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Annual Audit Report 2011

Cwm Taf Health Board

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Status of report

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The team who delivered the work comprised Derwyn Owen, Mike Jones, Julie Rees and Matthew Mortlock.

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Summary report

1. This report summarises my findings from the audit work I have undertaken at Cwm Taf Local 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 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.
6. I have also concluded that:
   - the Health Board's accounts were properly prepared and materially accurate; and
   - the Health Board had an effective internal control environment to reduce the risks of material misstatements to the financial statements.
7. The Health Board achieved financial balance at the end of 2010-11, but only as a result of additional, non-recurring funding from the Welsh Government of £18.2 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 my 2010 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:
   - arrangements for achieving efficiencies have been strengthened and the direction of travel is generally positive, but there remains a real risk that the Health Board will not meet its 2011-12 cost-saving targets and hence fail to stay within its allocated resource limit;
   - during a period of fresh organisational change, the Health Board has made progress in addressing other areas for development identified in my 2010 Structured Assessment work, but some significant challenges remain;

- the Health Board is taking action to address areas of comparatively poor performance identified in my work on operating theatres and day surgery, with progress being scrutinised by the Finance and Performance Committee;
- while departments have identified ways in which they would maintain clinical services in the event of ICT failure, ICT business continuity and disaster recovery plans are not being adequately documented, tested or scrutinised; and
- the Health Board has addressed some of the issues identified by my previous work on maternity services and unscheduled care but still faces some significant challenges in terms of planning for and ensuring safe, good quality and sustainable services.

Agreeing my findings with the Executive Team

9. This report has been agreed with the Chief Executive and the Director of Finance. It was presented to the Audit Committee on 19 March 2012. It will then be presented to a subsequent Board meeting and a copy provided to every member of the Health Board. 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 is 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 have undertaken in 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 Audit Outline.

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. The Health Board's draft financial statements for the year ended 31 March 2011 were prepared in accordance with the requirements of the NHS Manual for Accounts and were submitted to the Welsh Government by the deadline of the 4 May 2011. The deadline for submission of the audited financial statements to the Welsh Government by 8 June 2011 was also met and the Auditor General issued and unqualified opinion on the accounts on the 14 June 2011. The Health Board's financial statements included the balances and transactions relating to the Welsh Health Specialised Services Committee, for which I did not identify any significant issues of concern.

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 7 June 2011. Exhibit 1 summarises the key issues set out in that report.

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

Issue	Auditors' comments
Uncorrected misstatements	There were three uncorrected misstatements identified in the financial statements: • non NHS accruals were overstated by £195 thousand; • other income and continuing healthcare expenditure were both overstated by £178 thousand; and • the estimated accrual for prescribed drugs was overstated by £273 thousand.
The process of evidencing capitalised staff costs could be improved	Under International Accounting Standard (IAS) 16, the Health Board is entitled to capitalise staff costs, where it can be demonstrated that the costs are directly attributable to the costs of constructing the asset. Staff costs of £619 thousand had been capitalised in 2010-11. While this fell below our testing level for the year, I considered that the process of identifying which staff costs should be capitalised could be more clearly documented and referenced back to accounting standards and Welsh Government guidance.

Issue	Auditors' comments
There were inadequate systems in place to identify and account for the value of replaced elements of property, plant and equipment	The IAS 16 has applied to NHS bodies since 2009-10. It sets out the specific accounting requirements for the recognition and measurement of fixed assets (known as 'property, plant and equipment') in the Statement of Financial Position. The IAS 16 requires that when parts of assets are replaced, any outstanding value of the replaced asset needs to be taken out of the property values (de-recognised) and any gain or loss is recognised in the revenue account. This was a new requirement from 2009-10 onwards. Currently, the Health Board does not have systems in place to routinely identify such values. My audit work and the representations provided by management in the Letter of Representation, together gave me reasonable assurance that there were no material misstatements in the 2010-11 financial statements arising from this issue. However, I intend to undertake further discussions with the Health Board's Director of Finance, the Welsh Government and the District Valuer to consider the development of systems to facilitate the identification of the value of de-recognised assets.
Public Sector Payment Policy (PSPP) performance had an element of uncertainty	The Health Board 'starts the clock' on invoice payment performance when the invoice is received by the Procure to Pay Department. The Welsh Government states that the clock should start when the invoice is received by the Health Board. Both Internal Audit and our testing has identified that some invoices are received by other departments. It is therefore not always possible to identify the correct start date. There is the possibility therefore that the Health Board's PSPP performance is overstated. Once received by the Procure to Pay Department the Health Board was reporting that 86 per cent of invoices are paid within 10 days. For disputed invoices, the Welsh Government has recently clarified that the clock should start when the invoice is received by the Health Board, stopped when the invoice is identified as being disputed and then restarted when the dispute is resolved. The Health Board did not stop the clock when resolving disputes. It is therefore likely that PSPP performance was understated in relation to this aspect. I have recommended that the Health Board should look at how systems could be put in place to resolve these issues (particularly evidencing the date the invoice is received) for 2011-12.
There was one other significant matter discussed with management	The Health Board met its statutory targets for 2010-11, but this was dependent on significant non recurrent savings of £9.3 million and additional funding for in year pressures of £18.2 million. The significant financial challenges continued into 2011-12, with identified cost pressures amounting to some £48.3 million.

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

23. I did not identify any material weaknesses in the Health Board's significant financial and accounting systems which would impact on my opinion. There were a number of detailed issues arising from my financial audit work and these were reported to the Audit Committee in September 2011. These included matters referred to in Exhibit 1 above and a number of other issues, as set out in Exhibit 2:

Exhibit 2: Other issues relating to significant financial and accounting systems

Issue	Auditors' comments
Intangible assets	Intangible assets were not separately identified and accounted for.
Accruals and estimates	The control arrangements governing the calculation of year-end creditor accruals and estimates needed to be strengthened; in particular: • accounting for primary care estimates; • provision for defence costs of contingent legal cases; • accrual write backs; and • unsupported creditor accruals.
Losses and special payments	A reconciliation between the losses and special payments register and the Welsh Health Legal Services Quantum reports should be completed at the year-end.
Computer automated audit techniques (CAATs)	The payroll and creditor CAATs identified two areas where controls needed to be strengthened to ensure they are clear and support value for money: • Payroll CAATS – overtime hours and payments; and • Creditor CAATS – use of agencies.
Local Counter Fraud Service	Planned LCFS days continued to be lower than those recommended by the NCFS and coverage of the primary care sector was still limited.
ICT	There was scope to improve the ICT arrangements and controls to reduce the risk of unauthorised access and loss of data.

24. The Health Board's 2010-11 Internal Audit function was provided by PricewaterhouseCoopers. Internal Audit is a key part of an audited body's internal control arrangements and we have assessed their work and confirm that it complies with the NHS Wales Internal Audit Standards. We concluded that the work undertaken by Internal Audit is completed to an acceptable standard and we sought to place reliance on this work wherever it was appropriate to do so.

25. However, the majority of the key Internal Audit system reports were not available to us until the Audit Committee meeting on 11 April 2011. As a result, we had to extend our own substantive testing on the financial statements to enable us to obtain sufficient assurance.

The Health Board achieved financial balance at the end of 2010-11, but only as a result of additional non-recurring funding from the Welsh Government of £18.2 million

26. The Health Board met its statutory financial targets in 2010-11, with reported savings amounting to £28.3 million for the year. The Health Board also received non-recurring funding from the Welsh Government of £18.2 million which enabled it to break even. The non-recurrent elements of the Welsh Government funding and the 2010-11 savings achieved meant the Health Board carried a £27.5million underlying deficit into 2011-12.

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

27. 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 completed a range of performance audit work at the Health Board during 2011 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 other 'areas for development' identified in my 2010 Structured Assessment work, and summarised in my Annual Audit Report 2010;
- examining the Health Board's performance on operating theatre utilisation and day surgery rates;
- reviewing the Health Board's arrangements in respect of Information and Communications Technology disaster recovery and business continuity arrangements; and
- assessing the progress the Health Board has made in addressing the issues identified by previous audit work on maternity services and unscheduled care.

28. The main findings from this work are summarised under the following headings.

Arrangements for achieving efficiencies have been strengthened and the direction of travel is generally positive, but there remains a real risk that the Health Board will not meet its 2011-12 cost-saving targets and hence fail to stay within its allocated resource limit

29. My 2010 Structured Assessment work emphasised that the Health Board needed to address urgently the areas for improvement highlighted in an Internal Audit financial sustainability review. The Health Board declared itself in financial recovery in January 2011 and went on to establish a Turnaround Programme, supported by the appointment of a Turnaround Director in June 2011. The Health Board has addressed key areas for improvement highlighted by Internal Audit. For example there is now clear accountability and leadership for the delivery of savings targets and there are also clearer links between project delivery and savings delivery. There have also been improvements in the format and consistency of how saving programmes are reported. However, the effectiveness of the new turnaround arrangements is yet to be demonstrated in full.

30. The Health Board's overall financial challenge for 2011-12 has been assessed at £48.3 million which comprises an underlying deficit of £27.5 million and new cost pressures of £20.8 million. The 2011-12 Interim Financial Plan, presented to the Board in April 2011, identified that £26.5 million of the financial challenge would be achieved through a minimum expectation of five per cent savings across all areas with the balance of £21.8 million requiring further efficiency measures.
31. The Health Board has identified a senior multi-disciplinary team to work alongside the Turnaround Director. The Turnaround Strategy has three key elements; Holding to Account (HTA) arrangements, the Year One Plan and 60 day cycles. These arrangements are actively including clinical staff and stakeholders in the development and delivery of savings plans
32. The HTA arrangements and the Year One Plan are responding to the immediate financial challenge facing the Health Board in 2011-12, with the aim of identifying cash releasing savings. The HTA arrangements are providing more robust challenge of directorates' savings plans.
33. The Year One plan was revised in Month 4, with each savings target allocated an Executive Lead who will be held to account for performance against the plan. Progress does now need to be made on the Year Two and Year Three plans to support medium term financial planning.
34. The 60 day cycles aim to generate practical and immediate improvements to some service challenges facing the Health Board. The Health Board expects that this work will generate savings and efficiencies in the longer term.
35. In November 2011, the Welsh Government confirmed additional funding of £17 million for 2011-12, and so the Health Board has now revised its total savings requirement to £31.3 million. The Month 9 financial position shows that the Health Board has achieved savings of £16.5 million. If the Health Board is to stay within its resource limits, it will therefore need to deliver further savings of £14.8 million between January and March 2012. The savings plans reviewed showed they are heavily reliant on savings being delivered in the latter part of the year which does increase the risk of delivery. However, the Health Board continues to report that it will meet its targets for the financial year, of staying within its resource limits.

During a period of fresh organisational change, the Health Board has made progress in addressing other areas for development identified in my 2010 Structured Assessment work, but some significant challenges remain

36. Exhibit 3 provides an update on progress in relation to some of the other key issues identified in my 2010 Structured Assessment work. In following up these issues, I have taken account of the scope of a separate review of governance arrangements undertaken by Healthcare Inspectorate Wales (HIW). The findings from that review have not yet been finalised.

37. The issues explored in Exhibit 3 are set against the backdrop of a significant programme of new and ongoing organisational development work. The appointment of a new Chief Executive, in post since February 2011, has provided a fresh impetus for this work. The direction of travel is positive, but some significant challenges remain and it is too early to judge the full impact of some of the changes referred to below.

38. As part of its organisational development work, the Health Board is intending to set out a revised governance framework. It is important that these proposals create a coherent, lean and well-understood approach to support delivery of the Health Board's objectives and the more efficient, effective and economical use of resources. One concern has been that, with new committee arrangements and alongside the work of the turnaround programme, there is now the risk of duplication of effort and a lack of clarity in terms of lines of accountability.

39. To support self-assessment against the governance and accountability module of the Healthcare Standards, the Health Board also needs to demonstrate that its governance arrangements are having a positive impact in addressing issues of concern. Internal Audit have identified various areas for improvement based on the way in which the Health Board undertook the self-assessment exercise for 2010-11, which forms a key part of the Health Board's annual Statement of Internal Control. The issues identified by Internal Audit included concerns about the timing of the work, processes for developing and reviewing service responses, and ensuring that the evidence used to support the self-assessment is clear and demonstrates the impact of the arrangements being described.

Exhibit 3: Addressing issues identified in my 2010 Structured Assessment work

Theme(s)	Progress made by the Health Board
Strategic direction and organisational structure	In autumn 2011, the Health Board undertook a wide-ranging series of service reviews. The Health Board has stressed the importance of engaging clinicians, and other staff, in this process and the review process appears to have been generally well received. Other service planning developments include a public consultation on the strategic framework for adult mental health services, with work now underway to translate the new framework into changes on the ground. Overall, the emergence of plans for service redesign has been slower than I previously expected, although the Health Board has needed to take account of the regional/national context. Benefits from the service review process, in terms of staff engagement, may be lost if the Health Board cannot respond promptly. However, there is now an expectation that proposals on regional service reconfiguration will be brought forward between April and June 2012 with formal consultation to follow. In the meantime, the Health Board has faced challenges in sustaining existing services. For example, in Autumn 2011 the Health Board had to instigate temporary closure of the Minor Injuries Unit at Ysbyty Cwm Rhondda to release staff to maintain accident and emergency services at Royal Glamorgan Hospital. While the underlying staffing issues have been a concern for some time, they are not unique to Cwm Taf. The restructuring implications of NHS reorganisation in 2009 have largely been resolved. However, the Health Board has taken forward plans for further restructuring, following the appointment of a Chief Operating Officer in August 2011 who is tasked with driving improvements in service delivery. The full implications of the new arrangements are still being worked through but key principles include bringing directorate teams closer to the executive team, enhancing clinical leadership, separating delivery and governance functions, and enhanced integration of services. Changes in senior management portfolios address some of the concerns I raised previously about the balance of responsibilities.
Committee structures and performance / risk management	Key developments include: • Establishment of a new Finance and Performance Committee. • Expanded membership of the executive board, including an increased number of clinicians, and re-invigoration of a Clinical Directors forum. However, following an inaugural meeting in December 2010, the Healthcare Professionals Forum did not meet again until October 2011. • Revised governance and accountability arrangements to discharge the Health Board's responsibilities under the Mental Health Act 1983. • Evidence of greater clarity in the reporting of key performance information, including trend analysis and comparison with other health boards. Although the focus is still on core national targets and the Health Board has not set out clearly its specific local objectives, whether related to the delivery of clinical services or wider organisational performance, for example environmental performance.

Theme(s)	Progress made by the Health Board
	• Work is underway to develop an operational plan for 2012-13 which should provide greater clarity in terms of the Health Board's priorities for that financial year and against which to measure progress. My 2010 Structured Assessment work highlighted the concerns of some board members about data quality. It is clear, based on recent discussions at the Audit Committee that concerns remain. Although board performance reports have pointed to the Health Board performing well, compared with other NHS bodies, in relation to national data quality indicators. The Health Board has identified some particular concerns about data quality in relation to mortality rates (where reported performance in comparison with all Wales trends has been poor). I am currently completing a review of the Health Board's data quality arrangements. I have not reviewed risk management as part of my 2011 Structured Assessment work. The HIW governance review has included work in this area and Internal Audit are also completing a risk management review. However, it is clear that further work is still needed to provide assurance that key organisational risks are articulated and escalated appropriately.
Complaints, claims and litigation	My 2010 Structured Assessment report drew on the work of the Welsh Risk Pool in 2009-10, which challenged the Health Board to demonstrate that it had a clear, documented and consistent approach to the way in which lessons are identified, implemented and cascaded. In its 2010-11 assessment of claims management, the Welsh Risk Pool reported that it was unable to provide assurance about the robustness of these arrangements, with limited evidence of progress since 2009-10. It also noted that the format and contents of internal reports in relation to claims did not meet minimum requirements. In his annual summary of performance for 2010-11, the Public Services Ombudsman noted an increase in the number of complaints received by his office, and those taken into investigation. The Ombudsman pointed to the possible opportunity for the Health Board to resolve matters at an earlier stage, avoiding the need for referral to his office. He also expressed disappointment with the speed of the Health Board's response to his requests for information. In April 2011, the Health Board transferred responsibility for the management of complaints, claims and litigation to the patient care and safety unit (from the corporate services team) and reporting in to the Director of Nursing. These arrangements are subject to ongoing review by the Welsh Risk Pool and the Ombudsman. They have also been considered as part of the governance review undertaken by HIW.

Theme(s)	Progress made by the Health Board
Internal control functions	As noted in Exhibit 2, planned local counter-fraud service days continue to be lower than those recommended by the National Counter Fraud Service and coverage of the primary care sector is still limited. It is for these reasons that I have decided to undertake some further work on fraud risks in primary care, with a specific focus on dental services. Little progress has been made to expand the reach of the clinical audit and effectiveness programme to primary care and this will now need to be addressed in developing a revised clinical audit and effectiveness strategy. The existing strategy, inherited from Cwm Taf NHS Trust, was due for review in January 2012. In developing the clinical audit programme for 2011-12 the Health Board has tried to align work to the requirements of the Annual Quality Framework, as well as looking to undertake repeat audits to evidence change. But there are still opportunities to shape the programme so that it aligns better with Health Board priorities, for example to include work following up issues raised by complaints and claims. Progress with the clinical audit programme, alongside other aspects of the work of the patient care and safety unit, has been affected by unresolved staffing structure issues. The Assistant Director responsible for the Unit is due to leave the organisation shortly and the latest restructuring proposals have also had implications for the Unit's work. The overall scale of the Internal Audit programme is still relatively small compared with other health boards. Future shared service arrangements may lead to changes in coverage. However, because of the lack of clarity about those arrangements, the Health Board has decided to extend the current contract for internal audit services through to September 2012. The Audit Committee has expressed concern at the number of limited assurance judgements contained in reports on work undertaken in 2010-11. Although further action was required, follow-up work in mid 2010-11 indicated that progress had been made towards implementing many of Internal Audit's high risk recommendations. Recent Internal Audit reports have, overall, produced more favourable judgements.
Workforce issues	Workforce planning has continued to improve, including better information about the primary care workforce. The 2010-11 exercise still had to be undertaken without clarity about plans for service redesign, although workforce leads have been actively involved in the recent service reviews. Sickness absence rates showed signs of improvement during 2010-11, and with rates below five per cent reported for March, April and May 2011. However, absence rates increased steadily in the period from June to October 2011. Internal Audit work in mid-2010 pointed to various concerns about data accuracy and procedural compliance. Internal Audit have been reviewing the action taken to address these concerns, alongside a review of the Worksure sickness absence assessment and advice service. Manager self-service functionality within the Electronic Staff Record is now being rolled-out, alongside plans for the implementation of e-rostering. Internal Audit work on the European Working Time Directive for medical and non-medical staff has highlighted the need for action in relation to monitoring arrangements, record keeping and training.

Theme(s)	Progress made by the Health Board
	While the latest Fundamentals of Care audit findings have pointed to improvements, issues relating to the delivery of mandatory training have featured in my recent work on operating theatres and maternity services, and in work by the Welsh Risk Pool. An Internal Audit review found that the Health Board did not have a centralised system to easily identify training requirements and track progress. A central learning management system, developed as part of an all-Wales project, is now being rolled out. Compliance with personal development review recording arrangements has been improving, but there is a lot more work still to be done. At mid-October 2011, the Health Board reported that 29 per cent of staff had a current review recorded on the Knowledge and Skills Framework system. This compared with 12 per cent in December 2010. Work has also continued to identify those staff affected by Agenda for Change pay banding anomalies. The Health Board is awaiting an all-Wales policy before being in a position to confirm the numbers of staff affected. As already noted in respect of accident and emergency medicine, the medical staffing situation remains difficult. Plans to recruit from overseas are not likely to be as beneficial as previously anticipated.
Procurement	There has been some further progress in extending the reach of the procurement function to areas of expenditure inherited from the predecessor Local Health Boards. For example, the procurement team has been involved in a tender relating to mental health related continuing healthcare. The procurement team is also looking at service level agreements with the third sector and intends to meet locality managers to discuss domiciliary care, another high-spend area. A sustainable procurement policy is still to be approved locally, although the draft has been endorsed by an all Wales group. Catalogue coverage (i.e. the proportion of purchases made from approved lists) has improved but is still short of the Health Board's 75 per cent target (reported at 56 per cent as at the end of October 2011). Progress with work to address the control of ward stocks has been affected by the departure of the previous 'procurement nurse'. However, the Health Board re-appointed to that role in September 2011 and the new nurse has been checking stock and non-stock levels on wards and is working with procurement to ensure appropriate contracts are in place and to standardise processes. This work is linked with the turnaround programme.

Theme(s)	Progress made by the Health Board
Estate management	As expected, ongoing capital investment and rationalisation of the Health Board's estate is contributing to a reduction in backlog maintenance costs. However, despite improved performance, the Health Board is still short of achieving most of the key all Wales estate-related targets. Energy performance has declined since 2009-10, due in large part to increasing consumption per square metre at the Prince Charles and Royal Glamorgan hospitals. The Health Board's performance in relation to fire safety compliance is of particular concern, and there have been ongoing issues in relation to the management of asbestos. However, the Corporate Risk Committee has been informed of these issues and the Health Board is taking action to address related improvement/enforcement notices. The Health Board has identified its own concerns about discretionary capital planning processes, including instances where additional funding was required post-approval of discretionary capital projects; where planned projects did not go ahead or where a significant amount of planned expenditure was incurred late in the 2010-11 financial year. The Audit Committee considered an Internal Audit report on this matter in October 2011, which found that action had already been taken to address some of these concerns, with other changes planned. In January 2012, the Audit Committee approved a revised capital monitoring procedure.
Informatics	There are ongoing concerns about the balance between demand, in terms of ICT system development, and the resources available to deliver the work required. In many areas, ICT system developments are intended to support service redesign and/or efficiency savings. Although the Health Board had committed additional temporary resources to address urgent pressures, concerns about the underlying staffing levels have re-emerged as these temporary arrangements have come to an end. Work by Internal Audit on information governance, following up recommendations made to Cwm Taf NHS Trust in 2009-10, has shown that, while progress had been made, only one of twelve previous recommendations had been fully implemented. The Health Board has recently identified proposals to change governance arrangements in relation to its informatics work, to help manage the risks presented by the separation of related responsibilities at director level. (paragraphs 43 to 44 report the overall conclusions from my recent review of ICT disaster recovery and business continuity)

Theme(s)	Progress made by the Health Board
Partnership working and service-user engagement	The emerging findings of my work on unscheduled care and chronic conditions indicate that the Health Board has continued to develop its relationships with its local authority partners. In particular, there is evidence that local authority partners have renewed confidence in terms of the Health Board's commitment to partnership working and service integration. There is regular dialogue at a senior management level and there have been moves to look afresh at the governance structures that support joint-working in these areas. The Health Board has engaged positively with its local authority partners in the development of the latest 'health, social care and wellbeing' and 'children and young people' plans. It has also worked with the two local authorities and voluntary sector groups to agree a new code of practice on public sector commissioning of third sector services. I reported previously that the Health Board had intended, in early 2011, to develop a new 'citizen strategy', bringing together issues including: wider citizen engagement; patient experience work; spirituality; dignity; and volunteering. However, staff turnover and sickness absence have delayed progress and timescales for finalising this strategy are not clear. The Stakeholder Reference Group is now well-established and has provided a useful forum in which to discuss various organisational developments, complementing other engagement mechanisms. The Health Board intends to identify staff from across the organisation to participate in public involvement / citizen engagement training in conjunction with the National Leadership and Innovation Agency for Healthcare (NLIAH) and Participation Cymru. This is a timely opportunity to support work that will need to be taken forward to develop the citizen engagement strategy and to support future consultation on service change.

The Health Board is taking action to address areas of comparatively poor performance identified in my work on operating theatres and day surgery, with progress being scrutinised by the Finance and Performance Committee

40. 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, and other health boards in Wales, based on a six-week period of activity in mid-2010. I shared the benchmarking results with the Health Board in late-2010 at the start of my on-site fieldwork.

41. My work identified a number of issues that the Health Board needed to address in order to improve its operating theatre and day surgery performance. Most notably:
   - A combination of factors had led to comparatively poor theatre utilisation and day case rates. The factors identified in my report included: weaknesses in pre-operative assessment which, if addressed, should reduce the rate of cancellations; the way in which theatre lists were produced and reviewed; problems with patient flows and bed availability; and issues with the management of medical staff leave and punctuality.
   - Improving theatre performance was a clear priority and the Health Board had set some related strategic objectives but there was no overall vision for theatre services.
   - Theatres staff were generally confident about safety but had some negative perceptions about their workload, mandatory training, communications and day-to-day management of services.
   - There was scope to improve the way in which information about operating theatres and day surgery performance is generated and used.
42. My fieldwork pre-dated the Health Board's current Turnaround Programme, which has included a focus on a number of related issues, with support from the Welsh Government's Delivery Support Unit. The Health Board has also been participating in the Transforming Theatres initiative coordinated by NLIAH. Progress is now being scrutinised by the Finance and Performance Committee. While the Committee has expressed its disappointment at the pace of the Health Board's response to the issues identified by my work, an action plan is now in place.

While departments have identified ways in which they would maintain clinical services in the event of ICT failure, ICT business continuity and disaster recovery plans are not being adequately documented, tested or scrutinised

43. Given the increased reliance on Information and Communication Technology (ICT) systems to support healthcare delivery, it is important that NHS bodies can demonstrate effective arrangements to reduce the risks of disruptions to these systems. I have therefore examined the ICT elements of the Health Board's disaster recovery and business continuity arrangements to establish whether they are supporting the delivery of resilient ICT systems and services. This work focused on arrangements in relation to key systems within six clinical service departments (radiology; pathology; accident and emergency; pharmacy; theatres; intensive care) and for the ICT infrastructure and network as a whole.
44. I reached the conclusion above because:
   - the Health Board does not have adequate documented ICT business continuity and disaster recovery plans for key areas, although departments have identified arrangements to maintain clinical services in the event of ICT failure;

- ICT disaster recovery and business continuity arrangements are not being adequately tested; and
- governance arrangements for business continuity and disaster recovery planning need strengthening, specifically:
  – while there are processes to learn the lessons from ICT incidents, there is no routine monitoring of the performance of the ICT infrastructure and systems or related support arrangements; and
  – business continuity planning does not have a strong profile within existing governance arrangements.

The Health Board has addressed some of the issues identified by my previous work on maternity services and unscheduled care but still faces some significant challenges in terms of planning for and ensuring safe, good quality and sustainable services

45. During the last 12 months I have undertaken follow-up work to assess the progress that the Health Board has made in addressing concerns and recommendations arising from my previous audit work on maternity services and on unscheduled care. The findings from the follow-up work are summarised in Exhibit 4.

Exhibit 4: Progress in implementing audit recommendations

Area of follow-up work	Conclusions and key audit findings
Maternity services *(this work considered progress in relation to issues highlighted in reports to the former North Glamorgan and Pontypridd and Rhondda NHS trusts in 2008, and in an all Wales report in June 2009)*	I concluded that, while the Health Board has made progress in improving its maternity services it still faces some significant challenges in terms of planning for and ensuring safe and sustainable services. More specifically I found that: • maternity services are a high corporate priority, and are supported by clear executive team and senior management engagement; • the Health Board is improving the evidence base to support service planning and performance management, although there is still scope to improve user engagement; • while safe and effective care is prioritised, there have been concerns about the Health Board's capacity to sustain existing services and work by the Welsh Risk Pool has highlighted a number of other operational risks; and • the Health Board is improving maternity care, with a greater focus on delivering antenatal care in the community and improvements in breast feeding management, although high Caesarean Section rates remain an issue.

Area of follow-up work	Conclusions and key audit findings
Unscheduled care - preliminary follow-up work *(this work followed up issues arising from an all Wales report published in December 2009)*	I concluded that the Health Board is taking action to improve the unscheduled care system but progress in some areas has been slow and the impact of these actions is yet to show sustained improvement against key targets. I am currently completing more detailed work on this topic and I intend to report my findings alongside the findings from recent audit work on the management of chronic conditions and on clinical engagement.

Appendix 1

Reports issued since my last Annual Audit Report

Report	Date
Financial audit reports	
Audit of Financial Statements Report	June 2011
Opinion on the Financial Statements	14 June 2011
Financial Statements Memorandum	September 2011
Performance audit reports	
Unscheduled Care: Preliminary Follow-up Work	June 2011
Maternity Services: Follow-up Review	October 2011
Operating Theatres and Day Surgery	November 2011
ICT Disaster Recovery and Business Continuity Arrangements	February 2012
Other reports	
Outline of Audit Work 2011	June 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 intend to bring together in a single report findings from my work on chronic conditions management, unscheduled care, and clinical engagement.

Report	Estimated completion date
Chronic Conditions Management	May 2012
Unscheduled Care – Detailed Follow-up	May 2012
Clinical engagement (a discrete module of my 2011 Structured Assessment work)	May 2012
Data quality (a discrete module of my 2011 Structured Assessment work)	May 2012
Fraud Risks in Primary Care	May 2012

Appendix 2

Audit fee

The Outline of Audit Work for 2011 set out the proposed audit fee of £455,743 (excluding VAT). My latest estimate of the actual fee, on the basis that some work remains in progress, is in accordance with the fee set out in the outline.

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 £11,025.

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