



WALES **AUDIT** OFFICE

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Annual Audit Report 2011

Cardiff and Vale University Health Board

Issued: October 2011

Document reference: 537A2011

Status of report

This report has been compiled by John Herniman,
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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 2011.
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 agreed with officers and presented to the relevant Board 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 UHB, although in doing so I have brought several issues to the attention of officers, the Audit Committee and Board. These include progressing outstanding continuing healthcare claims to better inform the related provision, improving the robustness of some primary care liabilities and ensuring that the public sector payment reporting requirements are adhered to.
6. I have also concluded that:
 - the UHB's accounts 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 is scope to improve the general governance arrangements for managing and reporting capital projects; and
 - the UHB's significant financial and accounting systems were appropriately controlled and operating as intended although there are a number of system weaknesses which require management action.
7. The UHB achieved financial balance at the end of 2010-11. For 2010-11 the savings target amounted to £82.4 million and this was achieved through a combination of reported savings of £54 million and additional, non-recurring funding from the Welsh Government of £28.4 million.

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

8. I have reviewed the UHB'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:
- required cost savings of £87.8 million (8.1 per cent) are not being achieved, to date there are plans in place for savings of £56.3 million (5 per cent) and the UHB is predicting a £31.5 million deficit at the end of the 2011-12 financial year;
 - good overall progress has been made in addressing the areas for development identified in my 2010 Structured Assessment although specific challenges remain;
 - the UHB has strengthened its arrangements surrounding the consultant contract although barriers exist which may prevent the full benefits of the contract being realised; and
 - action has been taken to address the issues identified in a number of previous performance audit reviews although further progress is needed in several areas.

Agreeing my findings with the Executive Team

9. This report has been agreed with the Chief Executive and the Director of Finance. It will be presented to the Board on 1 November and a copy will be 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).
10. The assistance and co-operation of the UHB'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 UHB sets out the key findings from the audit work that I have undertaken between December 2010 and September 2011.
12. 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.
13. 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 management 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.
14. 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.
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 UHB, 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 UHB'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 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.
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:
- UHB'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 UHB, although in doing so I have brought several issues to the attention of officers and the Audit Committee

The UHB's accounts were properly prepared and materially accurate

21. The draft financial statements were submitted on a timely basis to meet the 5 May 2011 deadline. The financial statements were prepared to a high standard and were supported by good quality working papers. This was a significant achievement as the timetable set by the Welsh Government reduced the time available for the compilation and audit of the accounts placing considerable extra pressure on the finance team. There was also clear evidence that the financial statements had been subject to quality assurance checks, including a detailed review by Independent Members.

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 UHB's Audit Committee on 1 June 2011 and to the Board 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
Continuing healthcare claims	<p>Limited progress has been made in assessing outstanding continuing healthcare claims. The provision for outstanding claims is therefore a key area of estimation and amounted to £6 million at 31 March 2011. The estimate is based on a mixture of actual assessments and the receipt of NHS Funded Nursing Care as a proxy measure.</p> <p>Powys LHB is now responsible for assessing all claims received prior to August 2010. More detailed trend information should be available over the next few months and this should be used to inform the calculation of the 2011-12 provision.</p>
Capitalised salaries	<p>Capitalised salaries are not always allocated to specific capital schemes which means they are not subject to revaluation when the related assets are brought into use. Capitalised salaries amounted to £799,000 at 31 March 2011. Going forward, such costs need to be allocated to specific capital schemes and form part of the revaluation when the related asset is brought into use.</p>
General Medical Services (GMS) enhanced services expenditure	<p>At 31 March 2010 the accounts included an accrual of £5.9 million relating to the GMS contract. £1.7 million of this balance was written back during 2010-11, as it was no longer considered to represent valid liabilities. Given the level of accruals written back in 2010-11, further work is required in 2011-12 to assess and improve the robustness of GMS liabilities at the year end.</p>
Asset de-recognition	<p>There are inadequate systems in place to identify and account for the value of replaced elements of property, plant and equipment as per the requirements of International Accounting Standard (IAS) 16. 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 UHB does not have systems in place, along with all other NHS bodies in Wales, to routinely identify such values.</p>

Issue	Auditors' comments
Aged creditors	The accounts payable balance included £2 million that had been outstanding for more than a year. The UHB should seek to settle or agree the cancellation of these invoices as soon as possible in order to reduce the level of uncertainty within future financial statements.
Public sector payment policy target	95.6 per cent of non-NHS creditors are reported as paid within 30 days. However, some assumptions have been made to adjust for disputed invoices and performance is based on the dates invoices are received by the Finance Department rather than by the UHB. Further work is required in 2011-12 to ensure that the reporting requirements are adhered to.
Statement on Internal Control	The Statement on Internal Control was not received until 31 May 2011. This was some weeks after the draft account submission deadline and inevitably caused additional pressures in the run up to the submission of the audited financial statements. For next year, the Audit Committee should ensure that there are arrangements in place to ensure that Statement on Internal Control and all supporting evidence is prepared and considered in line with the draft account submission timescales.

- 23.** 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 2011, and the return was prepared in accordance with the Treasury's instructions.
 - Summary Financial Statements and Annual Report - I concluded that the summary statements were consistent with the full financial statements. However, there were delays in the submission of the Annual Report which caused difficulties given the tight publication deadlines. Furthermore, whilst not covered by my audit opinion, the contents of the Annual Report did not fully comply with Welsh Government guidance.
- 24.** My separate audit of the Funds Held on Trust financial statements is currently underway and I expect to issue my report to Trustees in November 2011.

The UHB had an effective internal control environment to reduce the risks of material misstatements to the financial statements, although there is scope to improve the general governance arrangements for managing and reporting capital projects

25. I did not identify any material weaknesses in your internal control environment. Furthermore, Internal Audit's 'Assurance Statement and Annual Report' for the year ended 31 March 2011 provided 'adequate assurance' to the UHB. This opinion reflects a generally sound system of internal control with broad operational compliance, but with some weaknesses in the design of controls and their application which could put the achievement of particular system objectives at risk. Areas of particular concern relate to the management of theatre stock and contract tendering, both of which have been referred to in [Exhibit 2](#) below.
26. My review of the acute adult mental health unit scheme identified scope to improve your general governance arrangements for managing and reporting capital projects:
- Actual costs incurred on the acute adult mental health unit at the Whitchurch site were not clearly reported to the Welsh Government at the regular Capital Monitoring update meetings. Going forward, actual costs should be reported at these meetings, in line with information already reported to the Welsh Government as part of the monthly monitoring returns.
 - The decision to retain the supply chain partner, cost advisor and project manager when the scheme transferred to the Llandough site should have been better documented and reported.

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

27. 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 September 2011. These include 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
Procurement	During my audit I identified occasions where the Financial Instructions (SFIs) had been breached, with contracts being extended on more than one occasion. I also noted that a number of contracts had been extended after the date the original contract had expired.
Theatre stock	Internal control weaknesses relating to monitoring and recording theatre stock usage need to be addressed.

Issue	Auditors' comments
Information Technology (IT) systems	I reported a number of all Wales issues on the Oracle Financial Management System relating to access controls, password complexity and back up arrangements. These need to be addressed to minimise potential future application system risks. There are also some local IT issues to consider relating to notifying users of password changes, generating and reviewing security reports for the payroll system, implementing robust change control procedures for the hospital pharmacy system and undertaking network penetration testing.

28. Internal Audit also reported on a number of system weaknesses which require ongoing management action. Management 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 2010-11, as a result of additional non-recurring funding from the Welsh Government and achieving cash releasing savings

29. The UHB met its statutory financial targets in 2010-11, with reported savings amounting to £54 million for the year. The UHB also received non-recurring winter pressure monies of £28.4 million which enabled the UHB to break even.

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

30. 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 saving plans and their contribution to achieving financial balance;
 - assessing the progress the UHB has made in addressing the 'areas for development' we identified in last year's Structured Assessment work;
 - assessing the extent to which the UHB has arrangements in place to ensure that the benefits of the consultant contract are being delivered; and
 - assessing the progress the UHB has made in addressing the issues identified by previous audit work on the European Working Time Directive for Junior Doctors and Unscheduled Care.
31. The main findings from this work are summarised under the following headings.

Required cost savings of £87.8 million (8.1 per cent) are not being achieved, to date there are plans in place for savings of £56.3 million (5 per cent) and the UHB is predicting a £31.5 million deficit at the end of the 2011-12 financial year

32. To achieve a break-even position, the UHB must deliver cost savings of £87.8 million. To date there are plans in place for savings of £56.3 million (5 per cent), resulting in a forecast year end deficit of £31.5 million.
33. Between April and July 2011 the UHB achieved cost savings of £7 million compared to planned savings of £8 million. All cost savings plans were reviewed in August 2011 and £19.5 million of the £56.3 million total savings were considered unachievable. Some savings plans were insufficiently developed, whilst others could not be delivered within the required timescales.
34. Over recent weeks new cost savings plans have been identified and forecast savings for the year remain at £56.3 million. There is a higher risk that some savings may not be delivered, in particular medicines management, procurement and workforce changes. Given this, further work is required to ensure all savings plans are sufficiently developed and underpinned by robust action plans for delivery. Over the coming weeks, the UHB needs to ensure it delivers its savings plans. This is particularly important given the profile of savings, with £46.8 million of the £56.3 million total planned savings to be delivered between September 2011 and March 2012.

Good overall progress has been made in addressing the areas for development identified in my 2010 Structured Assessment although specific challenges remain

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

The UHB has continued to strengthen its governance arrangements although more needs to be done to address a number of key areas which require further improvement

36. My review of the progress made by the UHB to strengthen its governance arrangements has found that:
 - The process for developing the operational plan in 2011-12 has been much more inclusive and has started to bring together the financial resources, workforce plan and the operational objectives for the year, however challenges continue to exist between delivery of operational targets and savings. Given the scale of the changes required, service, workforce and financial plans need to be developed and delivered in a more coherent and managed way.

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- Changes have been made to strengthen joint working across the organisational structure and greater clarity exists around individual roles and responsibilities, although more work needs to be done to ensure that the role of corporate divisions is fully understood.
 - A revised committee structure which attempts to address the issues around focus and duplication as identified in our previous work was approved by the Board in June 2011, although it is too early to say whether these changes have been effective.
 - Although the Board Assurance Framework has been approved, continued work is required to ensure that it operates as intended and is underpinned by strengthened risk management arrangements embedded throughout the UHB.
 - A developing Audit Committee and improved clinical audit arrangements have helped strengthen internal control mechanisms, although more still needs to be done to address issues identified in the recent Audit Committee survey and embed clinical audit more fully into the overall assurance framework.
 - The UHB is putting in place a strategic plan for IM&T; in doing so it will need to ensure that the plan reflects a comprehensive understanding of existing systems and fits with the national agenda.
 - The UHB's performance management framework has been strengthened with a stronger focus on primary care, although the framework has only recently been applied systematically and effectively within the divisions.
 - The UHB has continued to ensure arrangements are in place to promote and ensure probity and propriety but there is still some considerable work to do to review and update policies and address weaknesses identified.

The UHB has further progressed a number of its 'enabler' functions which assist in the efficient, effective and economical use of resources although progress has been slow in putting the necessary frameworks in place to manage its estates

37. 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 UHB has maintained its focus on workforce planning, although more needs to be done to address workforce productivity and efficiency, building on the work to date to implement a robust job planning approach;
 - despite estates playing a fundamental part in the delivery of the UHB's five-year strategic plan, progress in putting the necessary arrangements in place to manage its estates has been slow;
 - there are foundations for improving procurement within the UHB, although these need to be sustained following the departure of the Assistant Director post holder;

-
- the UHB has continued to progress partnership working and has recently developed an integrated governance framework which helps clarify accountabilities across partner agencies; and
 - the UHB has continued to develop its work on community and patient engagement, and is clear about the importance of these activities in promoting understanding and acceptance of service changes that will be required in the future.

The UHB has strengthened its arrangements surrounding the consultant contract although barriers exist which may prevent the full benefits of the contract being realised

38. As part of my work to determine scope for the UHB to achieve greater efficiencies in the use of its resources, I have examined whether the UHB has the necessary arrangements in place to ensure that the intended benefits of the consultant contract are being delivered.
39. This work showed that the UHB is not yet realising the intended benefits of the consultant contract, mainly as a result of ineffective job planning. A new framework being introduced across the UHB should result in the necessary improvements, if implemented successfully.
40. My work found that since the introduction of the amended contract in 2003, the approach to job planning for consultants by the former trust had not been sufficiently robust and that job planning had not been used systematically to drive development and improvement of service delivery. Specific audit findings included:
- an inconsistent approach to job planning;
 - poorly documented job plans;
 - little change in sessional commitments of consultants in recent years; and
 - limited evidence to demonstrate supporting professional activities.
41. The UHB has taken action to strengthen its job planning arrangements. A new job planning framework is now in place which appears robust. This approach has been widely accepted by consultants and clinical directors, with 85 per cent of consultants now having completed a job plan review. Whilst this is positive, my work has identified barriers which may prevent the UHB from using job planning to best effect:
- clinical directorates do not always work together effectively to develop services;
 - the potential of job planning to develop better team working between consultants and managers is being hindered by the way in which some aspects of job planning is being applied, for example, some review meetings are being rushed; and
 - whilst many directorates are using information on activity to support job planning, many consultants reported that accessing data via the UHB's intranet to support job plans is problematic due to slow networks.

42. I intend to follow up the progress made by the UHB in implementing its new framework and addressing these barriers in January 2012.

Action has been taken to address the issues identified in a number of previous performance audit reviews although further progress is needed in several areas

43. 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 in specific areas of service delivery. The findings from the follow-up work are summarised in **Exhibit 3**.

Exhibit 3: Progress in implementing audit recommendations

Area of follow-up work	Conclusions and key audit findings
European Working Time Directive for Junior Doctors	<p>Although one junior doctor rota is not compliant, the UHB has had a strong corporate focus on the European Working Time Directive requirements for junior doctors and is addressing concerns about whether current working practices are sustainable.</p> <ul style="list-style-type: none"> whilst the UHB has made substantial progress, one junior doctor rota is not yet EWTD compliant and two other rotas only achieved compliance earlier in 2011; the UHB has developed alternative ways of working to support EWTD compliance and is aware of and addressing concerns about whether current working practices are sustainable; rota monitoring arrangements are in place but could be improved; and responsibilities and accountabilities for EWTD compliance have been set out clearly as part of the UHB's assurance framework.
Unscheduled Care (Preliminary Follow-up Work)	<p>The UHB has worked hard to develop a whole system approach to unscheduled care services but the impact of this work is yet to be reflected in improved performance against key measures. We came to this conclusion because:</p> <ul style="list-style-type: none"> the Auditor General's recommendations have informed the UHB's plans for improving unscheduled care services, with progress against plans actively managed; the UHB has introduced a range of initiatives to manage patient flows but the impact is yet to be reflected in the achievement of unscheduled care targets; initiatives with partner organisations to improve

Area of follow-up work	Conclusions and key audit findings
	<p>unscheduled care services are still in their infancy;</p> <ul style="list-style-type: none">• the UHB has progressed a number of initiatives to improve access to unscheduled care services and to support admissions avoidance;• a number of care pathways for acute conditions have been developed;• progress has been slow in joining up information systems; and• the UHB is making good progress in redesigning its workforce model at the hospital front door.

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	June 2011
Opinion on the Whole of Government Accounts return	August 2011
Audit of the Financial Statements – Detailed Report	September 2011
Opinion on the Summary Financial Statements	September 2011
Performance audit reports (year of audit outline)	
Consultant Contract (2009)	February 2011
EWTD Follow-up (2010)	July 2011
Community Services Phase 1 (facilitated workshops) (2009)	July 2011
Unscheduled Care Preliminary Follow-up (2010)	September 2011
Structured Assessment - Corporate Arrangements Follow-up (presentation) (2011)	October 2011
Other reports	
Outline of Audit Work 2011	March 2011

There are also a number of performance audits that are still underway at the UHB. These are shown below, with estimated dates for completion of the work.

Report (year of audit outline)	Estimated completion date
Operating Theatres and Day Case Surgery (2010)	November 2011
Business Continuity/Disaster Recovery (2011)	November 2011
Maternity Services Follow-up (2010)	November 2011
Ward Staffing (2010)	November 2011
Data Quality (2011)	November 2011
Community Services Phase 2 (2009)	November 2011
Chronic Conditions Management (2011)	February 2012
Unscheduled Care – Detailed Follow-up (2011)	February 2012
Clinical Engagement (2011)	February 2012
Review of the Integrated Health and Social Care Partnership Board (2011)	December 2011
Consultant Contract Follow-up (2011)	February 2012

Appendix 2

Audit fee

The Outline of Audit Work for 2011 set out the proposed audit fee of £424,448 (excluding VAT). My latest estimate of the actual fee 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 Business Services Centre was £16,228.

During the year, I reviewed the performance audit work in the 2010 Audit Strategy that was still outstanding. This resulted in a refund from the 2010 audit fee of £21,056 (excluding VAT), as outlined in a letter to the Director of Finance in July 2011. The performance audit projects affected are shown below.

Topic	Status
Continuing Health Care	This work now forms part of my programme of national VFM examinations for 2011-12. The proportion of the 2010 audit fee has been included in the refund to the UHB.
Follow up of previous audit findings – Child and Adolescent Mental Health Services	This work now forms part of my programme of national VFM examinations for 2011-12. The proportion of the 2010 audit fee has been included in the refund to the UHB.
Follow up of previous audit findings – Translating Strategy into Action	Many of the aspects of the follow up were covered under our Structured Assessment Year 1 work reported in March 2011. Those areas that were not covered are being integrated into areas of our work outlined in the 2011 plan, specifically chronic conditions and data quality. The proportion of the 2010 performance fee relating to this work will supplement our 2011 plan.
ICT Disaster Recovery/Business Continuity	This work has continued but has now been funded from the 2011 fee, and the proportion of 2010 performance fee that relates to this work has been refunded. To accommodate this in the 2011 programme, work on the implementation of Caldicott requirements, as outlined in our 2011 plan, will now be considered for inclusion in our 2012 programme.



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