



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

Annual Audit Report 2012

Cardiff and Vale University Health Board

Issued: November 2012

Document reference: 563A2012

Status of report

This document has been prepared for the internal use of Cardiff and Vale University Local Health Board as part of work performed in accordance with statutory functions, the Code of Audit Practice and the Statement of Responsibilities issued by the Auditor General for Wales.

No responsibility is taken by the Wales Audit Office (the Auditor General and his staff) in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties.

In relation to this document, the Auditor General for Wales (and, where applicable, his appointed auditor) is a relevant third party. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

This report has been compiled by: John Herniman, Anne Beegan, Alison Butler and Dave Thomas on behalf of the Auditor General for Wales.

Contents

Summary report	4
Detailed report	
About this report	7
Section 1: Audit of accounts	8
I have issued an unqualified opinion on the 2011-12 financial statements of the UHB, although in doing so, I have brought several issues to the attention of officers and the Audit Committee and placed a substantive report alongside my audit opinion	8
Section 2: Arrangements for securing efficiency, effectiveness and economy in the use of resources	13
The UHB is forecasting that it will fail to achieve a breakeven position at the end of 2012-13 and financially sustainable plans for future years are not yet in place	13
The UHB still needs to address some weaknesses in its governance arrangements	16
My performance audit work had identified opportunities to secure better use of resources in a number of key areas	21
Appendices	
Reports issued since my last Annual Audit Report	26
Audit fee	27

Summary report

1. This report summarises my findings from the audit work I have undertaken at Cardiff and Vale University Health Board (the UHB) during 2012.
2. The work I have done at the UHB 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 UHB'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 UHB, 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 their factual accuracy agreed with officers and presented to the relevant sub-committee of the Board. 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 2011-12 financial statements of the UHB, although in doing so I have brought several issues to the attention of officers and the Audit Committee. These include improving internal controls and accounting practices for theatre stock, progressing continuing healthcare claims to better inform the related provision and ensuring that the public sector payment and the Hutton median pay disclosure requirements are adhered to.
6. In addition, I placed a substantive report on the UHB's financial statements alongside my audit opinion. My report draws attention to the additional funding received by the UHB primarily to enable it to meet its financial targets.
7. The UHB achieved financial balance at the end of 2011-12, as a result of additional, non-recurring funding from the Welsh Government of £12 million received in November 2011, with £6 million to be repaid in both 2012-13 and 2013-14.
8. I have also concluded that:
 - the UHB's financial statements were properly prepared and materially accurate;
 - the UHB had an effective internal control environment to reduce the risks of material misstatements to the financial statements although there are some areas for improvement; and
 - the UHB's significant financial and accounting systems were appropriately controlled and operating as intended, although there are some system weaknesses which require management action.

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

9. I have reviewed the UHB's arrangements for securing efficiency, effectiveness and economy in the use of its resources. My Structured Assessment work has examined the robustness of the UHB's financial management arrangements and governance

arrangements. Performance audit reviews have also been undertaken on specific areas of service delivery. This work has led me to draw the following conclusions.

The UHB is forecasting that it will fail to achieve a breakeven position at the end of 2012-13 and financially sustainable plans for future years are not yet in place

10. Key findings from my review of the UHB's financial management arrangements are as follows:

- although the UHB continues to face significant financial pressures, the dedicated 'Turnaround to Transformation' project ceased at the end of March 2012, and potential savings from a range of identified UHB wide opportunities have not been fully realised;
- the budget setting process for 2012-13 highlighted significant financial challenges but the process was delayed, protracted and failed to identify sufficient cost reductions to deliver a balanced budget;
- required cost reductions are not being achieved and the UHB is forecasting a deficit of £20 million at the end of 2012-13, although there is a significant element of risk around this forecast; and
- better links are needed between financial, workforce, capacity and service planning.

The UHB still needs to address some weaknesses in its governance arrangements

11. My review of the UHB's governance arrangements found that:

- further work is needed to address areas for development identified in previous years' Structured Assessment associated with the UHB's organisational structure;
- the UHB has continued to develop its Board Assurance Framework, although more needs to be done in particular to strengthen risk management and a fundamental review of its committee structure is required and is underway;
- management information to underpin the UHB's governance and accountability arrangements needs further developing;
- whilst arrangements are in place to support data quality, comply with data confidentiality, and business continuity and disaster recovery, the UHB needs to strengthen arrangements to ensure they are fully effective; and
- data matching as part of the National Fraud Initiative has helped identify two cases of fraud and error.

My performance audit work had identified opportunities to secure better use of resources in a number of key areas

12. Key findings from my review of the UHB's use of resources are as follows:
- the UHB has made limited progress in areas for development identified previously relating to the management of estates and procurement;
 - the UHB has a sound approach to workforce planning, although there are some key gaps and more needs to be done to implement the necessary workforce changes;
 - my benchmarking work on ward staffing highlighted variation when compared with other similar wards and specialties as well as identified areas which required further attention;
 - the UHB has further enhanced its arrangements for effective public and stakeholder engagement which will provide firm foundations for delivering the fundamental changes to services; and
 - the UHB has made good progress in addressing the recommendations arising from our previous work on maternity services, although further work is required in a number of areas and momentum needs to be maintained.

The factual accuracy of this report has been agreed with the Executive Team

13. This report has been agreed for factual accuracy with the Chief Executive and the Executive team. It was presented to the Audit Committee on 20 November 2012. It will then be presented to a subsequent Board meeting and a copy provided to every member of the UHB. We strongly encourage wider publication of this report by the UHB. 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).
14. The UHB will be developing a formal response to the issues raised in this report. Many of the changes to governance arrangements and operational practices that the UHB is currently considering will help to address the issues I have raised. I will continue to monitor progress as part of my ongoing audit work
15. The assistance and co-operation of the UHB's staff and members during the audit is gratefully acknowledged.

Detailed report

About this report

16. This Annual Audit Report to the Board members of the UHB sets out the key findings from the audit work that I have undertaken between November 2011 and October 2012.
17. My work at the UHB 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 UHB, 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 UHB has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
18. In relation to (c), I have drawn assurances or otherwise from the following sources of evidence:
 - the results of audit work on the UHB's financial statements;
 - work undertaken as part of my latest Structured Assessment of the UHB, which examined the arrangements for financial management, governance and accountability, and use of resources;
 - the UHB's self-assessment against the Governance and Accountability module of the Standards for Health Services in Wales;
 - performance audit examinations undertaken at the UHB;
 - 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.
19. I have issued a number of reports to the UHB 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](#).
20. 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.
21. 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 UHB, and shows that it is in accordance with the original fee that was set out in the Audit Outline.

Section 1: Audit of accounts

22. This section of the report summarises the findings from my audit of the UHB's financial statements for 2011-12. 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

- 23.** In examining the UHB'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 UHB 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.
- 24.** In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).
- 25.** In undertaking this work, auditors have also examined the adequacy of the:
- UHB's internal control environment; and
 - financial systems for producing the financial statements.

I have issued an unqualified opinion on the 2011-12 financial statements of the UHB, although in doing so, I have brought several issues to the attention of officers and the Audit Committee and placed a substantive report alongside my audit opinion

The UHB's financial statements were properly prepared and materially accurate

- 26.** The draft financial statements were submitted on a timely basis to meet the 4 May 2012 deadline. The financial statements were prepared to a good standard and were supported by comprehensive working papers. There was also clear evidence that the financial statements had been subject to quality assurance checks, including a detailed review by Independent Members.
- 27.** My team has continued to work closely with UHB finance staff, throughout the year, to ensure potential issues are identified and resolved in a timely manner. Following

completion of the audit, we also held a joint post project learning session. This will help inform our joint planning for 2012-13.

- 28.** I am required by International Standards on Auditing (ISA) 260 to report issues arising from my work to those charged with governance before I issue my audit opinion on the financial statements. My Financial Audit Engagement Lead reported these issues to the UHB's Audit Committee and the Board on 6 June 2012.
- 29.** My report highlighted that a number of misstatements in the draft financial statements had been corrected by management. During the audit process I raised concerns that expenditure relating to theatre stock had been understated by £0.557 million. Consignment stock had been charged to expenditure when it was replenished rather than when it was used (£0.493 million understatement), and the book value of some stock items did not match the stock count values (£0.064 million net understatement). These errors were corrected in the financial statements, and were offset by other reductions in expenditure, due to overstated accruals in primary care and other areas, and anticipated VAT reclaims. **Exhibit 1** summarises other key issues set out in that report.

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

Issue	Auditors' comments
Continuing NHS Healthcare claims	<p>Across Wales, limited progress has been made in assessing outstanding continuing NHS healthcare claims which means the related provision is a key area of estimation.</p> <p>The financial statements include a provision of £4.938 million and a contingent liability of £8.165 million for outstanding claims. The provision is based on a mixture of actual assessments and an assumption that individual claimants already receiving NHS funded nursing care will be entitled to continuing NHS healthcare. However, during 2011-12 a small number of non-NHS funded nursing care claims were also assessed as eligible for continuing healthcare. The UHB's view is that this trend information is insufficient to change its overall approach. However, further trend information available in 2012-13 should be used to refine the methodology; particularly in relation to the assumptions relating to NHS funded nursing care claims.</p>

Issue	Auditors' comments
Public Sector Payment Policy	<p>95.7 per cent (in number) of non-NHS creditors are reported as paid within 30 days, but this performance is likely to be misstated as Welsh Government guidance was not fully complied with:</p> <ul style="list-style-type: none"> • A new system of adjusting for disputed invoices was introduced in January 2012, but any disputes during the first nine months of the year were not reflected in the reported performance; and • the UHB 'starts the clock' on manual invoice payment performance when the invoice is received by the Finance Department rather than when the invoice is received by the UHB. <p>The UHB will need to work with NHS Wales Shared Services Partnership (NWSSP) to ensure Welsh Government guidance is fully complied with.</p>
'Hutton' disclosures for median pay	<p>As noted within the financial statements, the new 'Hutton' disclosure for median pay does not comply with HM Treasury and Welsh Government guidance. The standard reports generated by the payroll system do not provide the required information. The UHB's disclosure relates to basic salary only, and does not include benefits in kind, non-consolidated performance related pay and severance payments, it also excludes agency and other temporary employees covering vacancies.</p> <p>Further work is required in 2012-13 to ensure HM Treasury and Welsh Government guidance is complied with.</p>
Annual Governance Statement	<p>The Annual Governance Statement (which replaces the Statement on Internal Control from 2011-12) was prepared on a timely basis with a draft considered by the Board in March 2012 as part of the legacy statement of the former Chair and Chief Executive. Whilst the draft was updated to ensure compliance with HM treasury and Welsh Government guidance, the final statement was too long and lacked clarity. The UHB should review the format for next year, with a clear focus on the governance, risk management and control framework, with further information provided on areas of concern, including any 'no assurance' and 'limited assurance' Internal Audit reports.</p>

30. As part of my financial audit, I also undertook the following reviews:

- Whole of Government Accounts return – I concluded that the counterparty consolidation information was consistent with the financial position of the UHB at 31 March 2012 and the return was prepared to a good standard, in line with the required timescales and in accordance with the Treasury's instructions.
- Summary Financial Statements and Annual Report – I concluded that the summary statements were consistent with the full statements and that the full Annual Report was largely compliant with Welsh Government guidance.

However, whilst the draft Annual Report was received on a timely basis, and included the agreed summary financial statements, the 'published version' received shortly before the Annual General Meeting contained a number of errors in the summary financial statements. For next year, the process for preparing and checking the 'published version' needs to be reviewed and improved.

31. My separate audit of the Cardiff and Vale University Local Health Board Charity financial statements is now complete. I reported a number of issues to the Trustees and these were considered at their meeting on 6 November 2012. I issued an unqualified opinion on 12 November 2012.

The UHB had an effective internal control environment to reduce the risks of material misstatements to the financial statements although there are some areas for improvement

32. My work focuses primarily on the accuracy of the financial statements, reviewing the internal control environment to assess whether it provides assurance that the financial statements are free from material misstatement. I did not identify any material weaknesses in your internal control environment.
33. Internal Audit reported that the UHB *'can take some assurance that the arrangements upon which the organisation relies to manage risk, control and governance within those areas under review, and the operational compliance noted, are suitably designed and applied effectively. However, management are addressing the exposure to significant risk in several areas'*. Whilst Internal Audit issued a number of 'limited assurance' and 'no assurance' reports, they reported that their review of key financial systems confirmed that a sound system of internal financial control was in place.
34. There are some areas for improvement, as follows:
- My review of Internal Audit confirmed that they had complied with the Internal Audit Standards for the NHS in Wales with one exception, as external quality reviews are not undertaken. This will need to be taken forward by NWSSP.
 - Whilst I have not identified any IT infrastructure issues likely to result in a material misstatement in the financial statements, I reported the following concerns to the Audit Committee in October 2012:
 - The UHB has over 200 servers, some of which relate to stand alone systems. Supporting such a significant number of servers and systems is costly, particularly as some are out of date. The UHB should establish a strategy for reducing the number of servers and systems.
 - The two main data centres for the UHB are located on the same site at UHW, with just 300 yards between them. There is a risk that a major incident affecting both data centres will leave the Board without a back-up. However, this has been risk assessed by the UHB and is being considered at a national level.
 - Disaster recovery testing is not regularly undertaken, hence the UHB is unaware of its ability to adequately respond to a major incident.

The UHB's significant financial and accounting systems were appropriately controlled and operating as intended, although there are some system weaknesses which require management action

- 35.** I did not identify any material weaknesses in the UHB'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 October 2012. The more significant issues are as follows:
- During the year, European Union (EU) procurement regulations and Standing Financial Instructions have been breached on a number of occasions, as reported in the private sessions of the Board or Audit Committee. The UHB must ensure that it adheres to EU procurement legislation and Standing Financial Instructions at all times.
 - Concerns I raised last year about the theatre stock system have not been addressed. In particular, there are no procedure notes in place, there are poor controls over stock in order to identify and record obsolete stock, and there are no controls in place to record stock issues. This year, I have also raised concerns about how consignment stock is accounted for. Issues relating to the control, usage and valuation of all theatre stock need to be addressed in 2012-13.
 - My testing of manual invoice payments identified that on a number of occasions the order/invoice was approved at an inappropriate level or by an officer not on the delegated signatory list. The UHB should update authorisations to ensure this internal control is in place and working effectively.
- 36.** Internal Audit also reported a number of system weaknesses which require ongoing management action. Action plans have been developed to strengthen the control weaknesses identified in these reports and progress is scrutinised by the Audit Committee.

The UHB achieved financial balance at the end of 2011-12, but only as a result of non-recurring funding from the Welsh Government; given this I placed a substantive report alongside my audit report

- 37.** Baseline budgets were rolled over into 2011-12 and generic cost reduction targets were set to address £56.3 million of the financial gap estimated at £87.8 million. Between April and September 2011, in its monitoring returns to the Welsh Government the UHB reported a forecast deficit of £31.5 million. In November 2011 the Welsh Government provided the UHB with recurring funding of £17 million and brokerage of £12 million. This, together with further cost reductions, enabled the UHB to change its reported position to breakeven.
- 38.** For the 2011-12 financial year, the UHB incurred net expenditure of £759.084 million against its resource limit. Its final resource limit was £759.135 million, which included an additional £12 million repayable brokerage formally notified to the UHB on 7 November 2011. This meant that the UHB would have exceeded its resource limit

had it not received the additional resource of £12 million from the Welsh Government in order to prevent such a breach occurring.

39. I have issued a narrative report alongside my audit report to draw attention to this matter and to provide further details about the financial position of the UHB.

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

40. 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 UHB over the last 12 months to help me discharge that responsibility. This work has involved:
- reviewing the UHB's financial management arrangements, including the progress being made in delivering cost reduction plans and their contribution to achieving financial balance;
 - assessing the effectiveness of the UHB's governance arrangements through my Structured Assessment work with a particular emphasis on the robustness of the overall Board assurance framework and internal control environment;
 - specific use of resources work on workforce planning, ward staffing and stakeholder engagement; and
 - assessing the progress the UHB has made in addressing the issues identified by previous audit work on maternity services.
41. The main findings from this work are summarised under the following headings.

The UHB is forecasting that it will fail to achieve a breakeven position at the end of 2012-13 and financially sustainable plans for future years are not yet in place

Although the UHB continues to face significant financial pressures, the dedicated 'Turnaround to Transformation' project ceased at the end of March 2012 and potential savings from a range of identified UHB wide opportunities have not been fully realised

42. As a condition of the additional funding provided by the Welsh Government in November 2011, the UHB established a dedicated Turnaround to Transformation (T2T) project team. This multi-disciplinary team focused on turnaround to ensure the UHB achieved a breakeven position in 2011-12. The team introduced a different approach to financial reporting, focusing on income and expenditure run rates. Having such a dedicated team provided pace and focus, with an ability to cut across some of the silo working within the UHB.
43. The project ceased at the end of March 2012. Consequently, the project was unable to help identify and deliver the transformational change needed to deliver a medium-term financially sustainable plan.

-
44. The T2T project team recommended that the UHB put organisational effort into delivering the four organisational opportunities identified (medical workforce, clinical administration, medicines management and procurement and stock). Whilst Executive Leads were appointed to each of these opportunities, including a new theme on continuing healthcare costs, the management arrangements for monitoring, reporting and delivering on these opportunities have lacked clarity. Progress has been made in some areas, but potential savings identified as part of the T2T project and referred to in the UHB's financial plans have not been fully realised.
 45. The T2T approach of having a dedicated resource focused on delivery clearly helped the UHB deliver the required cost reductions in 2011-12, but it made little progress in taking UHB wide opportunities forward to transform the way services are delivered. Although there have been delays, the UHB has now established a dedicated Programme Management Office and one of its first tasks will be to obtain a position statement on each of the UHB wide opportunities. Some of the UHB wide opportunities may help improve the UHB's financial position in 2012-13, but others will take time to implement. In any event, the UHB cannot afford to be complacent and it will need to ensure that all potential savings identified are progressed and realised in a timely manner.

The budget setting process for 2012-13 highlighted significant financial challenges but the process was delayed, protracted and failed to identify sufficient cost reductions to deliver a balanced budget

46. The 2012-13 draft financial plan prepared for consideration by the Board in May 2012, highlighted that urgent actions were required to deliver a balanced financial plan for the year. An initial financial gap of £66.7 million was identified and whilst a 'framework' was identified for managing this, at that time it did not include clear plans to demonstrate how the shortfall would be met.
47. The UHB originally planned to base the 2012-13 divisional budgets on differential savings targets, based on relative efficiency and costs. It also planned to reallocate resources to support strategic service changes. However, following the work undertaken by the T2T project team, budgets were initially based on income and expenditure run rates for 2011-12. This helped rebase elements of the budget, and removed, for example, vacant establishment posts that were no longer required. To deliver a balanced budget, however, divisions were set a generic cost reduction target of 4.5 per cent, reduced to 3.5 per cent for those divisions that had delivered a balanced position in 2011-12.
48. To date the UHB has been unable to identify sufficient cost reductions to deliver a balanced budget for 2012-13. Consequently, the Board did not approve the final financial plan until September 2012, almost half way through the financial year to which it relates.
49. The final financial plan agreed in September 2012 refers to an increased financial gap of £72 million, with no recovery plans in place for £37.5 million.

-
50. In my national report on Health Finances, issued in July 2012, I reported that one of the major challenges in a service that is demand led is to establish a culture of cost control. In recent years the Welsh Government has provided additional funding to support service improvements and cover Local Health Board deficits. However, the UHB setting an unbalanced budget does not represent good financial management.

Required cost reductions are not being achieved and the UHB is forecasting a deficit of £20 million at the end of 2012-13, although there is a significant element of risk around this forecast

51. The monitoring returns to the Welsh Government for May and June 2012 confirmed that the UHB would achieve a breakeven position and stay within its resource limit, although these returns did identify that delivery of the financial plan was not without significant risk. From July 2012 onwards, the monitoring returns confirm a year-end deficit of £20 million.
52. At the end of September 2012 just £12.7 million of cost reductions (or savings) had been delivered against the original year to date budget of £28.9 million. Of the £16.2 million shortfall, £0.9 million relates to the under-achievement of planned savings, with £15.3 million relating to the share of unidentified savings profiled into the financial position. This, together with an adverse operational variance of £1.5 million, means that the UHB reported a deficit of £17.7 million at the end of September 2012.
53. To achieve the forecast deficit of £20 million, the UHB must deliver £34.2 million of cost reductions between October 2012 and March 2013, although at the end of September 2012 £13.7 million of these plans were still to be worked up (£7 million as reported to the Board in November). It will also need to manage operational pressures, including the Tier 1 pressures of £5.2 million, as this is not reflected in the cost reduction forecasts. Given this, there is a significant element of risk around the forecast deficit of £20 million.
54. Significant effort is put into maintaining detailed records of cost reductions, but with no firm plans to deliver a substantial proportion of the required cost reductions, the reported current deficit is not unexpected. Initial budgets have not been fully assessed and prioritised, as originally planned. As reported last year, this means that some of the required cost reductions are unrealistic, aspirational and not clearly linked to service delivery or workforce and capacity plans.
55. As the UHB develops its plans for 2013-14, it must ensure that the plan will deliver financial balance and that savings plans are effectively executed. In particular, the Board will need to provide a clear steer on service priorities, recognising that there will need to be disinvestment in some areas and improved efficiency in others. Rebasings the budget in this way will provide divisions with a clear steer, thus enabling them to focus their efforts on delivering more realistic cost reduction targets.

Better links are needed between financial, workforce, capacity and service planning

56. As reported last year, further work is required to fully integrate and deliver service, workforce and financial plans. Whilst the Operational Plan refers to an integrated

approach, individual plans are not fully integrated or affordable. Furthermore, the financial implications of service changes and priorities need to be considered and built into the financial plan at an early stage, with a clear assessment that the proposed plans are affordable. There have been a couple of examples this year which clearly demonstrate that plans are not fully integrated, with additional recurring funding for both the 'Wyn Campaign' and the Capacity Plan being considered after the preparation of the draft Operational Plan.

- 57.** The UHB has recognised the need for change and a new budget setting approach is proposed for 2013-14. The timetable for delivering the 2013-14 budget is ambitious, given the current financial pressures facing the divisions, but the UHB cannot afford for this timetable to slip. As reported to the Finance Sub-Committee in September 2012, the UHB is facing a significant financial challenge in 2012-13 and a financial outlook into 2013-14 that will require sustainable change across the UHB in order to deliver a balanced budget in the future. The financial planning framework is a key enabler in achieving this objective. If the UHB is to be successful, and to avoid a repeat of the significant financial pressures faced in both 2011-12 and 2012-13, it will need to prepare and approve a sustainable financial plan before the start of the 2013-14 financial year. This plan will also need to clearly demonstrate how financial pressures will be managed and addressed.

The UHB still needs to address some weaknesses in its governance arrangements

Further work is needed to address areas for development identified in previous years' Structured Assessment associated with the UHB's organisational structure

- 58.** Last year I identified areas for development in relation to the UHB's organisational structure, with a particular focus on the effectiveness of the Board's advisory groups and the need to ensure that the role of the UHB's corporate functions were clearly understood and resources were appropriately aligned. My work in 2012 has identified that the UHB is still struggling with these areas. The effectiveness of the Board's advisory groups is not unique to the UHB, with many other health boards across Wales in a similar position. The Stakeholder Reference Group has been taken forward with the appointment of a new Chair, and engagement with the development of the operational plan for 2012-13 has been much better, however, the UHB continues to lack clarity over the purpose of the group when considered alongside its other mechanisms for stakeholder engagement. A similar problem exists with the UHB's Healthcare Professionals Forum.
- 59.** The role of the Innovation and Improvement (I&I) function remains unclear amongst some of the UHB's divisions, despite its involvement in the performance and accountability framework. Some divisions commented about a lack of understanding on how to tap into the I&I resources and are not sighted of the work plan for the department. I understand that the work plan will be presented to the Board of Directors in future. In relation to other corporate functions, I remain concerned over the capacity

of the planning function to support and enable the divisions with medium to longer term planning, particularly in light of the South Wales plan and the potential implications that the plan will have on local services. The UHB also needs to be assured that the Board Secretary has sufficient capacity to develop and support the necessary governance arrangements.

The UHB has continued to develop its Board Assurance Framework although more needs to be done in particular to strengthen risk management and a fundamental review of its committee structure is required and is underway

60. The UHB has mechanisms in place to identify the key risks and barriers to achieving its key strategic objectives, particularly in terms of safety, quality and finance, through its Board Assurance Framework. This is supported by the UHB's corporate risk register, which has recently become available on the UHB's website; however the UHB's risk management framework to underpin its governance arrangements is not properly embedded. A recent Internal Audit review gave only limited assurance on the UHB's risk assessment and management arrangements, and stated that many risk registers *'were not supported by any risk assessments and there was a lack of evidence to confirm that the stated risks had been appropriately scored or were subject to regular review'*. Risks from the divisions and directorates are fed into the corporate risk register, although given the level of assurance placed on operational arrangements; it is unclear how robust the corporate risk register is.
61. The Audit Committee continues to play a key role in providing the Board with assurance on its governance, risk management and control arrangements, and on the disclosure statements that flow from these processes, including the annual governance statement and, from 2012-13, the annual quality statement. The Quality and Safety Committee also plays a key role in providing the necessary assurance to the Board in relation to quality and safety. However my observations of the Board and its sub-committees found duplication between committees and the potential for the Board to repeat some of the work and challenge of its sub-committees. Matters are also often passed between sub-committees and can take considerable time to be resolved. The number of sub-committees and groups in place has become unwieldy with almost forty sub-committees and groups feeding up to the Board. Members, both independent and officer, are often present at a multitude of meetings which can place significant burden on their time, with independent members routinely working more than their contracted hours.
62. Although the Board and its sub-committees are actively taking a wide range of assurance, the UHB has struggled to develop a clear process for determining whether it is compliant with all legislative and regulatory requirements, making a formal decision to focus primarily on licensing and high-risk legislation such as that related to health and safety, mental health and equalities. The clinical audit programme, although improved since 2011, continues to be focused on national priorities or specific local interest, with limited capacity to play a key part in supporting the Board Assurance framework. The minutes of sub-group meetings can provide a level of assurance to

committees and the Board, but often very little time is given by committees to consider these and there is potential that issues of concern could be missed.

- 63.** In 2011, we recommended that the UHB should prepare an overarching summary of the key sources of assurance and the committees responsible for monitoring each of these sources, including the role of the Chairs Advisory Group. This has not yet been addressed. The Audit Committee can then ensure that it has arrangements in place to monitor and scrutinise these arrangements effectively throughout the year. This structured approach will enable the Audit Committee to provide the Board with the required assurances and will help inform the preparation of the annual governance statement. This approach will also help clarify the role of the sub-committees and sub-groups and prevent the duplication which is currently in place.
- 64.** A new Audit Committee Handbook was issued in May 2012 and a paper on the implications for the UHB is due to be considered by the Audit Committee in November 2012. This paper highlights a range of issues although most revolve around the Audit Committee's role in reviewing the various sources of assurance, as referred to above. The Audit Committee should also review its Annual Report to the Board, to ensure it provides an opinion on the completeness, reliability and integrity of these assurances.

Management information to underpin the UHB's governance and accountability arrangements needs further developing

- 65.** My Structured Assessment work this year has focused on whether the Board and its sub-committees have access to relevant management information to plan, make decisions and underpin effective scrutiny and board assurance. I found that:
- the information provided to the Board and its sub-committees broadly supports assurance processes and decision making, however there is an imbalance towards operational issues and there is a need for the Board and its sub-committees to focus more attention on setting the organisational direction and strategic planning.
 - the balance of information continues to be heavily biased towards secondary care, although there is recognition by the Board and its members that there needs to be greater attention given to population health, and primary and community care.
 - the level of information presented is not overly summarised, which supports scrutiny and challenge, although at times, too much detail is provided to the Board, particularly in relation to the integrated performance report.
 - there is a clear commitment to understanding the overall quality and safety of services, although this is rarely reported in one place. Separate reports are presented on patient experience, performance and finance, leading to additional questions being posed by members. There is also scope to bring in other aspects such as workforce, IT and estate implications which are currently reported in isolation.

-
- comparison of performance (over time or with other organisations) is not always presented which makes it difficult for the Board and sub-committees to understand the direction of travel, or the UHB's performance relative to others.
 - members identified few concerns over the quality of information presented to Board and sub-committees with the exception of significant delays in clinical coding which impacts on the accuracy of performance information.
 - although there has been recent work to restructure papers presented to the Board to ensure that there is clear recognition of links with corporate objectives and the associated impacts on such aspects as finance, some papers are still requiring significant input from the Board Secretary in order to make this clearer.
- 66.** As well as reviewing management information, my work has also focused on whether the Board and its sub-committees are making good use of the information presented. My observation of the UHB's Board and key sub-committees has identified that there is relatively good evidence of scrutiny and challenge by members, although some focus around additional information requests and explanation could be addressed by including more information in the papers presented. There is clear evidence of performance information being triangulated with other sources of assurance such as the patient safety walkabouts; however discussions can become too operational and focused on the detail.
- 67.** The UHB is undergoing a series of board development sessions to help shape the management information requirements of the Board and sub-committees, alongside its Board Assurance Framework and Committee structures. Support is available to members to use the management information and all Independent Members should have access to electronic information should they need to undertake further analysis of the information presented to them. None of the Independent Members, however, reported having access to an NHS computer, although they identified that they are able to access information should they need it via officers of the UHB.
- 68.** Much of the information presented to the Board and its sub-committees is from electronic sources; however some service areas are still reliant on manual systems or electronic systems which have limited, if any, analytical support. These areas are often the areas which have little presence on the agenda of sub-committees or the Board such as community services.

Whilst arrangements are in place to support data quality, comply with data confidentiality, and business continuity and disaster recovery, the UHB needs to strengthen arrangements to ensure they are fully effective

- 69.** I have undertaken a high-level examination of the UHB's arrangements for ensuring the data that it produces is reliable and accurate. Whilst this work has not sought to validate the quality of specific NHS datasets or performance indicators, it has reviewed basic patient demographic data to determine the extent of duplicate and missing information on Patient Administrative and Radiology systems.

-
- 70.** My work found that there is a corporate commitment to data quality but further work is needed to strengthen policies and the effectiveness of processes, so that a strong focus on data quality is embedded throughout the UHB. More specifically, I found that:
- the UHB has recognised the importance of data quality and assigned key responsibilities but has been unable to embed an approach which gives data quality the necessary focus throughout the UHB;
 - arrangements to ensure robust data quality need to be strengthened through the development of a data quality policy; and
 - despite some positive performance against national data validity targets, the results of our own data analysis indicate some concerns about the effectiveness of data quality processes with a large number of multiple registrations recorded on the Patient Administration System (PAS) and a higher than average number of records that do not contain NHS numbers.
- 71.** In addition to work on data quality, auditors have also examined the UHB's arrangements for implementing Caldicott guidance on confidentiality of patient data, and also the robustness of the UHB's disaster recovery and business continuity processes in the event of an IT system failure.
- 72.** My work on the UHB's arrangements for information confidentiality has found that the arrangements are in place to ensure that the UHB complies with the information confidentiality requirements as set out in the Caldicott manual, although these could be further improved to ensure that the arrangements are fully effective and provide the necessary assurance to the Board.
- 73.** The UHB has management and planning arrangements in place to underpin Caldicott governance requirements, although my work found that these could be strengthened. Whilst a Caldicott Guardian is in place, greater co-ordination of information confidentiality issues and clarity around information governance reporting arrangements is needed. Some key flows of patient information have been identified, although the resources to support the understanding of key information confidentiality risks associated with the transfer of information could be further improved and the UHB should consider establishing a network of data owners across the organisation to help achieve this.
- 74.** The necessary framework to ensure compliance with the Caldicott principles is in place. The UHB has a range of policies to support compliance, with many of these currently in the process of being updated. Staff receive information confidentiality training on induction, although training could be strengthened by providing regular mandatory data protection and information confidentiality training to all staff based on a training needs assessment. Arrangements appear to be in place to provide a reasonable foundation for access control of PAS records and paper medical records, although more could be done to inform patients about the use of their information and patient information rights, for example, through poster campaigns.
- 75.** Although the UHB completed its first mandated assessment of Caldicott compliance in early 2012 with a 'satisfactory' score, the UHB is some way behind other health boards in Wales in making the necessary improvements in its Caldicott arrangements. The

UHB's assessment scored at the lower end of the 'satisfactory' range and whilst an action plan is in place, many of the actions remain outstanding with reliance being placed on the appointment of a new Assistant Director of Information Governance in November 2012. Although reported and monitored through the Information Governance Committee, compliance with the Caldicott principles are not reported to the Board.

- 76.** My work on disaster recovery and business continuity processes associated with IT clinical systems indicated that, while departments have identified ways in which they would maintain clinical services in the event of Information and Communication Technology (ICT) failure, business continuity and disaster recovery plans, for systems managed outside of the central IMT team, are not being adequately documented, tested or scrutinised. More specifically, I found that:
- Governance arrangements for business continuity and disaster recovery planning need strengthening by improving the profile of business continuity within the UHB.
 - The UHB does not have adequate documented ICT business continuity and disaster recovery plans for all key areas, although departments have identified arrangements to maintain clinical services in the event of ICT failure.
 - The ICT infrastructure is largely resilient, although it is important that adequate maintenance and support is maintained to ensure this resilience continues.
 - ICT disaster recovery and business continuity arrangements are not being adequately tested. As part of my current audit plan I am undertaking further work to specifically review the adequacy of back up procedures.

Data matching as part of the National Fraud Initiative has helped identify two cases of fraud and error

- 77.** The National Fraud Initiative (NFI) matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. My report in April 2012 concluded that the Board's approach was well managed overall, but at the time of my review, more progress could have been made on the investigation of duplicate creditors and records matches. The NFI has helped the UHB to identify two cases of fraud and error worth a total of £30,129 in overpayments.

My performance audit work has identified opportunities to secure better use of resources in a number of key areas

The UHB has made limited progress in areas for development identified previously relating to the management of estates and procurement

- 78.** My Structured Assessment work has indicated that the UHB has made limited progress in addressing the areas for development identified in previous years' work. This progress is summarised in [Exhibit 2](#).

Exhibit 2: Areas for development identified in previous Structured Assessment work.

Issue	Progress made by the UHB
Managing the asset base	<p>Progress in putting the necessary arrangements in place to manage the UHB's estate continues to be slow despite our previous identification of issues of concern:</p> <ul style="list-style-type: none"> • although there has been an increased focus on key estates issues, staffing levels within the UHB's estates function are declining despite increasing pressure from legislation requirements and the UHB is the only health board in Wales to have seen deterioration in many of its performance indicators reported in the Welsh Government's annual estates and facilities performance management report; • an internal approach to performance management of the UHB's estates has only recently been proposed with no performance information yet received by the Strategic Planning and Performance Committee or the Board; and • estates are not yet seen as a key enabler in the development and modernisation of services.
Procurement arrangements	<p>Improvements to procurement arrangements are still required:</p> <ul style="list-style-type: none"> • plans put in place to provide key performance indicators on the UHB's procurement arrangements to the Board do not appear to have been taken forward; • a recent Internal Audit report highlighted a number of perceived problems with the current procurement processes across the UHB; and • there is an increasing need for improved joint working between the procurement function within shared services and the divisions, particularly given the continued focus on procurement in the UHB's savings plan.

The UHB has a sound approach to workforce planning although there are some key gaps and more needs to be done to implement the necessary workforce changes

79. My Structured Assessment work on workforce planning has identified that the UHB has a workforce plan in place which is based on robust whole system thinking across the divisions. It recognises alternative approaches to workforce and implications such as changes in medical training, and there is clear evidence that the development of the workforce plan is being led by the clinicians, both through the professional leads and the lead clinicians within the divisions. However the plan does not yet reflect some key service changes which will impact on the workforce, such as the South Wales plan and the 'Wyn Campaign'. Although there is reference to the Tier 1 target to shift staff into

the community which will be enhanced through the 'Wyn Campaign', no information is provided to the Board on how well the shift is being achieved through the current workforce plans. Despite the plan responding to a range of corporate risks, the proposed reduction in workforce also does not appear to be risk assessed.

80. The UHB is committed to ensuring that the plans are based on good quality information and is seeking to maximise the use of the Electronic Staff Record to support better workforce planning data. However, whilst the plan has been costed, this is not aligned with the financial plan. This is demonstrated through a marked difference in the extent to which savings will be made in 2012-13 through a reduction in establishments reported in each of the plans.
81. The UHB is making slow and steady progress in tackling workforce productivity and efficiency, although there is a need for the pace to be accelerated for any significant impact to be achieved. Improvements have been made in the compliance with European Working Time Directive (EWTD) and consultant job planning, however expenditure on variable costs continues to increase and sickness absence rates remain above the Welsh Government target. Detailed workforce information and intelligence reports are in place to monitor productivity and efficiency through the Workforce and Organisational Development (WOD) Committee and there are examples of initiatives starting to be put in place to drive through process redesign. A number of workstreams are about to be established to take forward many of the issues associated with productivity and efficiency as part of the new WOD programme.
82. The necessary training and development arrangements are not in place to support the delivery of the workforce plans. Although improvements have been made, compliance with personal appraisal and development reviews (PADR) and medical appraisals remains low. An integrated education group has been established to support the development of new training plans, although there is limited evidence to suggest that the necessary training and development plans are in place at an operational level.
83. There is strong visibility from the Human Resources (HR) function strategically, however more needs to be done to strengthen HR's role in enabling change operationally. Many of the workforce changes so far have been led by the professions themselves with limited input from the HR team and the divisions feel that there is a lack of support from the centre to implement and manage workforce change.

My benchmarking work on ward staffing highlighted variation when compared with other similar wards and specialties as well as identified areas which required further attention

84. My local ward staffing review provided the UHB with a benchmark comparison of staffing levels and grade mix across its acute and community based wards, taking account for the complexity of patients within each of the specialties. The benchmark review found that:
 - The overall level of whole time equivalents (WTE) on the wards was as expected when taking account of ward mix and size. However, there was a degree of variation across the specialties with a lower than expected level of WTE's across

medical specialties, and a higher than expected level of WTE's for surgical and critical care specialties. This variation has since been resolved.

- Overall costs associated with ward staffing were higher than many other sites, although this reflected the variance on the level of WTE's across the specialties and the grade-mix of staff. Grade-mix of ward staff within the UHB was found to be comparably richer with a greater proportion of Band 6 staff in post when compared with other sites.
- The cost per WTE was also slightly higher which reflected the comparably richer grade-mix. Lower turnover rates also impacted on the cost of the WTE, as staff are more likely to reach higher incremental salary scales.
- Use of temporary staff was comparatively low for the period benchmarked.
- The availability of cleaning staff to support the wards was comparatively low.

The UHB has further enhanced its arrangements for effective public and stakeholder engagement which will provide firm foundations for delivering the fundamental changes to services

- 85.** My work this year on public and stakeholder engagement has identified that the UHB's mechanisms for engagement have been further enhanced through the revised communication and engagement framework which is being finalised by the Board in November. The framework includes a range of systematic processes in place for listening to the public and gathering patients' views which are firmly embedded, and the recent 'picture the future' exercise has been a valuable opportunity in which staff have been listened to. Although there are clear roles and responsibilities within the UHB, the resources available to sustain continuous engagement may be insufficient.
- 86.** The UHB has put an extensive plan in place to engage with its public, staff and stakeholders on the South Wales regional plan. Lessons have been learnt from previous consultation exercises which have informed the engagement process. Clinicians are actively involved in the plan and taking a lead role in presenting and supporting the case for change. Alongside this, an effective relationship is being developed with the local Community Health Council (CHC) to support the engagement process, which includes a comprehensive range of formats through which information can be obtained and views can be shared.

The UHB has made good progress in addressing the recommendations arising from our previous work on maternity services, although further work is required in a number of areas and momentum needs to be maintained

- 87.** During the last 12 months, I have undertaken follow-up audit work to assess the progress that the UHB has made in addressing concerns and recommendations arising from previous audit work on maternity services. 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
Maternity services	<p>There is evidence that the UHB is making good progress in improving its maternity services, although further work is required in a number of key areas 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 a clear priority and have full executive engagement, although management arrangements are still embedding;• the UHB has good foundations in place to support performance management and engage with its users, however, more needs to be done to strengthen its information systems;• the UHB has a clear strategic vision for maternity services and is focusing its attention on strengthening its community based services;• there have been improvements in the arrangements to provide safe and effective maternity services, although some aspects of staffing levels, capacity and engagement with the wider organisation need to be addressed; and• there have been a range of improvements to the maternity pathway, although challenges remain around antenatal education and promoting normality during labour.

Appendix 1

Reports issued since my last Annual Audit Report

Report	Date
Financial audit reports	
Audit of Financial Statements Report	May 2012
Opinion on the Financial Statements	June 2012
Opinion on the Whole of Government Accounts return	July 2012
Opinion on the Summary Financial Statements	September 2012
Audit of Financial Statements – Detailed report	September 2012
Audit of Financial Statements Report - Charity	October 2012
Performance audit reports	
Maternity Services follow up (2010)	January 2012
Comparative Review of Ward Staffing (2010) – Data Pack	March 2012
Information Communication Technology (ICT) Disaster Recovery and Business Continuity Arrangements (2011)	April 2012
Data Quality (2011)	October 2012
Structured Assessment (2012) – Presentation Pack	November 2012
Other reports	
Outline of Audit Work 2012	February 2012
National Fraud Initiative	April 2012

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.

Report	Estimated completion date
Operating theatres and day-case surgery (2010)	November 2012
Review of Data Backup and Recovery Arrangements (2012)	November 2012
Combined review of Chronic Conditions, Unscheduled Care and Clinical Engagement (2011)	December 2012
Consultant contract follow up (2011)	December 2012
Catering follow up (2012)	December 2012
Review of Medical Equipment (2012)	January 2013
GP Prescribing (2012)	February 2013
Orthopaedics (2012)	February 2013

Appendix 2

Audit fee

The Outline of Audit Work for 2012 set out the proposed audit fee of £415,070 (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 UHB by the NHS Wales Shared Services Partnership was £9,760 (excluding VAT).



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Tel: 029 2032 0500

Ffôn: 029 2032 0500

Fax: 029 2032 0600

Ffacs: 029 2032 0600

Textphone: 029 2032 0660

Ffôn Testun: 029 2032 0660

E-mail: info@wao.gov.uk

E-bost: info@wao.gov.uk

Website: www.wao.gov.uk

Gwefan: www.wao.gov.uk