



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

Annual Audit Report 2011

Public Health Wales NHS Trust

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Status of report

The team who delivered the work comprised Matthew Coe, Tracy Veale, Anthony Ford, Andrew Strong and Elaine Matthews

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Summary report

1. This report summarises my findings from the audit work I have undertaken at Public Health Wales NHS Trust (the Trust) during 2011.
2. The work I have done at the Trust 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 Trust'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 Trust, 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 Trust, although in doing so I have brought several issues to the attention of officers and the Audit Committee. Whilst I recognise that there has been a substantial improvement in the final accounts preparation process this year, further improvements can still be made.
6. I have also concluded that:
 - the Trust's accounts were properly prepared and materially accurate; however further improvements are required in some areas of the preparation process; and
 - the Trust has an effective internal control environment to reduce the risks of material misstatements to the financial statements, although there is scope to strengthen some aspects further.
7. The Trust achieved financial balance at the end of 2010-11, as a result of effective financial management and budgetary control.

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

8. I have reviewed the Trust'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:
 - projected cost savings are being achieved and the Trust is predicting a balanced position at the end of the 2011-12 financial year;

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- overall, some progress has been made in addressing the areas for development identified in my 2010 Structured Assessment although specific challenges remain;
 - whilst the Trust undertakes annual job planning for consultants, the current approach is not yet sufficiently robust to ensure that the full benefits of the consultant contract are realised; and
 - the Trust has established a reasonable process to track progress against audit recommendations although a number of improvements to strengthen the process can be made.

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 5 December 2011. It will then be presented to a subsequent Board meeting and a copy will be provided to every member of the Trust Board. We strongly encourage wider publication of this report by the Trust Board. Following Trust 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 Trust'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 Trust sets out the key findings from the audit work that I undertook between December 2010 and November 2011.
12. My work at the Trust is undertaken in response to the requirements set out in the 2004 Act which requires me to:
 - a) examine and certify the accounts submitted to me by the Trust, 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 Trust 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 Trust's financial statements;
 - work undertaken as part of my latest Structured Assessment of the Trust, which examined the arrangements for financial management, governance and accountability, and management of resources;
 - the Trust's self-assessment against the Governance and Accountability module of the Standards for Health Services in Wales;
 - performance audit examinations undertaken at the Trust;
 - 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 Trust 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 efficiency, effectiveness and economy 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 Trust, 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 Trust's financial statements for 2010-11. These statements are the means by which the organisation demonstrates its financial performance and sets out its surplus or deficit, 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 Trust'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 Trust 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:
- Trust'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 Trust, although in doing so I have brought several issues to the attention of officers and the Audit Committee

The Trust's accounts were properly prepared and materially accurate, however, further improvements are required in some areas of the preparation process

21. I am required by ISA 260 to report any 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 Trust's Audit Committee on 6 June 2011. **Exhibit 1** summarises the key messages set out in that report.

Exhibit 1: Key messages identified in the Audit of Financial Statements Report

Key messages

There were no modifications to the Auditor General's certificate and report.

There were no uncorrected misstatements.

There were some corrected misstatements.

We had no significant concerns about the qualitative aspects of the Trust's accounting practices and financial reporting although we noted some areas for improvement going forward.

There were no significant matters discussed and corresponded upon with management, which needed to be drawn to the attention of the Audit Committee.

We did not encounter any significant difficulties during the audit.

There were no other matters significant to the oversight of the financial reporting process that we need to report to you.

We did not identify any material weaknesses in your internal controls that have not been reported to you already.

There were no other matters of governance interest to report.

22. We reported that the overall quality of the papers to support the accounts had improved from the previous year. The continued progress was notable this year given it was the first year that the Trust had taken the lead role in preparing its accounts. In particular, we received excellent support and assistance from Finance staff in responding to our audit queries, and working papers had improved substantially since last year in terms of quality and timeliness.
23. Whilst the Trust has continued to improve its processes this year, there are areas where procedures need to be refined. For example, ensuring all working papers and supporting notes are prepared in line with the closedown plan will continue the improvements from prior years.

The Trust has an effective internal control environment to reduce the risks of material misstatements to the financial statements, although there is scope to strengthen some aspects further

24. During the audit, we did not identify any material weaknesses in the significant financial and accounting systems, and internal control systems. However, there were areas where improvements could be made. While these did not directly impact upon the final accounts process, the Trust should ensure that appropriate arrangements are put in place to strengthen further the internal controls.

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25. The key areas of internal financial controls that need strengthening which were reported to the Trust include:
- ensuring a 'summary control register' is provided each month, as part of the Corporate Support Services Service Level Agreement, which includes details of when each reconciliation is prepared and reviewed, the names of staff undertaking those tasks and comments on any un-cleared reconciling items; and
 - ensuring the timely update of the general ledger for all adjustments arising during the year.
26. Cardiff and Vale Internal Audit Services provided an internal audit service to the Trust during 2010-11. We have assessed their work and confirm that it complies with the NHS Wales Internal Audit Standards. The work undertaken during the year supported the Head of Internal Audit's annual opinion on the effectiveness of the Trust's system of internal control, as reported to the Audit Committee in June 2011.
27. We have undertaken a review of the new Oracle financial system and the local IT infrastructure, which underpins this system as part of our 2010-11 work. We also followed up our 2009-10 review of the local controls over the Electronic Staff Record (ESR) Payroll system. Our work concluded that the Trust's ICT infrastructure supporting these financial systems is, in the main, current with good support arrangements in place, but that some environmental controls need to be improved.

The Trust achieved financial balance at the end of 2010-11, as a result of effective financial management and budgetary control

28. The Trust achieved a retained surplus of £38,000 for the year ending 31 March 2011. Effective financial management and budgetary control, coupled with a number of senior staff posts remaining vacant during 2010-11, enabled the Trust to successfully meet its savings target and, with the agreement of the Welsh Government, defer £600,000 of 2010-11 income into 2011-12.

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 Trust over the last 12 months to help me discharge that responsibility. This work has involved:
- reviewing the Trust'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 Trust has made in addressing the 'areas for development' we identified in last year's Structured Assessment work;
 - reviewing the arrangements the Trust has established to ensure that the full benefits of the consultant contract are realised; and
 - assessing the process the Trust has established to track progress against audit recommendations and progress the Trust has made in addressing the issues identified by previous audit work.
- 30.** The main findings from this work are summarised under the following headings.

Projected cost savings are being achieved and the Trust is predicting a balanced position at the end of the 2011-12 financial year

- 31.** For the financial year 2010-11, the Trust was required to manage a financial gap of £3.7 million. Whilst the Trust was able to identify corporately £2.5 million of savings, a further £1.2 million had to be found across the Directorates. The majority of saving schemes in 2010-11 were non-recurring and based around vacancy control and freezing posts within the existing establishment. As a result of this and effective financial management, the Trust was able to achieve its planned savings targets and reported a surplus of £38,000 for 2010-11.
- 32.** For 2011-12, the Trust is required to deliver savings of £2.8 million on a recurring basis. The Trust has prepared a detailed list of saving schemes which it uses internally to identify and monitor performance, and which has been reported to the Executive Team and the Trust Board. An analysis of the schemes for 2011-12 show that the cost improvement programme is a balanced mix of long and short-term recurrent savings schemes, and is less reliant on vacancy control.
- 33.** The Trust has identified divisional cost improvement targets and corporate cost improvement targets. The divisional cost improvement targets for all budget holders equates to £1.189 million with the remainder of the savings being found by corporate programmes. The corporate savings programme includes areas such as travel and

subsistence, conference and venue hire, procurement as well as larger schemes such as voluntary early redundancy schemes, grant funding and estates.

34. In preparing the savings schemes plan, the Trust has engaged with staff through a number of workshops to share detailed knowledge of sub-directorate budgets and the financial challenges that were being faced. Over 250 ideas for savings were generated which are now being reviewed the relevant project lead. The Trust has also held regular meetings with Local Public Health Teams to determine activities where resources can be shared.
35. All budgets and savings schemes are monitored in a series of monthly meetings held between budget holders, divisional directors, executive directors and central finance. Executive Directors ensure that divisional directors remain focussed on achieving the cost improvement plans and budget, while reinforcing delegated accountability. While, financial performance is currently reported monthly to the Trust Board at a directorate level, the Trust is in the process of setting up financial performance reports at a divisional level, now that the divisional structures are in place.
36. The Trust is on target to achieve its planned savings. The projected savings target of £1.868 million at month six had been achieved and the Trust is predicting a financial balance for the year-end.

Overall, some progress has been made in addressing the areas for development identified in my 2010 Structured Assessment although specific challenges remain

37. I have assessed the progress the Trust has made in addressing the areas for development identified in last year's Structured Assessment work and have concluded that some overall progress has been made although specific challenges remain.

While the annual financial planning process has improved the Trust should develop a medium-term financial plan as a priority

38. My review of the progress made by the Trust to strengthen its arrangements for managing finances has found that:
 - the annual financial planning process has improved and the Trust has a balanced cost improvement programme, however, the Trust needs to produce a medium-term financial plan as a matter of urgency to support future service development and modernisation; and
 - the level of detail in the financial information reported to the Board has continued to improve, and appears appropriate given the Trust's current financial position.

The Trust has continued to strengthen its governance arrangements although further developments are required in a number of key areas

39. My review of the progress made to strengthen its governance arrangements has found that the Trust has:
- supported the Trust's five-year strategy by developing an underpinning strategic framework, but work to establish operational level objectives in divisional strategic delivery plans is not yet complete;
 - appointed a Director for Public Health Development, with the post holder taking up the role from November 2011;
 - taken a number of steps to strengthen its risk management arrangements during 2011, and plans to develop and agree a risk management strategy by early 2012;
 - undertaken a number of clinical and public health audits in 2011 although an overall co-ordinated programme of audit to ensure appropriate assurance levels are obtained has yet to be developed and agreed;
 - made some progress on the policy update project in 2011 on a prioritised basis with further work planned in 2012; and
 - yet to develop a robust performance management framework to support integrated performance reporting and monitoring at all levels; plans to progress this issue are in place and aim to be completed by April 2012.

The Trust has further progressed a number of its 'enabler' functions which assist in the efficient, effective and economical use of resources although progress to develop the Trust's information management technology, public engagement and accommodation strategies has been slow

40. My review of progress in the areas where our 2010 work highlighted scope for improvement in relation to factors which enable efficient, effective and economical use of resources has found that the Trust has:
- updated its workforce plans in early 2011 although it recognises that the plans need to be further strengthened to reflect strategic service and workforce frameworks as they are developed;
 - plans to establish an agreed accommodation strategy by early 2012;
 - developed an information governance strategy but further work is needed to complete the information management and technology strategy;
 - developed a procurement improvement plan and has made progress in extending the reach and influence of procurements across the Trust, however some improvements can still be made in a small number of areas;
 - concluded the initial phase of the public health service delivery model project to identify the baseline level of resources by May 2011, although further work is required to implement where additional investment is needed and this is planned to be completed by March 2012;

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- developed a corporate communications strategy in April 2011; and
 - work underway to develop a public engagement strategy which is planned to be completed in early 2012.

While the Trust undertakes annual job planning for consultants, the current approach is not yet sufficiently robust to ensure that the full benefits of the consultant contract are realised

41. During 2011 I undertook a review of the benefits that were being secured from the consultant contract. My review focused predominantly on consultant job planning given its fundamental role in underpinning successful implementation of the contract. The main findings from this work are shown below.

While most consultants have undertaken annual job planning, existing processes are not robust

42. Job planning and appraisals take place annually for all consultant staff other than for some senior consultants. However, there is a need to improve current job planning arrangements given that:
- it is not fully clear over what is direct clinical care and what are supporting professional activities resulting in potential confusion in job plans;
 - management time is not recognised consistently or identified separately on job plans;
 - generally, the job planning process does not draw on robust information and most job plans do not contain specific, measurable and achievable outcomes; and
 - engaging partners in the job planning process has been challenging.
43. The Trust is currently taking action to strengthen its job planning arrangements, which is a positive initial step.

The fact that the Trust's current job planning processes are underdeveloped means that not all the intended benefits of the consultant contract are being realised

44. The contract was intended to more explicitly define consultants' working week. While full-time consultants are predominantly on 10-session contracts, the job planning arrangements reviewed mean that it is not clear if this is an accurate reflection of their actual commitments.
45. The contract was also meant to facilitate closer working between consultants and managers to support service modernisation. While service changes are taking place, more use could be made of job planning to plan and facilitate such changes.
46. More positively, most consultants consider their facilities, such as secretarial support, office space and IT equipment, to be satisfactory, although the extent to which the consultant contract has driven this is not clear.

The Trust has established a reasonable process to track progress against audit recommendations although a number of improvements to strengthen the process can be made

47. I have reviewed the Trust's approach to tracking progress in implementing audit recommendations to ensure that the necessary action is being taken. While I am content that a reasonable process is in place to monitor implementation of audit recommendations, current arrangements could be strengthened by:
- adding the date a report was finalised on the Audit Action Log; and
 - developing an analysis of the number of audit recommendations made, ongoing and completed in a period, giving their priority.

Appendix 1

Reports issued since my last Annual Audit Report

Report	Date
Financial audit reports	
Audit of the Financial Statements Report	June 2011
Opinion on the Financial Statements	September 2011
Performance audit reports	
Pay modernisation: NHS Consultant contract	May 2011
Review of the process for implementing audit recommendations	September 2011
Other reports	
Outline of Audit Work 2011	May 2011

There are also a number of performance audits that are still underway at the Trust. These are shown below. This shows that all the work identified in our 2011 Outline of Audit Work is scheduled for completion by the end of the 2011-12 financial year.

Report	Estimated completion date
Review of screening services data quality arrangements	January 2012
Review of arrangements to ensure good clinical engagement	February 2012
Detailed holistic review of the key risks and challenges facing the Trust	March 2012
Follow-up review of the pay modernisation consultant contract report	March 2012

Appendix 2

Audit fee

The Outline of Audit Work for 2011 set out the proposed audit fee of £144,569 (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.

My Outline of Audit work for 2011 also included a refund of £8,554 (excluding VAT) from my 2010 performance audit fee as work has been discontinued since my last Annual Audit Report in March 2011. This refund was made in June 2011 and was being given for the public health resources review work which had been withdrawn. The Public Health Resource review has been discontinued because actions have been taken by the Trust to address initial concerns that had been identified in relation to the availability of consultant public health resources across Wales and to confirm existing team resources. The Trust and local Directors of Public Health are planning to undertake further work to examine the future allocation of public health resources and how this can be allocated equitably across Wales. The immediate need for detailed audit work in this area is therefore no longer required and consequently this review was discontinued.



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