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Abertawe Bro Morgannwg University (ABM) Health Board

Interim Audit Letter 2009-10 – for
predecessor bodies

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Summary

1. This interim Annual Audit Letter to the new Abertawe Bro Morgannwg University Local Health Board (the Health Board) relates to my audits of the final, six-month period to 30 September 2009 of the Health Board's predecessor bodies. The work reported on in the Letter was set out in the agreed Audit Strategies for the following organisations:
 - Abertawe Bro Morgannwg University NHS Trust
 - Swansea Local Health Board
 - Neath Port Talbot Local Health Board
 - Bridgend Local Health Board
2. This Letter reports for Health Board members the significant issues arising from those audits, together with my comments on other current issues.
3. The Health Board's predecessors faced significant changes and challenges in their last six months. Most notably, they faced the need to prepare for the programme of reform in NHS Wales, which led to their demise, and the establishment of the new Health Board on 1 October 2009. The Health Board's predecessors contributed to the transition arrangements within the Abertawe Bro Morgannwg (ABM) health community. The aim of these arrangements was to manage the business continuity, financial, human resource and many other risks associated with the reform programme.
4. The arrangements also covered the demising period of account and the introduction of International Financial Reporting Standards (IFRS).
5. My work for this period focused on the audit of the demising set of financial statements, legacy reporting and providing a conclusion on whether the bodies had proper arrangements in the period to help them achieve economy, efficiency and effectiveness in their use of resources. The work was structured around the key elements of my responsibilities as set out in the Code of Audit and Inspection Practice (the Code)¹.
6. The audit fees charged for the work in this period were as set out in the agreed Audit Strategies for each predecessor body.

¹ I make a number of references within this Letter to guidance and documentation I have issued, including the Code of Audit Practice. This was relevant to the whole of the audit period and refers to the Statement of Responsibilities of Auditors and Inspectors and of Audited and Inspected Bodies summarising the key responsibilities of auditors. My audit has been conducted in accordance with the principles set out in that Statement. What I say about the results of my audit should be viewed in the context of that more formal background.

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7. There are more details on the specific aspects of my audit in the separate reports I have issued to the demised NHS organisations and the new Health Board. Auditors discussed and agreed these reports with officers and presented them to the relevant Audit Committee. I show the reports I have issued in Appendix 3.
 8. From my financial audit work I have concluded that the predecessor bodies' resources were, in all material respects, properly used and accounted for in the six month period ended 30 September 2009:
 - each predecessor body's six month accounts for the period ended 30 September 2009 were properly prepared and materially accurate although we drew attention to uncertainties surrounding the costs of continuing healthcare;
 - the predecessor bodies' combined outturn position and the financial forecast to year end indicate that the new Health Board faces significant financial pressures in 2010 and beyond; and
 - the predecessor bodies' significant financial systems were generally fit for purpose for the closing period of accounts.
 9. My performance audit work concluded that the predecessor bodies had appropriate corporate arrangements to support effective use of resources but the Health Board will need to address a number of challenges and further action is essential to strengthen governance and risk management arrangements.
 10. Whilst there were no significant weaknesses in the predecessor bodies' arrangements to help them achieve economy, efficiency and effectiveness in their use of resources, there were some areas in which further progress needed to be made.
 11. Risk management in the former Trust still requires strong, sustained improvement and recent performance audit work in the demising organisations highlights a number of challenges, which the Health Board will need to address:
 - the NHS reorganisation transition in the ABM health community was well managed overall, but the Health Board now needs to focus on realising the benefits of the reorganisation;
 - performance reviews have highlighted that some progress has been made, but further areas for improvement remain, with scope to improve demand management and support alternative ways of working evident in a number of our reports; and
 - data accuracy and the arrangements for recording and reporting waiting list information are acceptable although the approach to checking data accuracy could be strengthened.
 12. The new Health Board needs to consider the findings from my performance work referred to above. The legacy report that drew together the main findings of recent external audit work in each of the demising bodies will assist with this.
 13. The Chief Executive and the Director of Finance have agreed this Letter, which will be presented to the Audit Committee in June 2010. It will be presented to a subsequent Board meeting and a copy provided to every member of the Board.

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14. I aim to deliver a high standard of audit, which makes a positive and practical contribution and supports the Health Board's own agenda. I am grateful to your predecessors and their staff for their assistance during the audit.

Ann-Marie Harkin
For and on behalf of the Auditor General for Wales

Date: 18 June 2010

The predecessor bodies' resources were, in all material respects, properly used and accounted for in the six month period ended 30 September 2009

15. The financial statements are an essential means to account for stewardship of the resources at a body's disposal and its financial performance in the use of those resources.
16. As the external auditor to the predecessor bodies, I am required to audit the financial statements and to issue an auditor's report. This report must include an opinion on whether the financial statements present a true and fair view. I am also required to obtain assurance that expenditure and income have been applied to the purposes intended and that the financial transactions conform to the authorities that govern them.
17. Our financial audit work covers the following key areas:
 - Financial statements (or accounts)
 - Financial health
 - Financial management
 - Financial systems

Each predecessor body's six month accounts for the period ended 30 September 2009 were properly prepared and materially accurate although we drew attention to uncertainties surrounding the costs of continuing healthcare

18. This year the bodies were required to submit their six month unaudited accounts to the Wales Audit Office by 30 November 2009. The bodies achieved this deadline and the accounts were supported by good quality working papers and schedules, which allowed the audited accounts to be submitted to the Assembly Government by 1 March 2010. This was a particular achievement given reduced finance staff capacity from additional work required to implement IFRSs and prepare for NHS reorganisation.
19. I am required by International Standard on Auditing (ISA) 260 to report issues arising from my work to 'those charged with governance' (the Audit Committee) before I issue my audit opinion on the accounts. My Engagement Partner reported these issues to the Audit Committee before each set of the closing accounts was approved by the Board and signed by the Accountable Officer. The key issues are set out in Exhibit 1.

Exhibit 1: ISA 260 reporting requirements

Reporting requirement	Auditor's response
Expected modifications to the auditor's report	I modified my report to include an emphasis of matter note drawing attention to the uncertainties surrounding the costs of continuing healthcare in the light of claims received for reimbursement of continuing care costs, which have not yet been assessed.
Unadjusted misstatements	Adjustments to the accounts following our audit were not material. We received appropriate representations from the Board to justify the reasons for non-adjustment.
Material weaknesses in the accounting and internal control systems identified during the audit	No matters arose.
Views about the qualitative aspects of the entity's accounting practices and financial reporting	No matters arose.
Matters specifically required by other auditing standards to be communicated to those charged with governance	No matters arose.
Any other relevant matters relating to the audit	No matters arose.

20. I concluded that all the predecessors' accounts gave a true and fair view of the state of their affairs as at 30 September 2009. I was also sufficiently satisfied that expenditure and income had been applied for the purposes intended and that the financial transactions conformed to the authorities that govern them.
21. For each of the LHB closing accounts I included an emphasis of matter note within my audit report. It drew attention to the uncertainties surrounding the costs of continuing healthcare in the light of claims received for reimbursement of continuing care costs, which have not yet been assessed.
22. I issued my opinions on the accounts and laid them before the National Assembly in accordance with the timetables required.

The predecessor bodies' combined outturn position and the financial forecast to year end indicate that the new Health Board faces significant financial pressures in 2010 and beyond

23. Overall, the bodies' *broadly managed* their spending plans for the period in line with their budgets. The key financial pressures facing the bodies, primarily relating to additional costs from continuing healthcare claims, have contributed to the projected position for the full year.

24. For 2009-10, the ABM health community faced a potential deficit position of £5.4 million from the predecessor organisations (ABM NHS Trust £1.0 million overspend, Swansea Local Health Board (LHB) £6.9 million overspend, Neath Port Talbot LHB £2.5 million underspend and Bridgend LHB £nil). The Health Board is required to stay within its resource limit for 2009-10. To help achieve this it has obtained some £5.5 million of additional funding from the Assembly Government, and compiled various efficiency saving programmes.
25. Going forward, the Health Board needs to ensure that 2010-11 efficiency savings programmes are realistic, and that management monitor performance and take appropriate action if targets are not being achieved. This is particularly important if the benefits of the NHS re-organisation are to be realised.
26. The Health Board has an ambitious efficiency savings programme in place for £77.4 million, which will need to be delivered to achieve a balanced outturn for 2010-11. This suggests that financial stability will only be possible if the Health Board takes measures that are more radical.
27. We will update this position in our next Annual Letter in the autumn of 2010.

The predecessor bodies' significant financial systems were generally fit for purpose for the closing period of accounts

28. Our review of the bodies' financial systems involved documenting the significant financial systems and, where necessary, testing the operation of internal controls.
29. We have concluded that the significant financial systems in each of the demised NHS bodies could be relied upon to produce materially correct outputs.

The predecessor bodies had appropriate corporate arrangements to support effective use of resources but the Health Board will need to address a number of challenges and further action is essential to strengthen governance and risk management arrangements across the new Health Board

Whilst there were no significant weaknesses in the predecessor bodies' arrangements to help them achieve economy, efficiency and effectiveness in their use of resources, there were some areas in which further progress needed to be made

30. In examining the predecessor bodies' accounts each period, I am required under section 61(3) of the Public Audit (Wales) Act 2004 to satisfy myself that they have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. The Code also reflects this requirement. My responsibilities and formal conclusion on the bodies' arrangements for the six month period are set out in Appendix 1.

31. For the purposes of my work, I evaluated each body's systems against a number of questions that are set out in Appendix 2. For each question, I considered whether there were gaps in the arrangements expected to be in place, and the significance of those gaps.
32. Following my review of the predecessor bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources, I concluded that, despite some continued weaknesses in arrangements at the predecessor Trust, there were no significant weaknesses that would require me to provide an adverse opinion. However, some issues need to be addressed by the successor body, as set out below.

Risk management in the former Trust still requires strong and sustained improvement

33. As at 30 September 2009, the predecessor Trust's risk management arrangements were still developing following the merger of Bro Morgannwg and Swansea NHS Trusts on 1 April 2008. In our 2008-09 Annual Audit Letter to the Trust we highlighted four main issues that needed urgent action, namely:
 - The Healthcare Governance Committee did not meet until October 2008. Clinical governance issues were reported to senior staff and executive directors but there was no non-executive director input.
 - A risk report was not submitted to the Trust Board until February 2009. Although reports to the Trust Board during the year had referred to specific risk areas, this was the first consolidated report and, prior to February 2009, it is unclear if the Trust Board had been fully aware of all the risks facing the Trust.
 - There was not a Trust-wide risk register and, in some cases, directorate risk registers were incomplete.
 - Performance in handling complaints had deteriorated significantly. Although the Trust had made changes and reported the position to the Trust Board, the situation had not yet improved. The mechanisms for identifying emerging trends and ensuring that lessons from complaints had been learned were also unclear.
34. The Chief Executive, executive directors and clinical directors of the Health Board appreciate the need for appropriate and robust corporate and clinical governance arrangements, which operate effectively. We are also aware that management has continued to work, both centrally and at directorate level, to develop the arrangements that were in place throughout the latter part of 2008-09.
35. However, we note that, whilst there was some improvement in complaints performance in December 2009 and January 2010, performance has deteriorated again since February 2010, with little or no reporting of emerging trends to the Health Board. It is important that the Health Board ascertains the reasons for this deterioration in performance and takes strong, sustained action to resolve the problems in this area.

Recent performance audit work in the demising organisations highlights a number of challenges which the Health Board will need to address

36. To support the development of the new NHS organisation, I have prepared a legacy report that includes a summary of the findings and key messages from recent performance audit work undertaken at the demising bodies.
37. This work has shown that the health community has had generally sound financial management and can demonstrate some improvements in performance. However, against a background of significant financial challenges, the Health Board is now facing a challenging service redesign agenda to realise the benefits from the reorganisation. It also needs to address the areas for improvement identified by recent audit work.

The NHS reorganisation transition in the ABM health community was well managed overall, but the Health Board now needs to focus on realising the benefits of the reorganisation

38. The creation of the Health Board was supported by a programme of transition work that included a cohesive community-wide approach. Overall, I was satisfied that the transition was well managed and there were no significant issues to report. This judgement is based on there having been an inclusive transition programme supported by a sound project management framework, and a smooth handover to the new Board. The Health Board now needs to take action to realise the benefits of reorganisation. In particular:
- despite generally sound financial management arrangements, the unprecedented financial pressures now faced require significant strategic change to enable the Health Board to meet financial and operational targets;
 - although the Health Board's asset management arrangements are generally sound, the management of the Health Board's estate is likely to prove challenging in the future; and
 - the Health Board recognises the need to demonstrate sound governance across directorates and to strengthen its risk management arrangements.

Performance reports have highlighted improvement in some areas, but, in others, there is scope for further improvement particularly to demand management and in supporting alternative ways of working

39. The legacy report summarised key findings from a range of performance audit reviews on specific topics. These reviews showed that improvements had been made in a number of service areas, but also highlighted opportunities to secure more efficient, effective and economical use of resources. For example:
- good progress had been made in reducing sickness absence, but rates were variable across the Health Board;

- there were opportunities to work differently, for example, by reviewing roles and skill mix; and
 - there is scope to further improve the quality and cost-effectiveness of maternity services.
40. There is a clear commitment to partnership working to improve service delivery across the health community, but our reports identified that partnership working could be used more effectively to manage demand in a number of areas. For example:
- Chronic conditions still place a significant burden on local health services, particularly the acute sector, with the need to rebalance towards community-based care remaining a major challenge.
 - There is significant scope to improve the management of elective admissions – further capacity could be made available by reducing lengths of stay for surgical patients, and there is scope to work with other key stakeholders to help reduce emergency medical admissions.
 - Demand management was one of the barriers to improvement at the Morriston A&E unit, where attendances were above average, and at the Princess of Wales A&E unit, where attendances were at average levels.
 - There was potential to reduce the increasing demand for imaging services. At the Princess of Wales site the demand for imaging services was resulting in a growth in waiting lists. In Swansea, A&E had the second highest demand for imaging examinations in the country, and was well above the level typically found in trusts of similar size and complexity.
 - There were opportunities to improve demand management in both the former Bro Morgannwg and Swansea pathology services.

Waiting list data are accurate and the arrangements for recording and reporting waiting list information are acceptable, although the approach to checking data accuracy could be strengthened

41. In addition to the preparation of a legacy report in respect of the predecessor bodies, I have recently completed a review of the accuracy of waiting list data in the Health Board. In a report to the Health Board in March 2010, the review found that the waiting list data is accurate and the arrangements for recording and reporting waiting list information were acceptable.
42. The data generally complies with Assembly Government guidance and most elements of good practice for recording and reporting waiting list information are in place. However, the approach to checking data accuracy could be strengthened as there is currently no routine audit of Referral to Treatment (RTT) data accuracy. Although there were some minor inaccuracies in the data and there was scope to improve some aspects of recording and reporting the data, these were not of sufficient magnitude to undermine the overall accuracy of the Health Board's waiting list position, or its arrangements for recording and reporting waiting list information.
43. Our assessment is based on current IT systems and processes, which are acceptable. We note there are advanced plans to replace PIMS and the iPM system with a single patient administration system.

44. The performance audit work I have referred to in previous audit strategies forms part of a rolling programme of national and local studies. Whilst some of this work has been completed and reported to the appropriate demised NHS bodies, other studies are still ongoing. We will report this work to the new Health Board. The Audit Committee of the new Health Board will receive reports on all the work in progress. The Annual Audit Letter for the body will summarise these reports. Appendix 4 summarises the position of the various performance audit projects that recent audit strategies of demised NHS bodies have identified.

Appendix 1

Conclusion on the predecessor bodies' arrangements for the six month period ended 30 September 2009 for securing economy, efficiency and effectiveness in their use of resources

Accountable Officer's responsibilities

The Accountable Officer for each NHS body is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the NHS body's use of resources, and to ensure proper stewardship and governance. The Accountable Officer is also responsible for regularly reviewing the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I have a responsibility under section 61(3) of the Public Audit (Wales) Act 2004 to conclude from my audit of each NHS body's annual accounts and other relevant information whether I am satisfied that it has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. For the purposes of my work in this area, I have assessed 'proper arrangements' as principally comprising an organisation's corporate performance management and financial management arrangements, significant elements of which are defined in paragraph 48 of the Code. I report if significant matters have come to my attention, which prevent me from concluding that an NHS body has made such proper arrangements. In carrying out my work, I have not considered whether the arrangements in place represent all those that could be in place. I am also not required to consider, nor have I considered as part of this aspect of my work, the effectiveness of the arrangements in place at each NHS body in securing value for money during the period under review.

Conclusion

The following conclusions have been based on, and limited to, work carried out as part of my audits of the six month accounts for the period ending 30 September 2009 at each NHS body. I have also based my conclusions on any other information that I have considered to be relevant to my examination, to establish, in all significant respects, what arrangements each NHS body had in place during the period to support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources.

Based on the Statements of Internal Control, and as a result of the work carried out as part of my audits of each NHS body's six month accounts for the period ending 30 September 2009, and all other information that I have considered to be relevant, I am satisfied overall that arrangements to support securing economy, efficiency and effectiveness in the use of resources were in existence in the following NHS bodies:

- Abertawe Bro Morgannwg University NHS Trust (subject to the matters referred to in paragraphs 33 to 35)
- Swansea LHB
- Neath Port Talbot LHB
- Bridgend LHB

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Appendix 2

Criteria for assessing the predecessor bodies' arrangements during the six months ending 30 September 2009 for securing economy, efficiency and effectiveness in their use of resources

Corporate performance management and financial management arrangements	Questions on arrangements
Establishing objectives, determining policy and making decisions	Has the Body put in place arrangements for setting, reviewing and implementing its strategic and operational objectives?
Meeting needs of users and taxpayers	Has the Body put in place channels of communication with patients and their representatives, and other stakeholders including partners, and are there monitoring arrangements to ensure that key messages about services are taken into account?
Compliance with established policies	Has the Body put in place arrangements to maintain a sound system of internal control, including those for ensuring compliance with laws and regulations, and internal policies and procedures?
Managing operational and financial risks	Has the Body put in place arrangements to manage its significant business risks?
Managing financial and other resources	<p>Has the Body put in place arrangements to evaluate and improve the value for money it achieves in its use of resources?</p> <p>Has the Body put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities?</p> <p>Has the Body put in place arrangements to ensure that its spending matches its available resources?</p> <p>Has the Body put in place arrangements for managing and monitoring performance against budgets, taking corrective action where appropriate, and reporting the results to senior management and the Board?</p> <p>Has the Body put in place arrangements for the management of its asset base?</p>
Monitoring and reviewing performance	<p>Has the Board put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary and reporting to the Board?</p> <p>Has the Body put in place arrangements to monitor the quality of its published performance information, and to report the results to Board members?</p>
Proper standards of conduct etc	Has the Body put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business?

Appendix 3

Reports issued since September 2009

Report	Date
Audit strategies	
<ul style="list-style-type: none"> • Abertawe Bro Morgannwg University Health Board 	February 2010
<ul style="list-style-type: none"> • Six month strategies for: <ul style="list-style-type: none"> – Abertawe Bro Morgannwg University NHS Trust – Swansea LHB – Neath Port Talbot LHB – Bridgend LHB 	September 2009
Financial Accounts Audit and Report to those Charged with Governance	
<ul style="list-style-type: none"> • Abertawe Bro Morgannwg University NHS Trust 	February 2010
<ul style="list-style-type: none"> • Swansea LHB 	February 2010
<ul style="list-style-type: none"> • Neath Port Talbot LHB 	February 2010
<ul style="list-style-type: none"> • Bridgend LHB 	February 2010
Legacy report	January 2010
Other performance reports	See Appendix 4

Appendix 4

Performance audit reports

The following table shows the reporting arrangements for performance audit projects, which have been identified in the recent audit strategies of predecessor bodies.

Reporting arrangements for performance audit work

Study	Reported to demised NHS body	Already reported to the new Health Board	Still to be reported
Ward staffing	Findings discussed/agreed		✓
NHS Reorganisation	✓	✓	
Legacy report (health community)		✓	
Waiting list data accuracy		✓	
Adult Mental Health Services			✓
Hospital Catering			✓
Consultant Contract Benefit Realisation			✓
Review of Service Improvement Plans – ABM NHS Trust	✓	✓	
Approach to implementing external audit recommendations – ABM NHS Trust			✓



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