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Interim Audit Letter 2009-10 –
Predecessor bodies

Cwm Taf Local Health Board

Contents

Summary	5
Detailed Letter	
The predecessor bodies' resources were, in all material respects, properly used and accounted for in the six month period ended 30 September 2009	7
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 the uncertainties surrounding the costs of continuing healthcare	7
Predecessor bodies' combined outturn at demise was a breakeven position, although there are significant financial risks to be tackled going forward	10
The predecessor bodies' significant financial systems were generally fit for purpose for the closing period of accounts	10
The predecessor bodies had appropriate corporate arrangements to support effective use of resources although, despite some progress, the Board inherited a number of challenges in specific areas of service delivery	11
There were no significant weaknesses in the predecessor bodies' arrangements to help them achieve economy, efficiency and effectiveness in their use of resources	11
Recent performance audit reviews highlighted that, despite some progress, further challenges and areas for improvement remained in relation to the management of chronic conditions, prescribing, maternity services, junior doctors' working time, sickness absence and partnership working	11
The process of reorganisation across the Cwm Taf health community was relatively well-managed but the new Board needs to focus more on realising the benefits of the reorganisation and preparing to host the functions previously exercised by Health Commission Wales	12

Appendices

Conclusion(s) on the predecessor bodies' arrangements for the period ended 30 September 2009 for securing economy, efficiency and effectiveness in their use of resources	14
Criteria for assessing the predecessor bodies' arrangements during the six months ending 30 September 2009 for securing economy, efficiency and effectiveness in its use of resources	15
Reports issued since September 2009	16
Performance Audit reports	17

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Summary

1. This interim Annual Audit Letter to the new Cwm Taf Local Health Board (the Board) relates to my audits of the final, six-month period to 30 September 2009 of the Board's predecessor bodies. The work reported on in the Letter was set out in the agreed Audit Strategies for the following organisations:
 - Cwm Taf NHS Trust
 - Merthyr Tydfil Local Health Board
 - Rhondda Cynon Taf Local Health Board
2. This Letter reports for Board members the significant issues arising from those audits, together with my comments on other current issues.
3. The 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 Board on 1 October 2009. The Board's predecessors contributed to the transition arrangements within the Cwm Taf 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. It also included work that examined the transition arrangements for establishing the new Board as part of the NHS re-organisation in Wales. The work was structured around the key elements of my responsibilities as set out in the Code of Audit 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.
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 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.

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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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 the uncertainties surrounding the costs of continuing healthcare;
 - predecessor bodies combined outturn at demise and forecast to year end indicate a breakeven position, although there are significant financial risks to be tackled going forward; 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 although, despite some progress, the Board inherited a number of challenges in specific areas of service delivery:
 - there were no significant weaknesses in the predecessor bodies arrangements to help them achieve economy, efficiency and effectiveness in their use of resources; and
 - recent performance audit reviews highlighted that, despite some progress, further challenges and areas for improvement remained in relation to the management of chronic conditions, prescribing, maternity services, junior doctors' working time, sickness absence and partnership working.
 10. The work I undertook in response to NHS re-organisation showed the transition programme across the Cwm Taf health community was relatively well-managed, but the new Board needed to focus more on realising the benefits of the reorganisation and preparing to host the functions previously exercised by Health Commission Wales.
 11. The new 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.
 12. The Chief Executive and the Director of Finance have agreed this Letter, which has been presented to the Audit Committee, and a copy provided to every member of the Board.
 13. I aim to deliver a high standard of audit, which makes a positive and practical contribution and supports the Board's own agenda. I am grateful to your predecessors and their staff for their assistance during the audit.

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

14. 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.
15. As the external auditor to all three of the predecessor bodies, I am required to audit each of their 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 has been applied to the purposes intended and that the financial transactions conformed to the authorities that govern them.
16. Our financial audit work covers the following key areas:
 - financial statements (or accounts);
 - financial health;
 - financial management; and
 - 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 the uncertainties surrounding the costs of continuing healthcare

17. This year the bodies were required to submit their six month unaudited accounts to the Wales Audit Office by the 7 December 2009. The bodies largely achieved this deadline and the accounts were supported by good quality working papers and schedules. This allowed the audited accounts to be submitted to the Assembly Government by 1 March 2010. This was a particular achievement given the additional work required to implement IFRSs and prepare for NHS Re-organisation.
18. 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 22 February 2010 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.	<p>Cwm Taf NHS Trust I made no modifications to my report.</p> <p>Rhondda Cynon Taf and Merthyr Tydfil Local Health Boards I modified both of my reports 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.</p>
Unadjusted misstatements.	<p>Adjustments to the accounts following our audit were not material.</p> <p>The following uncorrected misstatements arose which in aggregate exceeded the threshold at which I request amendment to the accounts:</p> <p>Cwm Taf NHS Trust</p> <ul style="list-style-type: none"> • The IFRS require an accrual for unpaid annual leave. The Trust calculated the accrual based on leave as at 31 March 2009. An exercise in early February 2010 estimated the position of annual leave as at 30 September 2009, this indicated that a further accrual of £325,000 was required. • Provisions included £256,000 of Agenda for Change balances which have now largely been agreed. As future payments are known, these amounts should be shown within Creditors. Trust management informed us that the Assembly Government proforma accounts will not allow this adjustment. Accordingly we accept that the Trust should not make this amendment – but we are required to bring to the attention of those charged with governance the fact that this technical accounting issue does not fully follow accounting standards. • A revaluation of Trust Fixed Assets to a Modern Equivalent Asset (MEA) basis was completed as at 1 April 2009. The ISA16 requires that revaluations should apply to all assets within a classification. However the Trust has deemed that four sites are surplus to requirements. The Trust has accelerated depreciation charges, so that these assets will be depreciated to Open Market Value over their remaining useful life, revaluations were not completed for these assets. The Trust treatment is not in line with the requirements of ISA16, an additional impairment of £1.214 million is required against land assets. • The Trust has applied indexation to its asset base on 1 April 2009. Late guidance received from the Assembly Government has since suggested that only half of this indexation should be included within the financial statements to 30 September 2009 (six months equivalent).

Reporting requirement	Auditor's response
	<p>Merthyr Tydfil Local Health Board</p> <ul style="list-style-type: none"> • Pharmacy Costs for September 2009 were estimated. Final figures received prior to the completion of our audit indicate that costs should be increased by £37k. • Those charged with governance confirmed in the February 2010 Audit Committee meeting that they were satisfied that management's reasons for non adjustment were appropriate.
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.

19. 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.
20. For both of the predecessor Local Health Board's 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.
21. I issued my opinions on the accounts and laid them before the National Assembly in accordance with the timetables required.

Predecessor bodies' combined outturn at demise was a breakeven position, although there are significant financial risks to be tackled going forward

22. Predecessor bodies worked together to develop a joint financial plan for 2009-10. This took account of a range of issues including projected funding flows, underlying deficits and capital commitments. The initial plan identified a potential funding gap of £30.2 million between the resources available and expected financial commitments. A range of savings schemes were identified and implemented to help manage the financial shortfall. At their demise on 30 September 2009 final outturns reported a small overall net surplus for the six month period, (although an underlying funding gap of some £19.5 million was still being reported):
- Cwm Taf Trust deficit £4.587 million;
 - Merthyr Tydfil deficit £599k; and
 - Rhondda Cynon Taf surplus £5.982 million.
23. The Board continued to manage its identified financial risks throughout its first six months of operation. A breakeven position was reported at year end, with the draft unaudited financial statements for 2009-10 showing a small underspend of £18,000. However, we note that this was only achieved following the receipt of additional Assembly Government funding of approximately £10 million in March 2010.
24. Continued financial balance remains a significant risk, with key financial pressures facing the Board relating to achievement of Access 2009 targets, costs of continuing healthcare, and the reduced level of growth.
25. Financial sustainability work was well established across the legacy bodies with a variety of saving schemes underway. The Financial Sustainability Group is responsible for monitoring and agreeing of identified savings, and is liaising with the Assembly Government to agree Medium Term (three to five year) balanced financial plans.

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

26. Our review of the bodies' financial systems involved documenting the significant financial systems and, where necessary, testing the operation of internal controls.
27. We concluded that the significant financial systems in each of the demised NHS bodies could be relied upon to produce materially correct outputs. There are some minor audit recommendations for improvement that will be considered within our Local Health Board Financial Memorandum to be published later this year, and these matters have been discussed with Local Health Board management. I am satisfied that appropriate compensating controls are in place to prevent and detect material errors and that the Accountable Officer has appropriately referred to these control issues in her Statements of Internal Control.

The predecessor bodies had appropriate corporate arrangements to support effective use of resources although, despite some progress, the Board inherited a number of challenges in specific areas of service delivery

There were no significant weaknesses in the predecessor bodies' arrangements to help them achieve economy, efficiency and effectiveness in their use of resources

28. 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.
29. 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.
30. 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. However, there is an issue that needs to be addressed by the Board:
 - The Board needs to make progress in finalising a medium-term financial strategy although as commented on earlier in this Letter, work in this area is currently ongoing in partnership with the Assembly Government.

Recent performance audit reviews highlighted that, despite some progress, further challenges and areas for improvement remained in relation to the management of chronic conditions, prescribing, maternity services, junior doctors' working time, sickness absence and partnership working

31. To support the organisational development of the new NHS organisations, I have prepared legacy reports for each which include a summary of the findings and key messages from recent performance audit work undertaken at the relevant predecessor bodies.
32. For the Board this work showed that:
 - despite some improved management arrangements and performance results, chronic conditions still placed a significant burden on local health services, particularly the acute sector;

- Rhondda Cynon Taf Local Health Board's arrangements for managing primary care prescribing had contributed to an improved performance against national prescribing targets and reductions in prescribing costs, although there was scope for further progress;
 - our work on maternity services identified opportunities to further improve these services;
 - some junior doctors were still being required to work in excess of 48 hours per week, in breach of the European Working Time Directive;
 - sickness absence rates across the Cwm Taf NHS Trust workforce had remained relatively high and are a drain on resources; and
 - local statutory partnership arrangements were relatively well established, but we had concerns about the contribution made to the delivery of strategic environmental objectives by the RCT Environmental Improvement Partnership.
33. 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 predecessor bodies, other studies are still on-going. This work will now be reported to the new Board. The Audit Committee of the new Board will receive reports on all the work in progress. The Annual Audit Letter for the Board will summarise these reports. Appendix 4 summarises the position of the various performance audit projects that were contained within recent audit strategies of predecessor NHS bodies.

The process of reorganisation across the Cwm Taf health community was generally well-managed but the new Board needs to focus more on realising the benefits of the reorganisation and preparing to host the functions previously exercised by Health Commission Wales

34. I included in my legacy report on the predecessor bodies my findings in respect of the way in which the process of NHS reorganisation across the Cwm Taf health community. I concluded that the reorganisation had been generally well managed in line with our expectations, up to and in the immediate aftermath of the creation of the new Board from 1 October 2009. I also identified four factors that provided firm foundations for the reorganisation process and the Health Board's future development, as follows:
- in planning for the reorganisation the health community had been able to draw on the experience of the merger of the former North Glamorgan and Pontypridd and Rhondda NHS Trusts in April 2008;
 - Rhondda Cynon Taf and Merthyr Tydfil Local Health Boards had already been operating under joint management team arrangements since April 2008;
 - there was already evidence of a clear health community based approach to some key challenges, notably financial sustainability and workforce planning; and

- the relative similarity of the health challenges across the two local authority areas makes for more straightforward service planning than might otherwise be the case.
35. Despite these firm foundations I emphasised that the new Board needed to focus more on realising the benefits of the reorganisation and of the merger of the former North Glamorgan and Pontypridd and Rhondda NHS trusts in April 2008. The initial emphasis had been on business continuity but the Board needed to think more radically about possible changes in service design and delivery, to the benefit both of the citizen and the Board's financial standing. While due to factors outside its direct control, the appointment of new Executive Directors and Board members had taken longer than desirable and had been subject to further changes and uncertainty.
36. Preparations for hosting the functions exercised by Health Commission Wales under a new Joint Committee mechanism were still at an early stage and there were specific risks and challenges that needed to be managed effectively during the shadow running period to 31 March 2010. These key risks and challenges related to business continuity – specifically in terms of knowledge and people management, records management, and information and communications technology – and the establishment of robust governance arrangements for the Joint Committee.

Appendix 1

Conclusion(s) on the predecessor bodies' arrangements for the six month period ended 30 September 2009 for securing economy, efficiency and effectiveness in its 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:	
<ul style="list-style-type: none"> • Cwm Taf NHS Trust [<i>subject to the matters referred to in paragraphs 28 to 36</i>] • Rhondda Cynon Taf and Merthyr Local Health Boards [<i>subject to the matters referred to in paragraphs 28 to 36</i>] 	
Gillian Body Auditor General for Wales October 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 its 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 strategy	
• Cwm Taf NHS Trust	December 2009
• Rhondda Cynon Taf Local Health Board	September 2009
• Merthyr Tydfil Local Health Board	September 2009
Financial Accounts Audit and Report to those Charged with Governance	
• Cwm Taf NHS Trust	February 2010
• Rhondda Cynon Taf Local Health Board	February 2010
• Merthyr Tydfil Local Health Board	February 2010
Legacy report	January 2010
Other performance reports (see Appendix 4)	
Consolidated Annual Audit Letter	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	Still to be reported to the new Board	Reported to the new Board and awaiting comment	Reported to and agreed with the new Board
Ward staffing			✓
Legacy report			✓
NHS re-organisation (reported on in the legacy report)			✓
Waiting list data accuracy		✓	
Adult Mental Health Services	✓		
Hospital Catering	✓		
Consultant Contract Benefit Realisation	✓		



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