



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Annual Audit Report 2012

Hywel Dda Local Health Board

Issued: December 2012

Document reference: 623A2012

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Summary report

1. This report summarises my findings from the audit work I have undertaken at Hywel Dda Local Health Board (the LHB) during 2012. The work I have undertaken at the LHB 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 LHB's arrangements to secure efficiency, effectiveness and economy in its use of resources.
2. My audit work has focused on strategic priorities as well as the significant financial and operational risks facing the LHB, 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 sub-committee of the Board. The reports I have issued are shown in [Appendix 1](#).
3. The key messages from my audit work are summarised under the following headings.

Audit of accounts

4. I have issued an unqualified opinion on the 2011-12 financial statements of the LHB, although in doing so I have brought some less significant issues to the attention of officers and the Audit Committee. I have also concluded that:
 - the LHB's financial statements were properly prepared and materially accurate;
 - the LHB had an effective internal control environment to reduce the risks of material misstatements to the financial statements although there are some areas for improvement, in particular in some of the non-financial feeder systems; and
 - the LHB's significant financial and accounting systems were appropriately controlled and operating as intended with demonstrable improvement during the year, although there are some system weaknesses which require management action.

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

5. I have reviewed the LHB's arrangements for securing efficiency, effectiveness and economy in the use of its resources. My Structured Assessment work has examined the robustness of the LHB's financial management 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 LHB has sound financial management arrangements but it faces significant financial cost pressures and as it currently stands it looks unlikely that the LHB will achieve its statutory breakeven duty at the end of the financial year without additional assistance.

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- The LHB has continued to strengthen its governance arrangements, which although broadly sound, would benefit from a more embedded approach to risk management, improved management information, and a more robust ICT infrastructure.
 - My review of the LHB's governance arrangements found that:
 - The LHB's internal control environment has continued to mature and support effective Board assurance. Continued development of risk management and the improved operation of committees will further enhance effective Board scrutiny.
 - The LHB has continued to develop its management information, however further work is required to bring together different strands of information to strengthen the LHB's ability to plan, make decisions and scrutinise.
 - Significant progress has been made to strengthen information governance although the ICT capacity and infrastructure remain a risk and the LHB needs to continue to strengthen its arrangements to ensure that they are fully effective.

My performance work has identified improvements in the use of the LHB's resources but there remain gaps and the LHB is faced with a number of significant challenges

6. Key findings from my review of the LHB's use of resources are as follows:
- The LHB is taking a genuine whole-systems approach to transforming services for unscheduled care and chronic conditions management and improvements are being realised. However, there are risks to service transformation which the LHB will need to overcome.
 - The LHB has a sound approach to workforce planning although effectively managing a reducing workforce to deliver the Clinical Services Strategy will be a key challenge.
 - In modernising its health services the LHB has undertaken an extensive and comprehensive engagement exercise with the public and health community stakeholders.
 - The LHB has made good progress in addressing the recommendations arising from our previous work on catering services and has reinforced its already strong focus on nutrition. It now needs to ensure that plans lead to service change and that patient views are used effectively as part of that process.

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

7. This report has been agreed for factual accuracy with the Chief Executive and the Executive team. The report will be presented to the Audit Committee in January 2013. It will then be presented to a subsequent Board meeting in January 2013 and a copy provided to every member of the LHB. We strongly encourage wider publication of this report by the LHB. 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).
8. The LHB routinely formally responds to the issues raised in my reports. I will continue to monitor progress against the issues identified within this report as part of my on-going audit work.
9. The assistance and co-operation of the LHB's staff and members during the audit is gratefully acknowledged.

Detailed report

About this report

10. This Annual Audit Report to the Board members of the LHB sets out the key findings from the audit work that I have undertaken between November 2011 and November 2012. My work at the LHB 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 LHB, 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 LHB has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
11. In relation to (c), I have drawn assurances or otherwise from the following sources of evidence:
 - the results of audit work on the LHB's financial statements;
 - work undertaken as part of my latest Structured Assessment of the LHB, which examined the arrangements for financial management, governance and accountability, and use of resources;
 - the LHB's self-assessment against the Governance and Accountability module of the Standards for Health Services in Wales;
 - performance audit examinations undertaken at the LHB;
 - 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.
12. I have issued a number of reports to the LHB 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](#).
13. 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.
14. 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 LHB, and shows that it is in accordance with the original fee that was set out in the Audit Outline.

Section 1: Audit of accounts

15. This section of the report summarises the findings from my audit of the LHB'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

16. In examining the LHB'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 LHB 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.
17. In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).
18. In undertaking this work, auditors have also examined the adequacy of the:
- LHB'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 LHB, although in doing so, I have brought some less significant issues to the attention of officers and the Audit Committee

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

19. 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. The financial statements had also been subject to a detailed review by the Audit Committee.
20. My team has continued to work closely with LHB's 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.

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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 financial statements. My Financial Audit Engagement Lead reported these issues to the LHB's Audit Committee and the Board on 6 June 2012.
22. My report highlighted that a number of misstatements in the draft financial statements had been corrected by management. **Exhibit 1** summarises other key issues set out in that report which have been updated for recent developments.

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 and a contingent liability for outstanding claims. Further trend information is now available in 2012-13 and the LHB will use this to refine the methodology for calculating the provision and contingent liability.</p>
Public Sector Payment Policy	<p>Across Wales the reporting of creditor payments within 30 days as set out in the financial statements has been a concern due to inconsistencies in the guidance and approach.</p> <p>During 2012-13 the LHB will work with the NHS Wales Shared Services Partnership (NWSSP) and the Welsh Government to ensure that the guidance is clearer and fully complied with.</p>
Annual Governance Statement	<p>Although the Annual Governance Statement (which replaces the Statement on Internal Control from 2011-12) was prepared on a timely basis, in our view the statement was too long and could have been clearer.</p> <p>In 2012-13 the LHB will 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 risk and concern.</p>

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 LHB 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 compliant with Welsh Government guidance.

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24. My separate audit of the LHB's Charitable Funds financial statements is now complete. The LHB has made good progress improving the arrangements for charitable funds although more work is planned to improve income collection arrangements. At this stage I intend to issue an unqualified opinion during January 2013.

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

25. 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.
26. During the year we assessed Internal Audit (IA) against their professional standards. Overall we concluded that IA provided a good level of service but there is scope for improvement in some areas. Further, we concluded that the LHB needed to provide prompter management responses to finalise IA reports in a timelier manner.

The LHB's significant financial and accounting systems were appropriately controlled and operating as intended

27. I did not identify any material weaknesses in the LHB's significant financial and accounting systems which would impact on my opinion. There were some less significant issues arising from my financial audit work and these were reported to the Audit Committee or management.
28. Internal Audit reported a number of improvements to financial and non-financial systems which require on-going 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.
29. We have also reviewed the actions taken by the LHB to follow up the findings of the National Fraud Initiative (NFI). The LHB has agreed a clear plan and good progress has been made in investigating potential matches.

The LHB achieved financial balance at the end of 2011-12 but only as a result of non-recurring funding from the Welsh Government and significant cost improvement savings

30. Overall the LHB achieved its financial targets in 2011-12. These targets were achieved mainly as a result of £33 million of Welsh Government 'strategic assistance' in the year alongside the achievement of significant cost containment and cost reduction targets totalling £48.8 million.
31. Unlike some of the other Welsh LHBs, the LHB did not receive late 'brokerage' during 2011-12. A commentary on the latest financial position in 2012-13 is set out in the following section.

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

- 32.** 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 LHB over the last 12 months to help me discharge that responsibility. This work has involved:
- reviewing the LHB'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 LHB'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, stakeholder engagement and transforming unscheduled care and chronic conditions management; and
 - assessing the progress the LHB has made in addressing the issues identified by previous audit work on catering services.
- 33.** The main findings from this work are summarised below.

The LHB has sound financial management arrangements but it faces significant financial cost pressures and as it currently stands it looks unlikely that the LHB will achieve its statutory breakeven duty at the end of the financial year without additional assistance

- 34.** Financial forecasting, budget setting and budget monitoring is robust across the organisation. The quality of reports has improved and feedback from users is good.
- 35.** The LHB has a good track record of managing cost pressures and has been able to achieve financial balance since it was formed in 2009 although achieving cost savings plans has been variable. However, going forward the LHB continues to face significant financial challenges in delivering its services, which have not been helped by delays with the Clinical Services Strategy consultation.
- 36.** In the current financial year the LHB is reporting significant financial pressures from additional demand for services. Alongside this the LHB is aiming to achieve some £36.4 million of savings from its cost improvement plans (CIPs). However, the LHB's CIPs are overly ambitious particularly in light of the performance against previous years' savings plans and the absence of service redesign. For 2012-13, the extent of the impact of the ongoing financial challenge is highlighted by the fact that 75 per cent of the CIPs are scheduled for delivery in the second half of the financial year. In addition:
- £8.8 million of one-off 'Accounting' savings have been identified but are yet to be audited.

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- £3.3 million Continuing Healthcare savings along with £7.6 million of Medicines Management savings are very challenging. The Continuing Healthcare savings are unlikely to be delivered and whilst the LHB is on target to deliver the Medicines Management savings, it will be challenging to remain on target in the remainder of the financial year.
 - £15.4 million of workforce savings which have been identified are very ambitious as they assume a reduction of some 60 whole time equivalents (WTEs) per month. Currently the LHB is some way of achieving this target. As set out later in this Report, effectively managing a reducing workforce to deliver the Clinical Services Strategy is a key challenge for the LHB.
- 37.** At the start of the financial year the LHB identified a residual challenge of £12.8 million. Even if the LHB achieves its CIPs, as is the case with most Welsh LHBs this year, the LHB is reporting that it is experiencing unusually high levels of activity and as a result of this, in November 2012 the LHB anticipated an £11 million 'Best Case' deficit at the year end.
- 38.** In December 2012 the LHB was notified of £8 million of additional Welsh Government funding to help close this gap. The LHB is currently working on 'turnaround plans' to address the remaining shortfall. Given these required savings there could be an impact on delivery, quality and safety. At this stage in the year, it would be reasonable to conclude that the LHB will not achieve financial breakeven at the year-end, without additional funds being made available, and /or reductions being made in planned activity.
- 39.** In previous years the LHB has been consistent in its financial performance reporting to the Welsh Government. However, following an independent review of the LHB's 2012-13 Service, Workforce & Financial plans by the Welsh Government, a high risk plan for breakeven was submitted by the LHB in July 2012. This changed the reporting for the current year, as shown in [Exhibit 2](#). On the basis of a high risk plan to deliver breakeven, the LHB reported breakeven at month 3 even though, at that point at a £4 million deficit, the underlying position had not changed significantly from the beginning of the year. The 'likely' position was set out in the narrative of the report and the Board has received a consistent picture of how the LHB is performing. The LHB has learnt lessons from the in-year change and had reverted back to the initial reporting process.

Exhibit 2: 'Likely' year-end deficit position as reported to the Welsh Government

Month	Likely year-end financial position as reported to the Welsh Government
April 2012	(£12.8m)
May 2012	(£12.8m)
June 2012	£0
July 2012	£0
August 2012	(£2.3m)
September 2012	(£3.1m)
October 2012	(£11.0m)

40. Capital resources are well managed but the LHB faces significant future capital constraints particularly for discretionary capital, which covers items such as equipment replacement. This may have an impact on quality and safety.

The LHB has continued to strengthen its governance arrangements, which although broadly sound, would benefit from a more embedded approach to risk management, improved management information, and a more robust ICT infrastructure

The LHBs internal control environment has continued to mature and support effective Board assurance. Continued development of risk management and the improved operation of committees will further enhance effective Board scrutiny.

41. The LHB has mechanisms to identify the key risks and barriers to achieving its key strategic objectives particularly in terms of safety, quality and finance. This is supported by the LHB's corporate risk register, which is soon to become available on the LHB's website. Last year I identified risk management as a key area for development. Arrangements have been strengthened and will be further enhanced by the revised risk strategy and reporting framework. However, the LHB recognises that more needs to be done to consistently embed processes and become more outcome focused.

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- 42.** The LHB has an established assurance framework and internal controls to address strategic risks. The LHB plans to improve the links between the corporate strategy and operational delivery through the revised integrated assurance arrangements. The programme of Board development sessions has helped strengthen the Board by raising awareness of key issues and responsibilities. Good progress has been made in strengthening clinical leadership, reducing silo working and developing leadership capacity and capability at senior to middle manager level. The Foundations for Change programme aimed at empowering the county teams to act corporately and collectively in delivery of the LHB's objectives is a positive step.
- 43.** Our observations of the Board and its main committees found that they are generally working well with good linkages between them. Collectively, the Board and Committee agendas demonstrate a good balance between quality, safety and finance. Terms of Reference have been reviewed for duplication and there are no obvious gaps. Committees have a clear work plan, are well chaired with an inclusive atmosphere and there is good attendance with robust debate and challenge. There have also been some improvements in the arrangements for committees to report to the Board. However, there is scope to improve the operation of a number of the main committees as agendas are too long, with too many papers and some items are deferred to future meetings or rushed through. The number of sub-committees and groups in place is unwieldy with around fifty sub-committees and groups feeding up to the Board. In 2011, we reported that the LHB was mapping its committees and groups to review their effectiveness. This important piece of work remains substantially incomplete.
- 44.** A new Audit Committee Handbook was issued in May 2012. The LHB has taken a considered approach to meeting the requirements of the new handbook and the resulting revised terms of reference and work programme were approved by the Audit Committee in September 2012. The Audit Committee has yet to determine what clinical information it requires and the LHB will need to assess the effectiveness of the new arrangements in due course.
- 45.** Clinical audit continues to be strengthened and is increasingly becoming a key part of the assurance framework. There are plans for further improvement which are outlined in a new clinical audit policy. The purpose of the policy is to develop and sustain a culture of best practice in clinical audit and it also clarifies roles and responsibilities of all staff engaged within clinical audit activities. Mechanisms have been put in place to meet mandated National audit requirements which is now embedded in a more systematic way. There has been a change of personnel within the clinical audit department and capacity has reduced. The LHB needs to ensure that these issues do not compromise the assurance function.

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46. The LHB's processes to support the implementation of the Standards for Healthcare Services in Wales (SHSW) have been strengthened and measures are being taken to systematically embed and continuously inform the process and to build in internal assurance through working closely with IA. The LHB actively draws on external assurances and is now more proactive in using and strengthening internal assurance processes to address risks. There are good examples where the LHB has drawn together the results of both internal and external assurances to drive improvement. There is clear evidence to demonstrate that the LHB takes concerted and appropriate action when failings and weakness are identified.

The LHB has continued to develop its management information however, further work is required to bring together different strands of information to strengthen the LHB's ability to plan, make decisions and scrutinise.

47. My Structured Assessment work this year has focused on whether the Board and its committees have access to relevant management information to plan, make decisions and underpin effective scrutiny and board assurance. I found that:
- The Board and committees generally get the right level of information, it is not overly summarised and sufficient detail is available for effective and timely decision making.
 - Performance reporting in the LHB is continuously evolving and being strengthened. Finance reports have improved and now clearly identify the key issues and better link to quality and safety. This helps the Board take ownership of the issues and make informed decisions.
 - The integrated performance reports provide a good indicator of performance in the areas that they cover but the balance of information continues to be heavily biased towards secondary care, with very limited performance reporting of patient experience and outcomes and on community and primary care. However, the recently produced primary care performance report aims to address the gap in primary care information although there is recognition that this needs further development and refinement.
 - There is a clear commitment to understand the quality and safety of services but the available information to support this aim is rarely reported in one place. The LHB could usefully develop a quality and safety corporate 'dashboard' which brings together quality, safety and outcome measures. This should include comparative and performance trend analysis at the County and LHB level.
 - Performance reporting needs to become more sophisticated and meaningful. The LHB needs to bring together key performance indicators that tell a story of what is happening in the system and build in quality triggers that make connections across the key performance indicators. The LHB recognises this and has started to consider how to measure and monitor integrated performance and is considering what needs to be measured in terms of public health, process targets, primary care and outcomes and has mapped the available measures.

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48. 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 LHB's Board and its key committees has identified that there is good evidence of scrutiny and challenge by members. It is clear from the committee discussions that verbal linkages are made between quality, safety and finances with other sources of assurance such as safety walkabouts also being drawn upon. However, access to integrated performance measures would further enhance understanding and scrutiny.
49. Support is available to members to use management information and from our observations members have the appropriate skills to make best use of management information. Ready access to electronic information supports further analysis of information and the LHB is about to supply Independent Members with NHS laptops to enable this.

Significant progress has been made to strengthen information governance arrangements although the ICT capacity and infrastructure remain a risk and the LHB needs to continue to strengthen its arrangements to ensure they are fully effective

50. Last year I identified areas for development in relation to the LHBs information governance. My work this year has identified that information governance arrangements have been strengthened although ICT capacity and infrastructure still present a significant risk. More specifically I found that:
- concerted action has been taken to strengthen information governance arrangements with good progress made and the LHB has identified the required actions for further improvement and has started to implement them;
 - network resilience and infrastructure remain a significant risk and even though the LHB has a number of controls in place to mitigate against these risks, sustainable solutions are required just to safely maintain current services; and
 - the Clinical Service Strategy will require significant ICT capital and revenue investment if it is to truly support service transformation.
51. I have undertaken a high-level examination of the LHB'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.
52. My work found that while there are examples of effective operational data quality arrangements across the LHB, they are not always consistently applied and assurance to the Board is not sufficiently robust. More specifically I found that:
- senior managers are committed to improving data quality but assurance arrangements and co-ordination of data quality roles and responsibilities need improvement;
 - the LHB lacks a comprehensive data quality policy, which is resulting in inconsistent procedures and processes;

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- data quality within key systems is inconsistent, creating unnecessary clinical and business risk; and
 - a key challenge for the LHB is ensuring that all staff recognise their role in assuring effective data quality.
- 53.** In addition to work on data quality, we have also examined the LHB's arrangements for implementing Caldicott guidance on confidentiality of patient data, and also the robustness of the LHB's disaster recovery and business continuity processes in the event of an IT system failure.
- 54.** My work on the LHB's arrangements for information confidentiality has found that Caldicott arrangements are broadly sound and the LHB is aware of its weaknesses and is making improvements. More specifically I found that:
- the LHB has robust arrangements in place but they need to formalise the authorisation and delegation arrangements for the Caldicott Guardian to provide clarity over this process;
 - the LHB has a good understanding of its information confidentiality responsibilities and has identified its high risk patient and staff information and is now proactively identifying and assessing all other information sources;
 - the majority of Caldicott policies and procedures are in place and the LHB is in the process of improving staff awareness and training; and
 - there is effective oversight and assurance but the LHB could further improve this by reporting their Caldicott Principles in Practice (CPiP) score in the Annual Report.
- 55.** My work on disaster recovery and business continuity processes associated with ICT clinical systems indicated that the LHB does not have sufficiently robust ICT disaster recovery and business continuity arrangements, but it is aware of the risks and is taking improvement action. However, progress has been slow and until the planned changes are complete this presents a significant risk to the LHB. More specifically I found that:
- ICT business continuity and disaster recovery governance arrangements are improving, but there is a need to clarify responsibilities for systems and services which are managed by other service suppliers;
 - the LHB does not have adequate ICT disaster recovery plans and business continuity plans, but is beginning to address this issue;
 - there are weaknesses in controls and resilience of the ICT infrastructure, but the data centre and backup projects provide an opportunity for the LHB to strengthen arrangements; and
 - the LHB is not testing ICT disaster recovery or business continuity arrangements to ensure they work as intended, which makes identification and prioritisation of improvement actions difficult.

56. My local information assurance review undertaken early in 2012 concluded that our Information Assurance baseline review of 2009 was not a driver for change within the LHB. Other mechanisms put in place have secured improvements, but weaknesses in controls still exist, which continue to pose a security risk. The follow up review found that:

- although improvements have been made the LHB has not yet implemented sufficient governance arrangements to ensure robust management of information security risk; and
- work towards improvements for specific information security controls is underway, but progress is not as advanced as expected.

My performance audit work has identified improvements in the use of the LHB's resources but there remain gaps and the LHB is faced with a number of significant challenges

The LHB is taking a genuine whole-systems approach to transforming services for unscheduled care and chronic conditions management and improvements are being realised. However, there are risks to service transformation which the LHB will need to overcome.

57. As part of my work to determine whether the LHB is transforming its services and using its resources efficiently, I assessed the progress made in implementing whole system solutions to unscheduled care challenges and examined the progress the LHB has made in developing its services for people with chronic conditions. I concluded that:

- The LHB has introduced a range of service improvements for managing chronic conditions and unscheduled care and, although performance is improving, a number of challenges remain before the required step change can be realised:
 - while accident and emergency performance compares well with the Wales average, staffing pressures remain and there are opportunities to reduce GP-led demand;
 - reliance on the acute sector to manage chronic conditions is reducing and positive action to tackle delayed transfers of care and to improve patient flows is taking effect;
 - the LHB has made good progress in reshaping the way it supports people in the community to prevent unnecessary use of hospitals but more needs to be done to fully realise the benefits of the new developments; and
 - while measures to support self-care are being actively promoted, more could be done to influence the way the public uses hospital services.

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- The LHB has a clear vision and good prospects for delivering transformational change but influencing the public on the need for service change has been challenging. Success will be reliant on securing agreement on the proposed changes and delivering the required workforce transformation.

The LHB has a sound approach to workforce planning although effectively managing a reducing workforce to deliver the Clinical Services Strategy will be a key challenge.

- 58.** My Structured Assessment work on workforce planning has identified that in the absence of a concluded Clinical Services Strategy, the LHB has taken a pragmatic approach to developing its 2012 Workforce Plan. The Plan reflects the workforce challenges and work required to modernise and redevelop services. It clearly demonstrates the intention to modernise rather than expand capacity which is not an option in the current financial climate. This is reflected in the consultation plan which makes it clear that success is dependent on new ways of working for its staff. However, there are tensions between making significant financial savings now and investing for the future as care shifts to the community.
- 59.** The LHB has detailed workforce information for the secondary care sector and is working with the Local Medical Committee (LMC) to secure more accurate information on the primary care workforce including practice nurses. The LHB is committed to maximising the use of electronic workforce systems such as the Electronic Staff Record and e-rostering to support better workforce planning and delivery information. The workforce metrics used to monitor productivity and efficiency are continuously evolving but benchmarking could be used to better effect. There is a costed integrated financial and workforce plan but the assumptions within the plan are highly ambitious as the £15.4 million of workforce savings assume a reduction of some 60 WTEs per month. It is unclear whether current staff turnover is at this level.
- 60.** The LHB has a number of committees and groups that consider workforce and organisational development and there are examples of proactive remodelling of its workforce to ensure efficient utilisation and to support service transformation. Significant time and effort has been invested in improving workforce productivity and efficiency. Sickness absence rates have consistently been below the Welsh Government target and the LHB has made good progress reducing variable pay such as overtime although opportunities for further reductions within the current configuration are now limited. Given the current financial constraints, the LHB now critically evaluates all vacancies and there is evidence that safety overrides financial implications when the LHB makes decisions about filling vacant posts. However, further staffing reductions are planned and the LHB needs to ensure that this does not have an impact on quality and safety.
- 61.** Appraisals are increasingly being used as tools to support staff and organisational development and improvements have been made. While there are pockets of good practice, compliance with personal development plans (PDRs) remains low and the LHB is developing measures to increase compliance.

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- 62.** The Human Resources (HR) function is a key enabler for change with strong visibility strategically and operationally to help support LHB staff to develop, implement and manage workforce change plans to enable service transformation. For example, workforce and organisational development staff have worked closely with county teams to identify skill and resource requirements for future service delivery models although until the Clinical Services Strategy has been concluded this cannot be finalised.

In modernising its health service the LHB has undertaken an extensive and comprehensive engagement exercise with the public and health community stakeholders.

- 63.** My work this year on public and stakeholder engagement has identified that the LHB has continued to strengthen its approach. The pre consultation phase of modernising its health services included an extensive and comprehensive engagement exercise with the public and key stakeholders. An independent organisation was used to systematically analyse pre-consultation views and the results were made widely available. The independent results concluded that the LHB had been open, accessible and fair to those wishing to express their views. Although the results also showed that public opinion was divided on whether the information was clear and easy to understand.
- 64.** The LHB's plan for managing the consultation process clearly identified key mechanisms, timescales, monitoring and review processes and how the results were to be analysed. The LHB set out a coherent and clear case for change that took into account views and lessons learnt from the pre consultation phase. The consultation document was clearly written, was easy to understand, was available in a wide range of formats and was supported by comprehensive technical documentation. In addition, senior clinicians took a lead role in presenting the case for change which was not the case during the pre-consultation phase.

The LHB has made good progress in addressing the recommendations arising from our previous work on catering services and has reinforced its already strong focus on nutrition. It now needs to ensure that plans lead to service change and that patient views are used effectively as part of that process.

- 65.** I have undertaken follow-up audit work to assess the progress that the LHB has made in addressing concerns and recommendations arising from previous audit work on hospital catering and patient nutrition 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
Catering	<p>The LHB has reinforced its already strong focus on nutrition and has started a project to establish a Catering Services Business Plan, although it now needs to ensure that the planning leads to service change and that patient views are used effectively as part of that process. We have reached this conclusion for the reasons set out below:</p> <ul style="list-style-type: none">• the previous strong focus on nutrition has been further reinforced and a project to develop a Catering Services Business Plan has commenced;• the LHB has developed consistent catering cost figures and is addressing non-patient food subsidies, although further scope remains to avoid uneaten food waste from served patient meals;• while the LHB's previous arrangements to ensure protected meal times are being sustained, there is still a need to strengthen staff training on implementation of the all Wales Nutritional Care Pathway and the nutrition-related elements of patient records; and• the LHB is taking a cautious and pragmatic approach to the development of patient engagement whilst awaiting further national guidance, and this is reflected in the modest progress made in this area.

Appendix 1

Reports issued since my last Annual Audit Report

Report	Date
Outline of Audit Work 2012	March 2012
Financial audit reports	
Audit of Financial Statements Report	June 2012
Opinion on the Financial Statements	June 2012
Internal Audit Review	June 2012
Capital & PFI Audit Review	June 2012
Opinion on the Whole of Government Accounts return	July 2012
Opinion on the Summary Financial Statements	September 2012
Audit of the Charitable Funds Financial Statements Report	December 2012
Performance audit reports	
Information Assurance 27001 Follow Up	February 2012
Disaster Recovery and Business Continuity Arrangements	February 2012
Data Quality	August 2012
Transforming Unscheduled Care and Chronic Conditions Management (Combined Review)	November 2012
Structured Assessment (2012) – Presentation Pack	December 2012

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

Report	Estimated completion date
Ward Staffing Review and Follow up	December 2012
GP Prescribing (2012)	March 2013
Orthopaedics (2012)	June 2013

Appendix 2

Audit fee

The Outline of Audit Work for 2012 set out the proposed audit fee of £408,218 (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 LHB by the NHS Wales Shared Services Partnership (NWSSP) was £8,024 (excluding VAT).



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