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# Annual Audit Report 2011

## **Powys Teaching Health Board**

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# Status of report

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The team who delivered the work comprised John Dwight, Andrew Doughton, Anthony Veale and Dave Thomas on behalf of the Auditor General for Wales.

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# Contents

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|  |    |
|--|----|
| <b>Summary report</b>  | 4  |
| <b>Detailed report</b>   |    |
| About this report  | 6  |
| Section 1: Audit of accounts   | 7  |
| I have issued an unqualified opinion on the 2010-11 financial statements of the Health Board   | 7  |
| Section 2: Arrangements for securing efficiency, effectiveness and economy in the use of resources   | 11 |
| Progress is being made in addressing the areas for development identified in my 2010 Structured Assessment, although some specific challenges remain   | 11 |
| There are firm foundations in place to make the best use of theatre resources but accelerated action including the development of a performance management framework is needed to realise its full potential | 14 |
| The Health Board does not have sufficiently robust ICT disaster recovery and business continuity arrangements, but it is aware of these risks and is currently taking improvement action                     | 14 |
| The Health Board has taken action to address the issues identified in a number of previous performance audit reviews, although further progress is needed to address increasing challenges in some areas     | 15 |
| <b>Appendices</b>  |    |
| Reports issued since my last Annual Audit Report   | 17 |
| Audit fee  | 18 |

# Summary report

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1. This report summarises my findings from the audit work I have undertaken at Powys Teaching Health Board (the Health Board) during 2011.
2. The work I have done at the Health Board 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 Health Board'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 Health Board, 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 Health Board, and have identified some issues for consideration during 2011-12.
6. I have also concluded that:
  - the Health Board's financial statements were properly prepared and materially accurate;
  - the Health Board had an effective internal control environment to reduce the risks of material misstatements to the financial statements and more general improvements to the Assurance Framework are being progressed; and
  - the Health Board's significant financial and accounting systems were appropriately controlled and operating as intended.
7. The Health Board achieved financial balance at the end of 2010-11, but there is a risk that this will not be achieved in 2011-12.

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

8. I have reviewed the Health Board'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 improvement identified as part of last year's Structured Assessment work. Performance audit reviews have also been undertaken on specific areas of service delivery.

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9. This work has led me to draw the following conclusions:

- Progress is being made in addressing the areas for improvement identified in my 2010 Structured Assessment, although some specific challenges remain, specifically:
  - The approach to delivering the vision and managing change is developing and leading to improvement, but clarity of outcomes and organisational capability and capacity remain issues that need to be managed effectively to ensure the Health Board achieves the required pace of change.
  - There have been improvements in engaging external stakeholders, but more work needs to be done to ensure the Health Board's staff understand and support the organisation's strategic plans.
  - Financial management has understandably focussed on the annual position and the benefits of this are beginning to be seen, although the Health Board is currently predicting a £3 million deficit for 2011-12. The Health Board still needs to do more to clarify longer-term finances.
  - The Health Board's governance arrangements are generally sound and further work is ongoing to ensure the arrangements drive and support improvement.
- There are firm foundations in place to make the best use of theatre resources but accelerated action including the development of a performance management framework is needed to realise its full potential.
- The Health Board does not have sufficiently robust ICT disaster recovery and business continuity arrangements, but it is aware of these risks and is currently taking improvement action.
- The Health Board has taken action to address the issues identified in a number of previous performance audit reviews, although further progress is needed to address increasing challenges in some areas.

### **Agreeing my findings with the Executive Team**

10. This report has been agreed with the Chief Executive and the Director of Finance and will be presented to the Audit Committee on 18 January 2012. It will then be presented to a subsequent Board meeting on 29 February 2012 and a copy provided to every member of the Health Board. I strongly encourage wider publication of this report by the Health Board. 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](http://www.wao.gov.uk)).
11. The assistance and co-operation of the Health Board's staff and members during the audit are gratefully acknowledged.

# Detailed report

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## About this report

12. This Annual Audit Report to the Board members of the Health Board sets out the key findings from the audit work that I have undertaken between December 2010 and November 2011.
13. I undertake my work at the Health Board in response to the requirements set out in the 2004 Act. The Act requires me to:
  - a) examine and certify the accounts submitted to me by the Health Board, 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 Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
14. In relation to (c), I have drawn assurances or otherwise from the following sources of evidence:
  - the results of audit work on the Health Board's financial statements;
  - work undertaken as part of my latest Structured Assessment of the Health Board, which examined the arrangements for financial management, governance and accountability, and management of resources;
  - the Health Board's self-assessment against the Governance and Accountability module of the Standards for Health Services in Wales;
  - performance audit examinations undertaken at the Health Board;
  - 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.
15. I have issued a number of reports to the Health Board 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](#).
16. 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.
17. 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 Health Board, alongside the original fee that was set out in the Audit Outline.

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## Section 1: Audit of accounts

18. This section of the report summarises the findings from my audit of the Health Board'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

19. In examining the Health Board'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 Health Board 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.
20. In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).
21. In undertaking this work, auditors have also examined the adequacy of the:
- Health Board'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 Health Board

### The Health Board's financial statements were properly prepared and materially accurate

22. I received the Health Board's draft financial statements on 4 May 2011, in line with the agreed timetable. The information provided by the Health Board to support the draft statements was relevant, reliable and easy to understand and the quality of the draft financial statements had improved significantly from that experienced last year.

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23. 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 Health Board's Audit Committee on 2 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  |
|--|---|
| Provision and contingent liability disclosures for retrospective continuing health care claims | My testing of working papers to support these balances identified errors in the calculation of the level of provision required. However, given the inherent uncertainties in determining an accurate assessment, I was satisfied that the balances in the accounts were not materially misstated and that, as settlements made during the year were lower than the estimates, the financial risk to the Board was relatively low. |
| Agreements with health care and other providers  | A number of these agreements had not been formally signed. I acknowledge that the terms of the agreements are being met, but there is a risk that any formal disputes would be difficult to resolve without a formal, signed agreement.   |

24. 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 Health Board 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.
  - Independent examination of the Health Board's Charitable Funds accounts – I concluded that there were no matters to be reported as part of the independent examiner's statement.

**The Health Board had an effective internal control environment to reduce the risks of material misstatements to the financial statements and more general improvements to the Assurance Framework are being progressed**

25. Internal control arrangements during 2010-11 reduced the risks of material misstatement and the matters identified from reviews of these arrangements are being addressed.
26. The Statement on Internal Control, reported in the 2010-11 financial statements, outlines the internal control framework. The Health Board's review of the effectiveness of these arrangements included a report from the Head of Internal Audit and formal approval of the Statement by the Audit Committee. In addition, the Audit Committee Chair prepared an annual report.



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27. Whilst these formal documents highlight areas for development and improvement, overall they confirm that satisfactory arrangements exist to reduce the risk of material misstatements to the financial statements. My own work in reviewing the overall control environment also confirms this.
28. The more significant matters arising from these reviews are being addressed and are summarised in [Exhibit 2](#).

**Exhibit 2: Significant matters arising from internal control environment reviews**

| Issue and source  | Action being taken   |
|---|--|
| Control over the use of medical devices<br>(Head of Internal Audit annual report)   | Detailed action plan in place to address the matters identified.   |
| Standards for Health Services – improvement plan required to respond to self-assessment of Governance and Accountability module<br>(Head of Internal Audit annual report) | Improvement Plan now in place.   |
| Internal audit provision – change of providers of the service<br>(Audit Committee Annual Report)  | Revised arrangements are in place through the NHS Wales Shared Services Partnerships. 2011-12 internal audit plan approved by Audit Committee. |

29. The Audit Committee Annual Report also refers to risk management and developing an assurance framework which I have considered as part of my Structured Assessment follow-up work, the findings of which are summarised in Section 2 of this report.

**The Health Board’s significant financial and accounting systems were appropriately controlled and operating as intended**

30. The Health Board’s financial and accounting systems are reviewed annually to ensure they are appropriately controlled and operating as intended. Both external audit and internal audit reviews have been reported to the Audit Committee.
31. No significant weaknesses in the Health Board’s financial systems and controls were identified, although recommendations for improvement have been made. These will be followed up as part of my 2012 audit work.
32. During 2011, the Health Board has been given responsibility for processing, on behalf of all other health boards in Wales, retrospective claims for compensation for continuing health care. These new arrangements are intended to manage the backlog of claims and speed up processing and resolution of the outstanding claims. Controls over these new arrangements will need to be reviewed during 2011-12.

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**The Health Board achieved financial balance at the end of 2010-11, but there is a risk that this will not be achieved in 2011-12**

33. I reported in my 2010 Annual Audit Report that the Health Board, in setting an annual budget for 2010-11 of £243.0 million, needed to resolve some uncertainties around Welsh Government strategic assistance, as well as its cost improvement programmes and financial savings plans.
34. The final position at the end of 2010-11 was that the Health Board achieved financial balance (reporting a small surplus), but with a total of £19.8 million strategic assistance from the Welsh Government. The Board also managed to achieve cost improvements and savings of £10.3 million, which was 83 per cent of its targets.
35. The Health Board approved an annual financial plan for 2011-12 in April 2011, based on a Revenue Resource Limit of just over £236 million and identified cost pressures of £31 million. These pressures were to be addressed through:
- identified savings plans of £13.3 million;
  - additional strategic financial support from the Welsh Government of £15 million; and
  - further savings to be identified in year of £3 million.
36. The position at month seven (reported at the Board meeting in December 2011) identifies an overspend at that stage of £3 million and forecasts a £3 million overspend at the year-end. The Director of Finance report confirms that:
- the year-end projected savings will be £12.7 million against the target of £13.3 million;
  - the £15 million strategic financial support is agreed; and
  - although there are plans to manage the additional savings required, growth in expenditure in some areas has been above the planned levels.

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

- 37.** 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 Health Board over the last 12 months to help me discharge that responsibility. This work has involved:
- assessing the progress the Health Board has made in addressing the 'areas for development' I identified in last year's Structured Assessment work, which includes the progress being made in delivering savings plans;
  - examining the Health Board's performance on operating theatre utilisation and day surgery rates;
  - reviewing the Health Board's disaster recovery and business continuity arrangements; and
  - assessing the progress the Health Board has made in addressing the issues identified by previous audit work on Maternity Services, and Unscheduled Care and new models of health and social care.
- 38.** I have summarised below the main findings from this work.

### **Progress is being made in addressing the areas for development identified in my 2010 Structured Assessment, although some specific challenges remain**

- 39.** The Structured Assessment audit work for 2011 has followed up the key areas for improvement identified in the 2010 Annual Audit Report. These areas were:
- approaches for delivering service improvement and modernisation;
  - arrangements for engaging internal and external stakeholders; and
  - the current financial position of the Health Board and its arrangements for financial management.
- 40.** In addition, I have also considered the Health Board's governance arrangements.
- 41.** I have issued a detailed report as a result of this Structured Assessment follow-up work, but the main conclusions are summarised in [Exhibit 3](#).

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### Exhibit 3: Conclusions from the Structured Assessment follow-up

| Areas for improvement  | Conclusions from the Structured Assessment follow-up   |
|--|--|
| <b>Approach for delivering service improvement and modernisation</b> | <p>The Health Board's approach to delivering its vision for service modernisation is developing and leading to some improvements. However, there is still a need to identify clearer outcome indicators by which success can be measured and to address gaps in organisational capability and capacity, particularly at the locality level.</p> <ul style="list-style-type: none"><li>• The Corporate Plan has become the vehicle for delivering the Health Board's strategic vision, but there needs to be a clearer focus on outcomes particularly when redesigning services and care pathways. There is a reasoned and coherent set of strategic documents which provide a framework and direction for the Health Board for the next five years. Over the past 12 months, these key documents (the Strategic Outline Programme, New Directions, Service Workforce and Financial Framework and the Corporate Plan) have been further refined.</li><li>• There has been mixed progress in developing coherent organisational structures to support delivery of corporate objectives. The Health Board has a number of developing organisational structures including localities, clinical localities, and GP clustering. It will also continue to need to integrate services with Powys County Council, whose Social Care services are organised in a three-shire model. There is a risk though, that the revised structures could increase complexity making engagement, partnership working and planning difficult.</li><li>• The appointment of the new Chair and permanent appointment of the Chief executive have provided more corporate and executive level stability but overall capability and capacity issues to support delivery of the vision remain. This is particularly an issue for the localities which are the key structures responsible for delivering many of the required changes.</li><li>• Performance reporting to the Board has improved but more work is needed to establish a better overall performance measurement framework based on clearly defined outcomes.</li></ul> |

| Areas for improvement  | Conclusions from the Structured Assessment follow-up  |
|--|---|
| <p><b>Arrangements for engaging internal and external stakeholders</b></p> | <p><b>There have been improvements in engaging external stakeholders, but more work needs to be done to ensure the Health Board's staff understand and support the organisation's strategic plans</b></p> <ul style="list-style-type: none"> <li>• External engagement approaches are improving and as a result, the Health Board is starting to get shared ownership of modernisation initiatives. However, going forward, engagement needs to be more clearly linked to tangible models of healthcare design.</li> <li>• Internal engagement is not yet sufficient to ensure that staff fully support the vision.</li> </ul>  |
| <p><b>Financial management</b></p>   | <p><b>Financial management has understandably focused on the annual position and the Health Board is beginning to see the benefits of this, although it is currently predicting a £3 million deficit for 2011-12. The Health Board still needs to do more to clarify longer-term finances</b></p> <ul style="list-style-type: none"> <li>• The Health Board is currently predicting a £3 million deficit for the year ended 31 March 2012.</li> <li>• Financial management at a locality level is developing but Board level assurance needs to be clarified, as part of the developing Board assurance framework approaches.</li> <li>• There remains a lack of clarity in longer-term financial strategy and assurance which will be required to deliver the vision. The Service Workforce and Financial Framework provides a high-level overview, but this needs to be supported by more detailed financial modelling which links to developing service models and to outcomes.</li> </ul> |
| <p><b>Governance arrangements</b></p>                                      | <p><b>The Health Board's governance arrangements are generally sound and further work is ongoing to ensure the arrangements drive and support improvement</b></p> <ul style="list-style-type: none"> <li>• The Health Board has identified the need to develop an overarching assurance framework and integrated governance arrangements. Work is progressing in this respect.</li> <li>• There are developing risk management arrangements, but there is a need to embed risk management further into the assurance framework.</li> <li>• There is a need to ensure that the work of the Quality and Safety Committee covers effectively all the assurances required for patients treated both in and out of the county.</li> </ul>  |

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**There are firm foundations in place to make best use of theatre resources but accelerated action including the development of a performance management framework is needed to realise its full potential**

42. As part of my work to determine scope for the Health Board to achieve greater efficiencies in the use of its resources, I have examined operating theatre utilisation and day surgery rates. This work made use of performance comparisons with a sample of NHS trusts in England and showed that:
- Utilisation of funded sessions compares well with other organisations, however the Health Board is only using a quarter of the total available theatre capacity.
  - The Health Board has good arrangements in place for supporting and engaging with its theatre workforce although more focus needs to be given to staff in Llandrindod Wells. Staff are appropriately skilled to deliver current activity and there is a strong focus on safety.
  - The Health Board is developing plans aimed at improved resource utilisation and creating efficiency savings. The Health Board recognises the potential to generate financial efficiency by increasing locally based surgical services, however progress has been slow and consequently its 2010-11 cost improvement plan has not been delivered.
  - The Health Board currently lacks a theatre information system to provide robust recording and reporting of theatre activity and performance and the level of information currently collected is not sufficient to effectively performance manage theatres.

**The Health Board does not have sufficiently robust ICT disaster recovery and business continuity arrangements, but it is aware of these risks and is currently taking improvement action**

43. As part of my programme of work I reviewed the arrangements that the Health Board has in place to protect and ensure continuity of its services from Information Communications and Technology (ICT) system failures and to return systems services following a possible period of failure. This work showed that:
- ICT business continuity and disaster recovery governance arrangements are improving, but oversight arrangements are weaker for systems and services which are outsourced to other health boards;
  - the Health Board does not have adequate ICT disaster recovery and business continuity plans but is starting to address this issue;
  - there are some weaknesses in the controls and resilience of the ICT infrastructure but the move to the national data centre in Blaenavon should strengthen arrangements; and

- the Health Board 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.

**The Health Board has taken action to address the issues identified in a number of previous performance audit reviews, although further progress is needed to address increasing challenges in some areas**

44. During the last 12 months, I have undertaken follow-up audit work to assess the progress that the Health Board 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 4](#).

**Exhibit 4: Progress in implementing audit recommendations**

| Area of follow-up work | Conclusions and key audit findings  |
|------------------------|---|
| Maternity Services     | <p>The Health Board is making good progress in further improving its maternity service, although the provision of maternity care in neighbouring NHS bodies will have implications for maternity services in Powys:</p> <ul style="list-style-type: none"> <li>• maternity services are seen as a high priority with good executive engagement and my previous work is being actively used to drive improvements;</li> <li>• positive steps have been made to strengthen the information base that underpins the planning and performance management of the Health Board's maternity service;</li> <li>• a comprehensive mapping exercise has provided a good foundation for forward planning, however, changes in the shape of services in neighbouring health bodies will have consequences for maternity services in Powys which will affect planning of services and patient pathways;</li> <li>• there are a number of positive approaches in place to support safe and effective maternity care in Powys; and</li> <li>• improvements have been made in all aspects of maternity care although intervention rates at some provider obstetric units remain a concern.</li> </ul> |

| Area of follow-up work   | Conclusions and key audit findings   |
|--|--|
| <p>Unscheduled Care (Preliminary Follow-up Work)</p>           | <p>The Health Board is making progress in improving unscheduled care services and in implementing previous recommendations, but needs to maximise the benefits of collaborative working and prioritise improvements in unscheduled care:</p> <ul style="list-style-type: none"> <li>• The Health Board recognises where there is a need to develop Unscheduled Care Services and is taking account of the Auditor General's recommendations, using them to inform the planning and development of services.</li> <li>• While there is evidence of initiatives to improve unscheduled care services, there is much work to be done to maximise the outputs of partnership working. Mechanisms have recently been developed in Powys to promote a more integrated approach to service delivery.</li> <li>• There is evidence of progress on initiatives to improve points of access to unscheduled services, although further progress is required as part of the Health Board's vision to enhance community focussed services.</li> <li>• Patient pathways design for common unscheduled care conditions is underway and the work of developing, implementing and monitoring the impact of pathways needs to continue to be a priority.</li> <li>• Whilst information systems used across partners are not currently integrated, a joint Information Management Technology lead has been appointed between the Health Board and Powys County Council.</li> </ul> <p>The extent to which improvements are being achieved has been the subject of more detailed review work which has recently been completed and which will be reported to the Health Board in the early part of 2012.</p> |
| <p>Progress update of new models of Health and Social Care</p> | <p>Challenges remain in taking forward the new model of health and social care. This has been reflected in my Structured Assessment follow-up work which has focussed on how the Health Board delivers its vision for integrated health and social care services.</p>  |



# Appendix 1

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## Reports issued since my last Annual Audit Report

| Report   | Date          |
|--|---------------|
| <b>Financial audit reports</b>                           |               |
| Audit of Financial Statements Report                     | June 2011     |
| Opinion on the Financial Statements                      | June 2011     |
| Business Services Centre – Contractor Services           | June 2011     |
| Audit of the Financial Statements – Detailed Report      | June 2011     |
| Charitable Funds Independent Examiner's Report           | December 2011 |
| <b>Performance audit reports</b>                         |               |
| Operating Theatres and Day Case Surgery                  | June 2011     |
| Follow-up – New Models of Health and Social Care letter  | July 2011     |
| Unscheduled Care Preliminary Follow-up                   | August 2011   |
| Maternity Services Follow-up                             | October 2011  |
| Disaster recovery and Business Continuity                | November 2011 |
| Structured Assessment - Corporate Arrangements Follow-up | December 2011 |
| <b>Other reports</b>                                     |               |
| Outline of Audit Work 2011                               | June 2011     |

There are also a number of performance audits that are still underway at the Health Board. These are shown below, with estimated dates for completion of the work. I estimate that all the performance audit work shown in my 2011 Outline of Audit Work will be delivered by the end of the 2011-12 financial year.

| Report  | Estimated completion date |
|---|---------------------------|
| Data Quality  | February 2012             |
| Chronic Conditions Management                             | February 2012             |
| Unscheduled Care – Detailed Follow-up                     | February 2012             |
| Clinical Engagement                                       | February 2012             |
| Follow-up review of Information Management and Technology | February 2012             |
| Progress update on Adult Mental Health Services           | March 2012                |

# Appendix 2

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## Audit fee

The Outline of Audit Work for 2011 set out the proposed audit fee of £259,256 (plus 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 Health Board by the Business Services Centre was £4,926 (plus VAT).

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 £11,844 (plus VAT), as outlined in a letter to the Director of Finance in June 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 Health Board. |
| 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 Health Board. |
| ICT Disaster Recovery/Business Continuity  | This work now forms part of my local programme for 2011. The proportion of the 2010 audit fee has been included in the refund to the Health Board.                           |





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