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## Interim Audit Letter 2009-10 for Predecessor Bodies

# **Betsi Cadwaladr University Local Health Board**

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## Summary

1. This interim Audit Letter (Letter) to the Betsi Cadwaladr University Local Health Board (the Health Board) relates to my audits of its predecessor bodies for the six-month period to 30 September 2009. The work reported in the Letter was set out in the agreed audit strategies for the following organisations:
  - North Wales NHS Trust
  - North West Wales NHS Trust
  - Anglesey Local Health Board (LHB)
  - Conwy LHB
  - Denbighshire LHB
  - Flintshire LHB
  - Gwynedd LHB
  - Wrexham LHB
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, the need to prepare for the programme of reform in NHS Wales, which led to their demise, and the establishment of the Health Board on 1 October 2009. The Health Board's predecessors contributed to the transition arrangements for the North Wales health community that considered a range of risks including business continuity, finances and human resources. My work for this period focused on the audit of the demising bodies' 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. It also included examining the transition arrangements for establishing the Health Board as part of the NHS reorganisation in Wales. The work was structured around the key elements of my responsibilities as set out in the Code of Audit Practice (the Code)<sup>1</sup>.
4. The audit fees charged for the work in this period were as set out in the agreed audit strategies for each predecessor body.

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<sup>1</sup> I make a number of references within this Letter to guidance and documentation I have issued, including the Code. 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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5. 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 Health Board. Auditors discussed and agreed these reports with officers and presented them to the relevant Audit Committee. The reports I have issued are shown in Appendix 3.
  6. 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 accounts for the six-month period ended 30 September 2009 were properly prepared and materially accurate, although I drew attention to the uncertainties surrounding the costs of continuing healthcare for the demised LHBs;
    - the predecessor bodies' combined out-turn at demise and forecast to year-end indicate that the Health Board faces significant financial risks in 2010-11 and beyond; and
    - the predecessor bodies' significant financial systems were generally fit for purpose for the closing period of accounts.
  7. My performance audit work concluded that the predecessor bodies had appropriate corporate arrangements in place to help them achieve economy, efficiency and effectiveness in the use of resources. However, the Health Board needs to address some key organisational issues:
    - my recent performance audit work in the demising organisations highlights a number of challenges which will need to be addressed by the new Health Board; and
    - whilst the transition process was well managed overall, and effectively led, further work is required to develop underpinning systems.
  8. The Health Board needs to consider these findings. The legacy reports that draw together the main findings of recent external audit work in each of the demising bodies will assist with this.
  9. This letter has been shared with the Chief Executive, the Director of Finance and the Director of Governance and Communications, and a copy is to be provided to every member of the Health Board.
  10. 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.



Anthony Barrett and Ceri Stradling  
Engagement Partners  
For and on behalf of Gillian Body, the Auditor General for Wales  
Date: 29 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**

11. 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.
12. 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 conformed to the authorities that govern them.
13. My financial audit work covers the following key areas:
  - Financial statements (or accounts)
  - Financial health
  - Financial management
  - Financial systems

## **Each predecessor body's accounts for the six-month period ended 30 September 2009 were properly prepared and materially accurate, although I drew attention to the uncertainties surrounding the costs of continuing healthcare for the demised Local Health Boards**

14. This year the bodies were required to submit their six-month unaudited accounts to the Wales Audit Office by 30 November 2009. All bodies achieved this deadline with the exception of North West Wales NHS Trust and Wrexham LHB.
15. The accounts were generally supported by good working papers, but delays were encountered with the receipt of supporting documentation for fixed assets at the former North Wales NHS Trust. Despite the delay, the audited accounts were submitted to the Assembly Government by the due dates. This was a particular achievement given the additional work required to implement the International Financial Reporting Standards, and the complexity of preparing the consolidated accounts for North Wales NHS Trust.

16. 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 Partners reported these issues to the Audit Committees before each set of the closing accounts was approved by the Health 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	<p>There were no modifications to the auditor reports, except for those relating to the former LHBs. 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 were yet to be assessed for the former LHBs.</p>
Unadjusted misstatements	<p>There were no unadjusted misstatements except for the following, which in aggregate exceeded the threshold at which I request amendment to the accounts:</p> <p><b>North Wales NHS Trust</b> – Employee costs included £596,000 for capitalised staff costs. The International Accounting Standard 16 provides scope for employee costs arising directly from the construction or acquisition of an item of property, plant and equipment, to be claimed because they are directly attributable capital costs. The Trust has not demonstrated that all employee costs were directly attributable to specific assets or supplied evidence to substantiate these costs.</p> <p><b>Conwy LHB</b> – The uncorrected misstatement is for a material amount of £1.0 million and relates to unused creditor balances for NHS-funded nursing care and continuing care. These balances were brought forward from the previous year and, as they were no longer required, they were written back to revenue but incorrectly classified as miscellaneous income. The correct accounting treatment would be to record them against the category of expenditure that they were recorded in the previous year’s accounts.</p> <p>In all cases, appropriate representations were received from the Health Board to justify the reasons for non-adjustment. The unadjusted misstatements had no impact on our overall audit opinion, as they were not material to the accounts.</p>

Reporting requirement	Auditor's response
Material weaknesses in the accounting and internal control systems identified during the audit	There were no material weaknesses in the accounting and internal control systems identified during the audit with the exception of the following matters: <b>North Wales NHS Trust:</b> <ul style="list-style-type: none"> <li>• control weaknesses in stocktaking procedures were identified; and</li> <li>• the accuracy of the analysis between impairments and revaluations could not be established.</li> </ul>
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.

17. 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 to the purposes intended and that the financial transactions conformed to the authorities that govern them.
18. For each of the former LHB 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 had not yet been assessed.
19. I issued my opinions on the accounts and laid them before the National Assembly in accordance with the timetables required.

### **The predecessor bodies' combined out-turn at demise and their forecast to year-end indicate that there are significant financial risks to be tackled by the Health Board in 2010-11 and beyond**

20. In particular, North Wales NHS Trust did not manage its spending plans for the period in line with their budgets due to the impact of planned savings, which required Clinical Programme Groups to achieve seven per cent savings of their allocated budgets not being delivered. In addition, there were ongoing budget pressures at the former LHBs, including Continuing Health Care, where the assessment process of a significant number of claims had not been concluded. Work is ongoing to assess those claims.



21. At 31 March 2010, the Health Board reported that it met its Revenue Resource Limit (£1.1 billion) despite having reported a cumulative deficit of £9.7 million at month 11. The Health Board received additional non-recurrent funding and implemented a number of pay and non-pay initiatives to address the cumulative deficit through cost improvement plans. Whilst this ensured financial balance was achieved at the year-end, further work is required to address the underlying issues in 2010-11.

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

22. My review of the bodies' financial systems involved documenting the significant financial systems and, where necessary, testing the operation of internal controls.
23. I concluded that the significant financial systems in each of the demised bodies could be relied upon to produce materially correct outputs.

### **My performance audit work concluded that the predecessor bodies had appropriate corporate arrangements in place to help them achieve economy, efficiency and effectiveness in the use of resources. However, the Health Board needs to address some key organisational issues**

24. 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. This requirement is also reflected in the Code. My responsibilities and formal conclusion on the bodies' arrangements for the six-month period are set out in Appendix 1.
25. For the purposes of my work, I evaluated each body's systems against a number of questions, which are set out in Appendix 2. For each question, I consider whether there are gaps in the arrangements expected to be in place, and the significance of those gaps.
26. Following my review of the predecessor bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources, I concluded that there are no significant weaknesses that would require me to provide an adverse opinion. Whilst the Health Board has made progress in finalising a Medium Term Financial Strategy following approval by the Health Board on 25 March 2010, no comprehensive strategy was in place for the period under review. In addition, the Health Board should address the key organisational issues discussed in the following section.

## **My recent performance audit work in the demising organisations highlights a number of challenges which will need to be addressed by the new Health Board**

27. To support the organisational development of the new NHS organisation, I prepared legacy reports, which include a summary of the findings and key messages from my recent performance audit work at the demising bodies.
28. For the Health Board, my work identified that the health community has shown strengths in relation to financial management, partnership working and some aspects of performance, but weaknesses in governance and performance management, an ageing estate and inherited financial and resource constraints present major challenges:
  - the Health Board needs to demonstrate that its governance arrangements are driving strategic change and providing assurance of compliance with legislative and regulatory requirements;
  - despite generally sound financial management arrangements, the new Health Board now faces significant financial pressures which will require radical measures to meet financial and operational targets;
  - the Health Board faces significant challenges in managing its ageing estate and ensuring that it is fit for purpose;
  - staff capacity issues and the need for further workforce modernisation have featured in several of my audit reports, although the predecessor trusts had made some good progress in reducing sickness absence rates;
  - whilst some improvements have been made, my work has identified some longstanding areas of underperformance in relation to performance management arrangements; and
  - there is a clear commitment to collaborative working and engagement with partner organisations, although greater engagement is required with staff, patients and the public.
29. 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. This work will now be reported to the new Health Board, and the Audit Committee 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.

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**Whilst the transition process was well managed overall, and effectively led, further work is required to develop underpinning systems**

- 30. The creation of the Health Board was supported by a programme of transition work across the health community. A Transition Director and Programme Manager were appointed and the work guided by the Reform and Shadow boards. Audit work was undertaken to determine the robustness of the arrangements to establish the new Health Board.
- 31. In overall terms, whilst the transition process was well managed overall, and effectively led, further work is required to develop underpinning systems. This judgement is based on the following findings.

**The transition programme in the North Wales health community was well managed overall, and the Reform and Shadow boards effectively led and oversaw the transition process**

- 32. There was good engagement throughout the health community to support the transition process. This was underpinned by sound project and programme management, realistic risk assessments and a good appreciation of the 'business critical' issues that needed to be addressed by 1 October 2009, and prioritisation of key tasks taking place ensuring service continuity.
- 33. The Reform and Shadow boards put robust governance arrangements in place, alongside a clear governance framework. These arrangements conform to the principles of good governance, although it is too early to assess whether they will be embedded in the new Health Board.
- 34. The capacity of Human Resources was well managed and the organisational change framework used throughout the process. Staff were protected, and supported during transition as far as practicable, and communication with staff was particularly effective throughout the transition process.
- 35. My engagement team worked closely with the Programme Board and the workstreams and, where relevant, workstreams made positive use of the Wales Audit Office audit guide to support and inform their activities.

**Further work is required to develop the assurance framework, risk management and information management and technology arrangements, and maintain partnership working**

- 36. Work is also ongoing to develop the Health Board's assurance framework and to rationalise its risk management arrangements.

- 37.** Opportunities were identified to improve the Information Management and Technology (IM&T) transitional arrangements, but risks were minimised in the short term because the predecessor body legacy arrangements continued. In the medium and long term, changes need to take place to consolidate resources and co-ordinate strategic direction in line with local need and the national IM&T and informatics agenda.
- 38.** Appropriate transitional arrangements to maintain partnership and joint working were also in place, but future success is dependent on the agreement of governance processes and the delivery of effective services. Critically, partners need to be kept informed.

## Appendix 1

## Conclusions 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 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, subject to the matters referred to in paragraphs 27 to 38:

- North Wales NHS Trust
- North West Wales NHS Trust
- Anglesey LHB
- Conwy LHB
- Denbighshire LHB

<b>Conclusion (continued)</b>	
<ul style="list-style-type: none"><li>• Flintshire LHB</li><li>• Gwynedd LHB</li><li>• Wrexham LHB</li></ul>	
Gillian Body Auditor General for Wales June 2010	Wales Audit Office 24 Cathedral Road Cardiff CF11 9LJ

## 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
<b>Establishing objectives, determining policy and making decisions</b>	Has the Body put in place arrangements for setting, reviewing and implementing its strategic and operational objectives?
<b>Meeting needs of users and taxpayers</b>	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?
<b>Compliance with established policies</b>	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?
<b>Managing operational and financial risks</b>	Has the Body put in place arrangements to manage its significant business risks?
<b>Managing financial and other resources</b>	<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>
<b>Monitoring and reviewing performance</b>	<p>Has the Health 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>
<b>Proper standards of conduct etc</b>	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**

<b>Report</b>	<b>Date</b>
<b>Audit Strategy</b>	
North Wales NHS Trust	September 2009
North West Wales NHS Trust	September 2009
Anglesey LHB	September 2009
Conwy LHB	September 2009
Denbighshire LHB	September 2009
Flintshire LHB	September 2009
Gwynedd LHB	January 2009 (18-month strategy)
Wrexham LHB	September 2009
<b>Financial Accounts Audit and Report to those Charged with Governance</b>	
North Wales NHS Trust	March 2010
North West Wales NHS Trust	February 2010
Anglesey LHB	February 2010
Conwy LHB	February 2010
Denbighshire LHB	February 2010
Flintshire LHB	February 2010
Gwynedd LHB	February 2010
Wrexham LHB	February 2010
<b>Legacy report</b>	April 2010
<b>Other performance reports</b>	
Patient Administration System (PAS) Post Implementation Review – East Locality (Letter of findings)	December 2009
Ward Staffing	February 2010
Medicines Management (follow-up)	February 2010
<b>Interim Audit Letter</b>	June 2010



## 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		✓	
NHS Reorganisation	✓	✓	
Legacy Report		✓	
Waiting List Data Accuracy			✓
Adult Mental Health Services			✓
Hospital Catering			✓
Consultant Contract Benefit Realisation			✓
Medicines Management Follow-up	✓	✓	
Outpatients Follow-up	✓		✓
Operating Theatres			✓



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