



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

Annual Audit Report 2011

Velindre NHS Trust

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The team who delivered the work comprised Matthew Coe, Tracy Veale, Deborah Woods, Andrew Strong, Malcolm Latham and Elaine Matthews.

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Summary report

1. This report summarises my findings from the audit work I have undertaken at Velindre NHS Trust (the Trust) during 2011.
2. The work I have done at the Trust allows me to discharge my responsibilities under the Public Audit (Wales) Act 2004 (the 2004 Act) in respect of the audit of accounts and the Trust's arrangements to secure efficiency, effectiveness and economy in its use of resources.
3. My audit work has focused on strategic priorities as well as the significant financial and operational risks facing the Trust, and which are relevant to my audit responsibilities. More detail on the specific aspects of my audit can be found in the separate reports I have issued during the year. These reports are discussed and agreed with officers and presented to the Audit Committee. The reports I have issued are shown in [Appendix 1](#).
4. The key messages from my audit work are summarised under the following headings.

Audit of accounts

5. I have issued an unqualified opinion on the 2010-11 financial statements of the Trust, although in doing so I have brought several issues to the attention of officers and the Audit Committee. Whilst I recognise that there has been a substantial improvement in the final accounts preparation process this year, further improvements to support working papers can still be made.
6. I have also concluded that:
 - the Trust's accounts were properly prepared and materially accurate; and
 - the Trust has an adequate internal control environment, to reduce the risks of material misstatements to the financial statements, however there are some aspects that require further strengthening.
7. The Trust achieved financial balance at the end of 2010-11, as a result of good financial management and budgetary control.

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

8. I have reviewed the Trust's arrangements for securing efficiency, effectiveness and economy in the use of its resources. My work has involved gauging progress that has been made in addressing the areas for further development identified as part of last year's Structured Assessment work. Performance audit reviews have also been undertaken on specific areas of service delivery. This work has led me to draw the following conclusions:
 - achieving recurring cost savings is proving challenging for the Velindre Cancer Centre (VCC), however, both the Trust and VCC is predicting a balanced position for 2011-12;

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- good overall progress has been made in addressing the areas for development identified in my 2010 Structured Assessment although specific challenges remain;
 - whilst the Trust recognises the importance of job planning for consultants, the current approach is not yet sufficiently robust to ensure that the full benefits of the consultant contract are realised;
 - the Trust has established a reasonable process to track progress against audit recommendations although the time taken to implement performance audit recommendations can be improved; and
 - the Wales Audit Office's scoping studies into the Trust's radiotherapy staffing arrangements and the Welsh Blood Service (WBS) identified there would be value in undertaking more detailed audit work.

Agreeing my findings with the Executive Team

9. This report has been agreed with the Chief Executive and the Director of Finance. It was presented to the Audit Committee on 2 December 2011. It will then be presented to a subsequent Board meeting and a copy provided to every member of the Trust Board. We strongly encourage wider publication of this report by the Trust Board. Following Trust Board consideration, the report will also be made available to the public on the Wales Audit Office's own website (www.wao.gov.uk).
10. The assistance and co-operation of the Trust's staff and members during the audit is gratefully acknowledged.

Detailed report

About this report

11. This Annual Audit Report to the Board members of the Trust sets out the key findings from the audit work that I have undertaken between December 2010 and November 2011.
12. My work at the Trust is undertaken in response to the requirements set out in the 2004 Act. That act requires me to:
 - a) examine and certify the accounts submitted to me by the Trust, and to lay them before the National Assembly;
 - b) satisfy myself that the expenditure to which the accounts relate has been incurred lawfully and is in accordance with the authorities which govern it; and
 - c) satisfy myself that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
13. In relation to (c), I have drawn assurances or otherwise from the following sources of evidence:
 - the results of audit work on the Trust's financial statements;
 - work undertaken as part of my latest Structured Assessment of the Trust, which examined the arrangements for financial management, governance and accountability, and management of resources;
 - the Trust's self-assessment against the Governance and Accountability module of the Standards for Health Services in Wales;
 - performance audit examinations undertaken at the Trust;
 - the results of the work of other external review bodies, where they are relevant to my responsibilities; and
 - other work, such as data matching exercises and certification of claims and returns where appropriate.
14. I have issued a number of reports to the Trust this year. The messages contained in this Annual Audit Report represent a summary of the issues presented in these more detailed reports, a list of which is included in [Appendix 1](#).
15. The findings from my work are considered under the following headings:
 - audit of accounts; and
 - arrangements for securing efficiency, effectiveness and economy in the use of resources.
16. Finally, [Appendix 2](#) presents the latest estimate on the audit fee that I will need to charge to cover the actual costs of undertaking my work at the Trust, alongside the original fee that was set out in the Audit Outline.

Section 1: Audit of accounts

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

My responsibilities

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

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

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

21. I am required by ISA 260 to report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues to the Trust's Audit Committee on 6 June 2011. [Exhibit 1](#) summarises the key messages set out in that report.

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

Key messages

- There were no modifications to the Auditor General's certificate and report.
- There were no uncorrected misstatements.
- There were some corrected misstatements in relation to:
 - re-classification of Welsh Government balances;
 - calculation of indexation; and
 - inclusion of an additional 'Statement of changes in taxpayers equity' to provide clarity regarding the impact of merger accounting.
- There have been substantial improvements in final accounts preparation process this year; however, we had some concerns about the qualitative aspects of the Trust's accounting practices and financial reporting. A robust Quality Assurance (QA) review has taken place on the financial statements and the supporting working papers. Whilst we acknowledge this positive direction, there is scope for further improvements going forward to improve the timeliness of working papers, which are clearly linked to supporting evidence, and the availability of finance staff.
- There were some significant matters discussed and corresponded upon with management, which needed to be drawn to the attention of the Audit Committee regarding the delays in obtaining third party correspondence in relation to the appropriate capitalisation of intangible assets.
- We did not encounter any significant difficulties during the audit. In comparison to previous years, we received responses to the majority of our queries in a timely and helpful manner; however we did encounter some delays in certain areas which impacted upon the audit.
- There are no other matters significant to the oversight of the financial reporting process that we need to report to you.
- We did not identify any material weaknesses in your internal controls that have not been reported to you already.
- There was one matter of governance interest to report regarding the review of the Trust's Revaluation Reserve, which although raised in our 2007-08 Audit Letter, was finally completed in May 2011.

22. The Trust made substantial improvements to its timetable for the closedown, accounts preparation and audit process which contributed to the improved delivery in 2010-11. In order to achieve the timetable, deliver the required service to Public Health Wales and account correctly for the creation of NWIS, the Trust has considered the planning of the year-end process throughout 2010-11, with regular meetings with internal and external audit, and the Public Health Wales Finance team. A detailed closedown, accounts preparation and audit timetable also facilitated the distribution of the workload more evenly across the Finance team. This contributed positively to the year-end closedown process.

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23. Overall the quality of the working papers and the audit trail has improved on previous years; however the analytical review exercise can still be improved. Analytical review is a useful management tool especially for budgetary control, and consideration should be given to developing its use during the year in order to reduce the workload at the year-end.
 24. We were pleased to note a significant improvement in the QA arrangements. All the statements, notes and supporting working papers were reviewed by the Director of Finance. This process contributed to significant improvements in the quality of the working papers, the audit trail, the documentation of judgements and note preparation process; and resulted in a reduced level of audit adjustments.

The Trust has an adequate internal control environment to reduce the risks of material misstatements to the financial statements however there are some aspects that require further strengthening

25. During the audit, we did not identify any material weaknesses in the significant financial and accounting systems, and internal control systems; however, there were areas where improvements could be made. While these did not directly impact upon the final accounts process, the Trust should ensure that appropriate arrangements are put in place to strengthen further the internal controls.
26. The key areas of internal financial controls that need strengthening which were reported to the Trust include:
 - regularly reviewing the Service Level Agreements (SLAs) between the VCC and other bodies and establishing appropriate procedures to ensure they are updated on a timely basis;
 - reconciling income monitoring spreadsheets to the Oracle FMS;
 - documenting the review of business cases to identify assets that require de-recognition; and
 - agreeing a timetable for the completion of Internal Audit assignments and finalisation of reports.
27. Cardiff and Vale Internal Audit Services provided an internal audit service to the Trust during 2010-11. We have assessed their work and confirm that it complies with the NHS Wales Internal Audit Standards. The work undertaken during the year supported the Head of Internal Audit's annual opinion on the effectiveness of the Trust's system of internal control, as reported to the Audit Committee in June 2011.

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28. We have undertaken a review of the SUN financial accounting system, the new Oracle financial system and the local IT infrastructure, which underpins both as part of our 2010-11. We also followed up our 2009-10 review of the local controls over the Electronic Staff Record Payroll system. Our work concluded that the Trust's ICT infrastructure supporting the financial system is, in the main, current with good support arrangements in place, but that some environmental controls need to be improved.

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

29. The Trust achieved a retained surplus of £90,000 for the year ending 31 March 2011 as a result of effective financial management and budgetary control. Whilst all three divisions of the Trust were required to make cost savings, this proved particularly challenging for the VCC. As a result, further work is required within the VCC to improve delivery of identified cost savings going forward.

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 Trust over the last 12 months to help me discharge that responsibility. This work has involved:
- reviewing the Trust's financial management arrangements, including the progress being made in delivering cost saving plans and their contribution to achieving financial balance;
 - assessing the progress the Trust has made in addressing the 'areas for development' we identified in last year's Structured Assessment work;
 - reviewing the arrangements the Trust has established to ensure that the full benefits of the consultant contract are realised;
 - assessing the process the Trust has established to track progress against audit recommendations and progress the Trust has made in addressing the issues identified by previous audit work on the human resources review and information governance study; and
 - undertaking scoping studies on the Trust's radiotherapy staffing, prescription pricing arrangements and the WBS to identify whether there would be value in undertaking further detailed audit work.
31. The main findings from this work are summarised under the following headings.

Achieving recurring cost savings is proving challenging for the Velindre Cancer Centre however both the Trust and Cancer Centre is predicting a balanced position for 2011-12

- 32.** The Trust was required to manage a financial gap of £2.722 million to achieve its financial balance target in 2010-11. All three divisions of the Trust had cost savings plans for 2010-11, and overall the Trust delivered the required savings to achieve a surplus of £90,000 at the year-end. The savings for each of the three divisions were £791,000 for the WBS, £85,000 for Corporate and £1.846 million for the VCC. Both the WBS and Corporate achieved a surplus above their savings targets for the year; however, the financial position in the VCC was recognised as more challenging.
- 33.** A Financial Recovery Board, chaired by the Chief Executive, was established at the start of 2010-11 for the VCC. This group met fortnightly throughout the year to monitor and oversee the recovery process. The division achieved £251,000 of recurring savings and £1.665 million of non-recurring savings, and reported a deficit for 2010-11 of £174,000. The main contributory factor to the VCC year-end deficit was the agreed additional year-end spend of £143,000 of essential non-recurring items in relation to infection control and risk issues.
- 34.** Although the Trust made a small surplus overall for the year ending 31 March 2011, the cost improvement plans in the VCC were not all delivered. The Financial Recovery Board has been taken forward as the Sustainability Group in 2011-12 and it will be important that this group understands why specific savings plans had not been met during 2010-11 in order for realistic plans to be identified going forward.
- 35.** For 2011-12, the Trust is required to deliver savings of £2.200 million on a recurring basis, assuming that existing funding patterns continue. This level of savings has been identified within the Annual Financial Plan, and in the divisional plans. The identification and monitoring of cost improvement plans, supporting the service delivery aims contained within the five-year plan, has improved over recent years. However, there is scope to improve the timeliness of preparing the detailed savings plans. It is important that the specific saving schemes are identified earlier in the year and are sufficiently detailed to be accurately costed.
- 36.** Whilst all divisions have responsibility to generate cost savings, the greatest financial challenge continues to remain with the VCC. The savings required in the VCC for 2011-12 is £1.384 million, which represents 62.9 per cent of the Trust's total savings target.
- 37.** In order to deliver this level of savings, the Financial Strategy for the VCC for 2011-12 includes a Sustainability Strategy with a two-year change programme. This reflects on the lessons learnt from 2010-11 and looks to establish patient-focused management groups identifying appropriate changes to be made along the patient pathway to reduce costs. The change programme involves nine sustainability change schemes with ownership delegated to specific officers within the division. These schemes have been split between recurring (£0.941 million) and non-recurring (£0.443 million) schemes. Historically, there has been overreliance on non-recurring savings within the

VCC. Both Trust and VCC management are aware of the need to identify recurring savings year on year, and as a result, the Trust has recently appointed two Modernisation Managers within the VCC to review processes and deliver improvements in the quality of the patient pathway.

38. In April 2011, the Trust reported to the Welsh Government that there were 'unidentified' savings of £0.500 million contained within the savings plans for the VCC. The October position remains the same; however, non-recurring savings have now been identified to enable the VCC to forecast breakeven for the year.
39. As at month 6, the Trust has achieved savings of £0.973 million. This is £0.131 million below the forecast savings of £1.104 million at this point in the year. Of this shortfall, £0.121 million relates to VCC overspend. Despite this, the Trust is forecasting achievement of its savings target and financial balance by the year-end.
40. Whilst there appears to be adequate mechanisms in place regarding the regular and timely reporting of the cost improvement programmes to the divisional senior management teams, and to the Trust Board, consideration should be given to reviewing the way in which savings are recorded within the financial ledger as soon as the plans are identified and agreed. This will ensure that the information in the ledger supports the reporting of the cost improvement programmes and identifies more clearly, whether they are being achieved.

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

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

The Trust has strengthened the financial planning process and recognises that further work is needed to improve both the monitoring of corporate service SLAs and consistency of committee minutes

42. My review of the progress made by the Trust to strengthen its arrangements for managing finances has found that:
 - while some progress has been made to improve the financial planning process, further work is required to improve the performance monitoring of corporate service SLAs; and
 - there has been some improvement in the quality of the Board and Committee minutes in 2011, however, there are some variations between the various Board and Committee meetings that need to be addressed to improve consistency.

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

43. My review of the progress made to strengthen its governance arrangements has found that the Trust:

- has consolidated its corporate strategy and divisional strategic objectives within the Service, Workforce and Financial Framework updated in August 2011; the Trust recognises that this is a continuous process and will need to be further refined as service strategies are developed and agreed;
- recognises the importance of updating the current performance management arrangements into a robust framework to support integrated performance monitoring across all levels of the organisation and are to focus on this activity as part of the development of the overall Trust assurance framework;
- has made good progress in appointing to key interim executive positions in a number of areas although further appointments are still needed to achieve full Board membership; and
- has strengthened a number of risk management structures and processes that underpin the development of a corporate risk register; these arrangements are being developed further and are planned to be completed by early 2012.

The Trust has further progressed a number of its 'enabler' functions which assist in the efficient, effective and economical use of resources although progress to update the Trust's information communications technology and estate asset strategies has been slow

44. My review of progress in the areas where our 2010 work highlighted scope for improvement in relation to factors which enable efficient, effective and economical use of resources has found that the Trust:

- updated workforce plans in 2011 to better integrate the modernisation and service improvement plans outlined in the Service, Workforce and Financial Framework; the Trust intends to remodel its workforce plans in order to support service modernisation;
- developed a 2011-12 procurement action plan to support the all-Wales procurement services strategic operating plan whilst work to complete the Trust's information communications technology and estate asset strategies has been slow to progress;
- made some progress to extend the reach and influence of procurement across the Trust; however, further improvements can still be made in a number of areas;
- recognises the importance of partnerships and is actively working with stakeholders to deliver desired outcomes; responsibilities for partnership working activities are allocated to appropriate Trust staff; and

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- recently begun strengthening the arrangements within the WBS to allow for more effective donor engagement through the appointment of a Head of Blood collection and plans to establish a donor forum.

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

45. I have reached this conclusion because at the time of writing my report:

- the Trust had established job planning processes for consultants although they were not yet sufficiently robust:
 - while the WBS completes job planning annually, most consultants in the VCC had not at that time had a job plan review within the last year;
 - activity data is used constructively to inform the job plan review, although some consultants had pointed to difficulties finding appropriate outcome measures; and
 - the Trust is using a standard job plan template but in the VCC it was not fully completed limiting the Trust's ability to effectively understand issues arising from job plans.
- working relationships between consultants and managers were generally good although the contract is not fully used to support service modernisation; and
- consultants considered their facilities, such as secretarial support, office space and IT equipment, to be satisfactory.

The Trust has established a reasonable process to track progress against audit recommendations although the time taken to implement performance audit recommendations can be improved

46. I have reached this conclusion because:

- Over the last 12 months the Trust has strengthened the process to track progress against audit recommendations although there is scope to further improve.
- Whilst action has been taken to address the issues identified in a number of previous performance audit reviews, further progress is needed in several areas. The time taken to complete performance audit recommendations can be improved.

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47. During the last 12 months, I have undertaken follow-up audit work to assess both the process and progress that the Trust 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 on the Human Resources study and Information Governance study showed that improvements can be made in the time taken to complete performance audit recommendations.

The Wales Audit Office's scoping studies into the Trust's radiotherapy staffing arrangements and the Welsh Blood Service and identified there would be value in undertaking more detailed audit work

48. As part of my programme of external audit work in 2010 I identified the value in undertaking short scoping exercises to better understand the Trust's arrangements. I conducted two scoping studies into the Trust's radiotherapy staffing and prescription pricing arrangements. The aim of the scoping exercises was to determine whether more detailed audit work in this area would be beneficial.
49. This work has shown that the Trust would benefit from a more detailed study of the radiotherapy services arrangements. The audit will examine radiotherapy staffing and resources to identify whether there is scope to manage these more efficiently and effectively after recent investments.
50. Conversely, I concluded that the Trust would not directly benefit from a more detailed study of the prescription pricing arrangements. I reached this conclusion because, since the start of our scoping exercise on 1 April 2011, the prescription pricing unit moved out of the NHS Wales Informatics Services hosting arrangements which the Trust is accountable for and into the NHS Wales Shared Services partnership. Furthermore, in 2012, I plan to commence a wider value-for-money examination on medicines management across NHS Wales. The medicines management study will be designed to identify the opportunities to secure greater efficiencies from the use of medicines whilst maintaining high-quality standards of care. This will incorporate areas identified in the scoping study which would benefit from further investigation.
51. As part of my programme of external audit work in 2011, I also identified the value in undertaking short scoping of the WBS. I concluded that the Trust would benefit from a more detailed study of the WBS arrangements in early 2013. The work will look at the outcomes of the change modernisation programme to seek assurance that these will support the efficient and effective delivery of services.

Appendix 1

Reports issued since my last Annual Audit Report

Report	Date
Financial audit reports	
Opinion on the Financial Statements	June 2011
Audit of Financial Statements Report	September 2011
Performance audit reports	
Pay modernisation: NHS consultant contract	March 2011
Scoping study: radiotherapy staffing arrangements	July 2011
Scoping study: prescription pricing	July 2011
Follow-up review of progress implementing previous performance audit recommendations	August 2011
Scoping study: Welsh Blood Service	November 2011
Other reports	
Outline of Audit Work 2011	May 2011

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

Report	Estimated completion date
Review of radiotherapy services	December 2011
Customer-focused review of IT services (formerly provided by Health Solutions Wales)	January 2012
Review of the VCC data quality arrangements	January 2012
Review of arrangements to ensure good clinical engagement	February 2012
Follow-up review of the pay modernisation consultant contract and hospital catering studies	February 2012

Appendix 2

Audit fee

The Outline of Audit Work for 2011 set out the proposed audit fee of £175,947 (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.



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