued since my last Annual Audit Report	17
Audit fee	19

Summary report

1. This report summarises my findings from the audit work I have undertaken at Abertawe Bro Morgannwg University Health Board (the Health Board) during 2011.
2. The work I have done at the Health Board allows me to discharge my responsibilities under the Public Audit (Wales) Act 2004 (the 2004 Act) in respect of the audit of the accounts and the Health Board'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 Health Board, 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 agreed with officers and presented to the Audit Committee. The reports I have issued are shown in [Appendix 1](#).
4. The key messages from my audit work are summarised under the following headings.

Audit of accounts

5. I have issued an unqualified opinion on the 2010-11 financial statements of the Health Board, although in doing so I have brought several issues to the attention of officers and the Audit Committee. These relate to:
 - one uncorrected misstatement that did not materially affect the Health Board's financial position;
 - recommendations for improving the calculation of Continuing Healthcare provision;
 - the need for appropriate approvals in settling a fuel-tax liability; and
 - an update on the continuing position across Wales on accounting for replacement of fixed assets under International Accounting Standard (IAS) 16.
6. I have also concluded that:
 - the Health Board's accounts were properly prepared and materially accurate;
 - the Health Board had an effective internal control environment to reduce the risks of material misstatements to the financial statements; and
 - the Health Board's significant financial and accounting systems were appropriately controlled and operating as intended.
7. The Health Board achieved financial balance at the end of 2010-11, after reporting savings of £55 million and receiving additional funding from the Welsh Government of £24 million.

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

8. I have reviewed the Health Board's arrangements for securing efficiency, effectiveness and economy in the use of its resources. My work has involved gauging progress that has been made in addressing the areas for further development identified as part of last year's Structured Assessment work. Performance audit reviews have also been undertaken on specific areas of service delivery. This work has led me to draw the following conclusions:
- the Health Board faces a significant financial challenge to achieve year-end break even and although additional funding has been allocated by the Welsh Government, there is a risk that the required cost savings will not be achieved;
 - good overall progress has been made in addressing the areas for development identified in my 2010 Structured Assessment, although challenges still exist;
 - specific action in a number of areas is needed to improve operating theatre utilisation and increase day surgery rates; and
 - action to address the issues identified in a number of previous performance audit reviews has resulted in improvements, although further action is still needed in some areas.

Agreeing my findings with the Executive Team

9. This report has been agreed with the Chief Executive and the Director of Finance and was presented to the Audit Committee on 23 January 2012. It will now be presented to the next Board meeting. We strongly encourage wider publication of this report by the Health Board. Following Board consideration, the report will also be made available to the public on the Wales Audit Office's own website (www.wao.gov.uk).
10. The assistance and co-operation of the Health Board's staff and members during the audit are gratefully acknowledged.

Detailed report

About this report

11. This Annual Audit Report to the Board members of the Health Board sets out the key findings from the audit work that I undertook between December 2010 and November 2011.
12. My work at the Health Board 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 Health Board, and to lay them before the National Assembly;
 - b) satisfy myself that the expenditure to which the accounts relate has been incurred lawfully and is in accordance with the authorities which govern it; and
 - c) satisfy myself that the Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
13. In relation to (c), I have drawn assurances or otherwise from the following sources of evidence:
 - the results of audit work on the Health Board's financial statements;
 - work undertaken as part of my latest Structured Assessment of the Health Board, which examined the arrangements for financial management, governance and accountability, and management of resources;
 - the Health Board's self-assessment against the Governance and Accountability module of the Standards for Health Services in Wales;
 - performance audit examinations undertaken at the Health Board;
 - the results of the work of other external review bodies, where they are relevant to my responsibilities; and
 - other work, such as data matching exercises and certification of claims and returns.
14. I have issued a number of reports to the Health Board this year. The messages contained in this Annual Audit Report represent a summary of the issues presented in these more detailed reports, a list of which is included in [Appendix 1](#).
15. The findings from my work are considered under the following headings:
 - audit of accounts; and
 - arrangements for securing economy, efficiency and effectiveness in the use of resources.
16. Finally, [Appendix 2](#) presents the latest estimate on the audit fee that I will need to charge to cover the actual costs of undertaking my work at the Health Board, alongside the original fee that was set out in the *Outline of Audit Work for 2011*.

Section 1: Audit of accounts

17. This section of the report summarises the findings from my audit of the Health Board's financial statements for 2010-11. These statements are the means by which the organisation demonstrates its financial performance and sets out its net operating costs, recognised gains and losses, and cash flows. Preparation of an organisation's financial statements is an essential element in demonstrating appropriate stewardship of public money.

My responsibilities

18. In examining the Health Board'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 Health Board and of its income and expenditure for the period in question;
 - whether they are free from material misstatement – whether caused by fraud or by error;
 - whether they are prepared in accordance with statutory and other applicable requirements and comply with all relevant requirements for accounting presentation and disclosure;
 - whether that part of the Remuneration Report to be audited is properly prepared; and
 - the regularity of the expenditure and income.
19. In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).
20. In undertaking this work, auditors have also examined the adequacy of the:
- Health Board's internal control environment; and
 - financial systems for producing the financial statements.

I have issued an unqualified opinion on the 2010-11 financial statements of the Health Board, although in doing so I have brought several issues to the attention of officers and the Audit Committee

The Health Board's accounts were properly prepared and materially accurate

21. We found the information provided to support the financial statements to be relevant, reliable, and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear. We received information in a timely and helpful manner and were not restricted in our work. The quality of the draft financial statements and the clarity and consistency of

working papers provided for audit have improved significantly on last year as a result of additional early work between us and Finance Department staff.

22. 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 Health Board's Audit Committee on 6 June 2011. **Exhibit 1** summarises the key issues set out in that report.

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

Issue	Auditors' comments
Post balance sheet event	A clinical negligence case, ongoing at 31 March 2011, was concluded after the year-end. In our view, both the clinical negligence provision and the Welsh Risk Pool debtor should have increased by £2.4 million to reflect this settlement. The Health Board did not adjust the financial statements as there was no change in the overall financial position, but did include additional disclosures to clarify the position.
Welsh Health Specialised Services Committee balances	As the Health Board shares financial risks for the Welsh Health Specialised Services Committee (WHSSC) with all local health boards in Wales, any amendments from the audit of WHSSC need to be reflected in each local health board's own financial statements. We confirmed with the WHSSC audit team that there were no issues arising from the audit of WHSSC affecting the Health Board's financial statements.
Continuing Healthcare Provision	The Health Board has already done significant work in 2010-11 to improve the systems for recording, processing and quantifying continuing healthcare claims, but agreed that further improvements to the database supporting this provision are needed in 2011-12.
Fuel benefit tax liability	The Health Board needs specific guidance and appropriate approvals from the Welsh Government before it seeks to settle an additional tax liability arising from a review of lease-car fuel benefits by Her Majesty's Customs and Revenue.
Future application of accounting standards	The Health Board may still need to amend its approach to accounting for replaced assets once there is clarity at an all-Wales level on changes in the accounting standards.

The Health Board had an effective internal control environment to reduce the risks of material misstatements to the financial statements

23. In considering the internal control environment, I assess arrangements that include high-level controls over the main accounting and budgetary control systems, the work and role of internal audit and the work of the Audit Committee which plays an active role in reviewing and strengthening the internal control environment.

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24. I found that controls were operating as effectively as intended and therefore formed a reliable basis for preparing the financial statements.
 25. Internal audit work undertaken during the year generally complied with the internal auditing standards for the NHS in Wales, and supported the Head of Internal Audit's annual opinion, as reported to the Audit Committee in June 2011. Internal Audit is working towards full compliance with the revised standards.

The Health Board's significant financial and accounting systems were appropriately controlled and operating as intended

26. I did not identify any significant weaknesses within the Health Board's financial systems. However, minor areas for improvement were identified during the audit and recommendations have been made to management to address these.

The Health Board achieved financial balance at the end of 2010-11, after reporting savings of £55 million and receiving additional funding from the Welsh Government of £24 million

27. At the start of the 2010-11 financial year, the Health Board identified a funding gap of £77.4 million which it planned to close through a programme of cost containment and financial savings. This cost improvement programme was developed and agreed in an inclusive way with Directorates and Localities. The programme was closely monitored and revised during the year, and £55 million of planned savings were delivered in line with the programme's targets.
28. The Health Board also received additional in-year funding of £24 million from the Welsh Government. This additional funding alongside the £55 million of savings, allowed the Health Board to achieve its statutory break-even target in 2010-11 and achieve a surplus for the year of £347,000. The Health Board identified clinical engagement, good planning and communication as key factors in achieving this position.

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

29. 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 Health Board over the last 12 months to help me discharge that responsibility. This work has involved:
- reviewing the Health Board's financial management arrangements, including the progress being made in delivering cost-saving plans and their contribution to achieving financial balance;
 - assessing the progress the Health Board has made in addressing the 'areas for development' we identified in last year's Structured Assessment work;
 - examining the Health Board's performance on operating theatre utilisation and day surgery rates; and
 - assessing the progress the Health Board has made in addressing the issues identified by previous audit work on the European Working Time Directive for Junior Doctors, Unscheduled Care, Maternity Services and Ward Staffing.
30. The main findings from this work are summarised under the following headings.

The Health Board faces a significant financial challenge to achieve year-end break even and although additional funding has been allocated by the Welsh Government, there is a risk that the required cost savings will not be achieved

31. In my report, *A Picture of Public Services 2011*, published in October 2011, I noted that the NHS in Wales faces the toughest financial settlement in the UK, rising cost pressures and a significant funding gap for this financial year, and beyond. Unlike other parts of the UK, the NHS in Wales faces real-terms cuts in funding if current Welsh Government budget proposals are approved.
32. To achieve a break-even position at the end of 2011-12, the Health Board identified that it needed to deliver cost savings of £62.9 million. A savings programme of £42.9 million was put in place and a shortfall of £20 million has been recognised since the start of the financial year. An additional allocation of funding amounting to £17 million has recently been agreed with the Welsh Government, resulting in a forecast year-end deficit of £3 million.
33. Although most of the identified cost-saving plans are considered to be deliverable, cost savings of £3 million have yet to be identified. In addition, as at the end of September 2011, actual savings to date were reported to be £17.5 million compared to forecast savings of £19 million with significant underperformance in the delivery of workforce modernisation savings.

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34. The Health Board has recognised that workforce redesign and modernisation are crucial to its financial stability, and it has commissioned CHKS to help it identify areas where scope for improvement exists. Differential efficiency targets are also being considered for the future so that savings targets more closely reflect performance and service priorities.
35. However, some £5 million of the identified savings are non-recurring, which means that the Health Board will need to identify other sources of efficiencies if it is to secure financial sustainability, given that the financial challenges facing the Health Board over the coming years are likely to continue to be significant.

Good overall progress has been made in addressing the areas for development identified in my 2010 Structured Assessment, and while further challenges remain, a continued focus on improvement is evident

36. In last year's Structured Assessment work I identified the need for the Health Board to strengthen and further develop some aspects of its corporate arrangements. This year I have reviewed the progress that has been made in addressing the areas for development identified in my 2010 Structured Assessment.

The Health Board has strengthened, and is continuing to strengthen, its governance arrangements, although further action is required in some key areas

37. The work has shown that the Health Board has made good overall progress. While further development action is still needed in some areas, the Health Board's governance and assurance arrangements have continued to evolve and have been strengthened by:
- positive stakeholder engagement in the development of strategic plans for the health community, and constructive relationships with the Community Health Council;
 - an increasing focus on the identification of outcome and patient experience measures;
 - development of the Board Assurance and Clinical Governance frameworks;
 - an evolving approach to risk management, with better information on the nature and scale of agreed corporate risks;
 - developing a more systematic and focussed approach to clinical audit and making it a more fundamental part of the Board's assurance framework through increased participation in national audit programmes; and
 - improving the format of performance reports and providing better performance management information to the Board.

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38. The Health Board is also continuing to strengthen its approach to strategic planning. Work is currently in progress to develop integrated capacity planning, by strengthening the alignment of capacity, financial and workforce planning activities, matched to clear corporate objectives and priorities, and performance management.
39. There are also areas where further developments are needed. These include:
- continuing to evolve the Health Board's risk management approach and ensuring that corporate risks are aligned to strategic and operational objectives;
 - continuing to develop the clinical audit programme and ensuring that the work programme is fully aligned to corporate priorities; and
 - continuing to strengthen performance reporting to the Board and providing assurance to Board members, that actions identified to secure improvement are having the desired effect.
40. During 2011, the Health Board reviewed the sub-committee structure. A Clinical Governance and Risk Group was set up and a Clinical Governance Policy Framework developed. The framework maps the reporting relationships between the formal Board sub-committees and the management groups and committees that report to them. This development helps the Health Board address the concerns that I identified last year in relation to providing clarity on the roles of each committee and the management sub-groups that sit below them, and their relationship to each other. However, more work is needed to ensure that reporting lines between groups and committees are operating effectively.
41. An Annual Governance Statement for 2011-12 will replace the Statement of Internal Control (SIC) across NHS Wales. The Governance Statement will need to form an integral part of the Board Assurance Framework, alongside the Healthcare Standards, and be underpinned by a more consistent understanding of the overall assurance framework across the organisation.
42. It is also noted that the Health Board has reviewed its acute directorate structure as part of a process to reduce the number of interfaces, increase financial and service flexibility and maximise management capacity. Locality structures have been established and locality teams are increasingly collaborating and sharing resources to make better use of capacity and expertise. Work to develop community networks is progressing well. There is some evidence of more integrated locality/directorate working across patient pathways, and changes to strengthen operational interfaces are being made in 2012 that should to help manage cross-cutting issues.

There is evidence of progress in a number of the functions that enable efficient, effective and economical use of resources, but some challenges remain

43. My work examined the progress that has been made in the areas of workforce planning, estate management, information management and stakeholder engagement. This work has shown that:
- workforce planning has advanced over the last year, and a workforce information strategy is being developed to help strengthen future planning;

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- reconfiguration of the hospital estate is taking place in line with agreed strategic plans and the Health Board continues to take steps to improve the estate, for example, continued investment in the Morriston Hospital redevelopment;
 - a policy to support sustainable procurement is being developed, with training on sustainability risk assessment being provided to Estates staff;
 - there is effective operational delivery of the IMT service, good engagement with national IT initiatives and a clinical information strategy has been developed;
 - there has been good progress in the way the Health Board and its Local Authority partners are working together both at organisational and operational levels; and
 - proactive work in the areas of 'listening' to patient experiences and engaging and communicating with staff is taking place.

44. There are also areas where further challenges remain. These include:

- continuing to focus on achieving annual appraisals for all staff;
- developing an information strategy (strategies) to cover all information needs, linked to corporate objectives and business needs;
- considering how information and technology may support further improvement in business and planning processes; and
- supporting and developing capacity in localities and directorates to progress transformational change through new ways of working.

Specific action in a number of areas is needed to improve operating theatre utilisation and to increase day surgery rates

45. As part of my work to determine scope for the Health Board to achieve greater efficiencies in the use of its resources, I have examined operating theatre utilisation and day surgery rates. This work made use of performance comparisons with a sample of NHS trusts in England.

46. The work showed that while some steps have been taken to improve theatre utilisation, accelerated and better co-ordinated action is needed to address the comparatively poor performance and concerns raised by staff. In reaching this conclusion I found that:

- whilst short stay surgery rates are relatively high, theatre utilisation in general and day case rates are comparatively low within the Health Board and while some steps have been taken to improve performance, much more can be done;
- the strategic importance of theatres is recognised by the Health Board, but there are weaknesses in the strategic planning and management of theatres;
- staff are generally positive about the safety culture and team working but raised concerns about communication and morale; and
- the Health Board has good theatre data systems and information is readily available but it recognises the need to improve its performance management approach.

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47. The audit highlighted a number of specific issues that the Health Board needed to address. Since the audit was completed, the Health Board has identified a series of specific actions to help address the recommendations that emanated from my audit work. Alongside this, the Health Board is using the national Transforming Theatres programme to help shape and drive improvements in theatre performance.
48. Collectively, this is a positive response on behalf of the Health Board to improving its theatre performance. The extent to which the identified improvements are being secured will be the subject of follow-up audit work in 2012.

Action to address the issues identified in a number of previous performance audit reviews has resulted in improvements, although further action is still needed in some areas

49. During the last 12 months I have undertaken follow-up audit work to assess the progress that the Health Board has made in addressing concerns and recommendations arising from previous audit work in specific areas of service delivery. The findings from the follow-up work are summarised in [Exhibit 3](#).

Exhibit 3: Progress in implementing audit recommendations

Area of follow-up work	Conclusions and key audit findings
European Working Time Directive (EWTD) for Junior Doctors	<p>The Health Board has implemented EWTD compliant junior doctor rotas supported by alternative ways of working but needs to monitor closely junior doctors' actual working time and the implications for patient care. In reaching this conclusion, I found that:</p> <ul style="list-style-type: none"> • all of the Health Board's junior doctor rotas are, in principle, now EWTD compliant; • the Health Board has developed alternative ways of working to reduce junior doctors' working hours, but not yet on a consistent basis, and there are significant concerns about the impact of EWTD compliance on patient care; • rota monitoring arrangements are in place but could be improved and there is evidence that working time is not always accurately recorded; and • EWTD compliance and delivery issues are considered at various levels but are not currently part of the Board's reporting framework.

Area of follow-up work	Conclusions and key audit findings
<p>Unscheduled Care (Preliminary Follow-up Work)</p>	<p>The Health Board is making progress in improving unscheduled care services and in implementing the recommendations of the Auditor General's report but needs to continue to prioritise this work and sustain the improvements made. I came to this conclusion because:</p> <ul style="list-style-type: none"> • the Health Board has prioritised the development of Unscheduled Care and taken account of the Auditor General's recommendations, using them to inform the development of services; • although performance data demonstrates that improvements are being made, key targets for different parts of the unscheduled pathway are still not being met; • collaborative and integrated working with partner organisations is improving unscheduled care services with service improvement plans being developed and implemented; • there is evidence of progress on initiatives to improve points of access to unscheduled services; • the design/redesign of patient pathways for common unscheduled care conditions is underway and this work needs to continue to be a priority; • there is limited evidence of progress on developing joined-up information systems; and • the Health Board is making considerable progress in reviewing its unscheduled care workforce and is redesigning and reconfiguring staffing arrangements to meet identified need. <p>More detailed follow-up work is planned.</p>

Area of follow-up work	Conclusions and key audit findings
Maternity Services	<p>The Health Board has made considerable progress in creating an improved and integrated maternity service, although further work is required and momentum needs to be maintained. The reasons for reaching this conclusion are set out below:</p> <ul style="list-style-type: none"> • maternity services are recognised as a high priority; • the Health Board has made good progress in identifying, collecting and using the information it needs to help plan and manage the maternity service; • the Health Board is content with the overall strategic model for maternity services and recognises that it needs to remain responsive to changing demand; • there are well-developed systems to support the delivery of safe and effective care, although obstetric cover in the labour ward does not yet meet recommended levels; and • the services offered across the maternity care pathway are improving with reducing interventions and increased support for breastfeeding although variations in community midwifery arrangements need to be addressed.
Ward Staffing Comparative Benchmark	<p>Ward staffing levels have increased since 2008 and are now close to the benchmark average, although there is some scope for further rebalancing of ward staffing between hospitals and wards. Overall grade mix is typical of the benchmark and there is comparatively less reliance on the use of temporary staffing. I came to this conclusion because:</p> <ul style="list-style-type: none"> • overall ward staffing levels have increased between 2010 and 2011; • overall ward staffing levels are now close to the benchmark average but some scope for reallocation between hospitals and wards remains; • overall grade mix is typical of the benchmark for the percentage of qualified staff; • allowances for absences appear reasonable compared to the benchmark; • the number of permanent staff in post is comparable to the benchmark average and the Health Board fills a greater proportion of its establishments with permanent staff; and • differences in total staffing compared to the benchmark average appear to reflect the lower use of temporary staff.

Appendix 1

Reports issued since my last Annual Audit Report

Report	Date
Financial audit reports	
Audit of the Financial Statements Report (ISA 260)	June 2011
Opinion on the Financial Statements	June 2011
Verification of the Whole of Government Accounts Return	August 2011
Opinion on the Summary Financial Statements in Annual Report	September 2011
Financial Statements Report to Management	September 2011
Performance audit reports	
European Working Time Directive for Junior Doctors follow-up	July 2011
Preliminary Unscheduled Care follow-up	July 2011
Maternity Services follow-up	August 2011
Theatre efficiencies and day surgery performance	August 2011
Performance audit presentations	
Ward Staffing comparative benchmark	December 2011
Structured Assessment 2011	January 2012
Other reports	
Outline of Audit Work 2011	March 2011

There are also a number of performance audits that are still underway at the Health Board. These are shown below, with estimated dates for completion of the work. I estimate that all the performance audit work identified in the March 2011 *Outline of Audit Work* will be completed by the end of the 2011-12 financial year.

Report	Estimated completion date
Structured Assessment 2011 (presentation)	January 2012
Disaster Recovery Business Continuity	January 2012
Data Quality	February 2012
Governance workshop with Audit Committee members	February 2012
Ward Staffing Comparative Benchmark follow-on work	March 2012
Chronic Conditions Management	March 2012
Unscheduled Care – Detailed Follow-up	March 2012
Clinical Engagement	March 2012

Appendix 2

Audit fee

The *Outline of Audit Work for 2011* set out the proposed audit fee of £452,330 (excluding VAT). My latest estimate of the actual fee is in line with this figure, on the basis that some work remains in progress. Additionally a refund of £26,320 has been made to the Health Board in respect of some elements of the previous year's plan, and some additional work has also been required. More information is provided below.

Project	Plans for taking work forward
IT Business Continuity/Disaster Recovery work	This work will still be undertaken but will be funded from the 2011 audit fee. To accommodate this, plans for work on the implementation of national Caldicott guidance have been deferred and will now be considered as part of the planning exercise for our 2012 programme of work.
Follow-up work on Child and Adolescent Mental Health	It was our intention to use a small amount of time in the 2010 plan to examine the progress being made with health specific issues that arose from the 2009 national report on Child and Adolescent Mental Health Services. However, scoping of this work, and discussions with other inspectorates have shown that it would be preferential to undertake this work as a national Auditor General examination. Consequently, the work has been removed from the local performance audit programme and the associated fee refunded.
Local project on Continuing Healthcare	This project has been cancelled and the associated fee refunded. I intend to take forward work on Continuing Healthcare as a national study.
Unscheduled Care	As detailed follow-up work on Unscheduled Care is being undertaken as part of the 2011 audit plan, the unused element of the 2010 fee has been refunded.
Ward staffing benchmark	It has been necessary to repeat the ward staffing benchmark review due to errors in the data submitted by the Health Board.

It has been necessary to repeat the ward staffing benchmark review due to errors in the data submitted by the Health Board. The refund for the above projects of £36,190 has therefore been reduced to £26,320 to account for the re-work required for the ward staffing benchmark.

In addition to the fee set out above, the audit work undertaken in respect of the shared services provided to the Health Board by the Business Services Centre was £18,269 which is also in line with the amount set out in the *Outline of Audit Work 2011*.



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