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Annual Audit Report 2010

Cardiff and Vale University Health Board

Contents

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Summary

1. This report summarises the findings from audit work I have undertaken at Cardiff and Vale University Health Board (Health Board) during the latter part of 2009 and throughout 2010.
2. The work I have done at the Health Board allows me to discharge my responsibilities under the Public Audit (Wales) Act 2004 in respect of the audit of accounts and the Board's arrangements to secure efficiency, effectiveness and economy in its use of resources.
3. I have adopted a risk-based approach to planning the audit, and my audit work has focused on the significant financial and operational risks facing the 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 findings I have set out in this report need to be taken in the context of the major structural re-organisation which has occurred in the NHS in Wales over the last 18 months, and the programme of nationally driven work that is underway to address health inequalities, mixed performance and financial sustainability. Collectively this represents a significant and extremely challenging change agenda for the Health Board and its staff.
5. This report identifies a number of areas where arrangements and services need to be further developed. Given the scale of the change agenda within the NHS, it is inevitable that many corporate arrangements and service delivery areas within the Health Board are going to be either under review, or in the process of change.
6. It is important that the key messages from my audit work, which are summarised in this report, are used as a stimulus and focus for management attention to ensure that where improvements are necessary, they are implemented as quickly as possible.

Audit of accounts

I have issued an unqualified opinion on the financial statements of the Health Board, although in doing so I have brought several issues to the attention of officers and the Audit Committee

7. My work on the audit of accounts has led me to give an unqualified opinion on the financial statements of the Health Board. I have also concluded that:

- the Board's accounts were properly prepared and materially accurate;
- the Board achieved financial balance at the end of 2009/10, but only as a result of additional non-recurring funding from the Assembly Government;
- the Board had an effective internal control environment to reduce the risks of material misstatements to the Financial Statements; and
- the Board's significant financial and accounting systems were appropriately controlled and operating as intended, although there are a number of system weaknesses which require management action.

8. In giving an unqualified opinion, I have drawn the Board's attention to a number of issues. These relate to:
   - a reference in my audit opinion to an unadjusted misstatement relating to asset lives opening comparators;
   - an inability to comply fully with the accounting standard relating to the replacement of assets;
   - the need to make further progress with the assessment of continuing healthcare claims;
   - the overstatement of some primary care expenditure estimates; and
   - a number of system weaknesses which require management action.

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

The Board, like all other Boards in Wales, has significant financial challenges that will require it to strengthen its service, operational, workforce and financial planning and monitoring arrangements

9. The Board's five year strategic framework highlights the need for savings of £344.6 million over the five year period to 2014-15. For 2010-11, the financial plan required the Board to deliver savings of £79.3 million to maintain financial balance.

10. The Operational Board of Directors is responsible for monitoring the delivery of the savings plans. The Board has also established a Finance Task and Finish Group and this provides a good mechanism to scrutinise and challenge the delivery of individual savings plans. Until recently the Board has been forecasting a year end deficit of £28.4 million. Additional funding for operational in year pressures has now been provided by the Assembly Government and the Board is currently forecasting a breakeven position. Whilst there are a number of risks associated with the delivery of the savings plans, these are being managed and mitigated.

11. Over the coming months, further work is needed to integrate service, workforce and financial plans. The Board should also continue to ensure that all savings plans are underpinned by robust action plans for delivery.

The Health Board's governance arrangements are generally sound and further work is ongoing to ensure they provide a framework which drives improvement

12. The Health Board's five year strategic framework sets out a clear strategic direction and this is supported by operational and modernisation plans however there is some tension between meeting savings targets and achieving corporate objectives.
13. The Health Board has developed an organisational structure which supports the delivery of its strategic objectives although it recognises, at just 12 months into the new organisation, more needs to be done to equip staff with the right skills and capacity, to improve communication and clarify roles and responsibilities.
14. There is an effective Board in place within Cardiff and Vale which is supported by a range of committees and sub-committees although the focus of some of the committees is being reviewed.
15. The Health Board is developing a framework for risk management which will be implemented in 2011/12 and good progress has been made to promote a culture which is open to managing risk and learning lessons from past events.
16. Appropriate internal control mechanisms are in place which could be strengthened by focusing the attention of the Audit Committee to higher risk areas on its agendas and by improving the effectiveness of the use of resources for clinical audit.
17. The Health Board has generally sound Information Management arrangements which could be strengthened by refocusing scrutiny and redirecting resources to support the delivery of the informatics plan.
18. The Health Board has established a robust performance management framework across the organisation which supports performance monitoring and reporting at all levels and is underpinned by a clear focus on data quality.
19. Building on the work of the former organisations, the Health Board is making progress in ensuring appropriate arrangements are in place to promote and ensure probity and propriety in the conduct of its business.

The Health Board has made good progress in strengthening important 'enablers' that can assist in more effective, efficient and economical use of resources

20. The Health Board has made a good start on improving workforce planning by laying the foundations it needs for a clear strategic perspective, good information to underpin it, and the engagement and understanding of staff on these issues.
21. Capital assets will play a fundamental part in the achievement of the Health Board's five year strategic plan and clear steps are being made to ensure that these assets are used effectively in partnership with key stakeholders.
22. The Health Board has recognised that its procurement arrangements lacked the direction, resources and influence to ensure that benefits could be fully realised and is putting plans in place to improve this area of the business.

23. After a slow start there is greater clarity about roles and responsibilities for partnership working, a clear acknowledgement of their importance from the Chief Executive down, and progress on different aspects of partnership working.

24. The Health Board has increased the focus on community and patient engagement and has been putting in place the necessary structures and processes to support associated issues.

Performance audit work has identified acceptable arrangements in waiting list management and catering with aspects of good practice, and despite some improvement more needs to be done to improve adult mental health services

25. My performance audit work at the Health Board has included reviews of a number of specific service areas. Collectively these have demonstrated arrangements to be acceptable for waiting list management and catering with aspects of good practice identified and despite some improvements more needs to be done to improve adult mental health services. I have drawn this conclusion following detailed audit work on:

- waiting list data accuracy;
- adult mental health services; and
- hospital catering.

Agreeing my findings with the Executive Team

26. This report has been agreed with Executive Directors. It will be presented to the Board on 22 March 2011 and a copy will be provided to every member of the Board.

27. The assistance and co-operation of the Board's staff and members during the audit is gratefully acknowledged.

About this report

1. This Annual Audit Report to the board members of the Health Board sets out the key findings from audit work undertaken between October 2009 and November 2010.
2. My work at the Health Board is undertaken in response to the requirements set out in the Public Audit (Wales) Act 2004. The Act requires me to:
   a) examine and certify the accounts submitted to me by the Health Board;
   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.
3. 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 structured assessment of the Health Board examining the arrangements for financial management, governance and accountability, and management of resources;
   - 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.
4. I have issued a number of reports to the Health Board this year. The messages contained in this Annual Report represent a summary of the issues presented in these more detailed reports, a list of which is included in Appendix 1.
5. 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.
6. Finally, Appendix 2 presents the latest estimate on the audit fee that I will need to charge to undertake my work at the Health Board, alongside the fee that was set out in the Audit Strategy.

Section 1: Audit of accounts

7. This section of the report summarises the findings from my audit of the Health Board's financial statements for 2009/10. 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. Examination of an organisation's financial statements is an essential element in demonstrating appropriate stewardship of public money.

My responsibilities

8. In examining the Health Board's financial statements, auditors are 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 – caused by fraud or other irregularity or 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.
9. In giving this opinion, auditors are required to comply with International Standards of Auditing (ISAs).
10. 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 financial statements of the Health Board, although in doing so I have brought several issues to the attention of officers and the Audit Committee

The Health Board's accounts were properly prepared and materially accurate

11. I received the draft financial statements for the year ended 31 March 2010 on 14 May 2010 in accordance with the agreed timescale. The draft financial statements were prepared to a good standard and were supported by good quality working papers.
12. I am required by International Standards of Auditing 260 (ISA 260) to report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My Financial Audit Engagement Partner reported these issues to the Audit Committee and Board on 28 June 2010. Exhibit 1 summarises the key issues set out in that report.

Exhibit 1: Issues identified in the ISA 260 Report

Issue	Auditors comments
Opening balance for Property, Plant and Equipment overstated by £4.569 million.	During 2008-09, the predecessor Trust undertook a review of asset lives which resulted in a reduced depreciation charge of £4.569 million. In March 2010, HM Treasury ruled that the methodology used in determining the new lives was not compliant with IAS 16 and should not be used. The Health Board therefore reverted to using asset lives prescribed by the District Valuer and increased its depreciation charges for 2009-10 accordingly. The comparatives for 2008-09 were not restated on the grounds of materiality. As a result, I modified my opinion by adding an Emphasis of Matter note drawing attention to the non-adjustment. My opinion was not qualified in this respect.
The Health Board is not yet able to comply fully with the accounting standard relating to the replacement of assets.	In accordance with International Accounting Standard (IAS) 16, when parts of assets are replaced, any outstanding value of the replaced asset needs to be taken out of the property values (de-recognised) with any gain or loss being recognised in the revenue account. The Health Board did not have the systems in place to comply with these requirements. In addition, the Assembly Government's view was that the revaluation methodology used by the District Valuer for specialised assets did not give the detailed valuation of asset parts to enable proper application of IAS 16. Whilst our work and the representations made by management gave us reasonable assurance that there were no material misstatements in the 2009-10 financial statements on this issue, further discussions are currently underway with the Assembly Government to ensure the requirements are clarified for 2010-11.
The Health Board needs to make further progress with the assessment of continuing healthcare claims.	Liabilities for continuing healthcare costs continue to be a significant financial issue for the Health Board. The December 2009 deadline for reclaiming pre 1 April 2003 care costs resulted in a large increase in the number of claims registered, regarding both pre and post 1 April 2003 costs. The 2009-10 financial statements included a cost estimate for the backlog claims, based on a suggested percentage success rate for claims as notified by the Assembly Government. Whilst this approach produced an acceptable estimate, it needs to be seen as an interim methodology for the purposes of the 2009-10 financial statements. It should also be noted that following discussions involving Wales Audit Office and the Assembly Government, the draft financial statements were amended to incorporate an additional provision of £1.8 million in respect of the post 2003 element of backlog cases which straddled April 2003. Further work is needed to maintain momentum in this area and to ensure that progress is made in assessing the financial impact of outstanding claims.

Issue	Auditors comments
Some primary care accruals were overstated	The Health Board is required to make a number of year end expenditure accrual estimates in preparing the draft financial statements. More up to date information showed that primary care estimates were overstated by £0.164 million, comprising: • prescribed drugs and appliances, £0.129 million; and • pharmaceutical services, £0.035 million. These non-trivial errors were not adjusted in the financial statements on the grounds of materiality.

13. As part of our financial audit we also undertook the following reviews:

- On the Health Board's Whole of Government Accounts return, we concluded that the counterparty consolidation information is consistent with the financial position of the Health Board at 31 March 2010, and the return was prepared in accordance with the Treasury's instructions.
- On the Summary Financial Statements and Annual Report which have been published, we concluded that the summary statements are consistent with the full financial statements.
- On the separate audit of the Funds Held on Trust accounts, we concluded that the accounts show a true and fair view. Final clearance of this work was delayed by the need to obtain Charities Commission approval to transfer the funds into the name of the Health Board. This was obtained in December 2010 and an unqualified audit opinion was issued in January 2011.

The Health Board achieved financial balance at the end of 2009-10, but only as a result of additional non-recurring funding from the Assembly Government

14. The Health Board met its statutory financial targets in 2009-10, but this was dependent on a significant savings programme of £59.7 million and additional year-end revenue resource cover from the Assembly Government of £6.6 million.

The Health Board had an effective internal control environment to reduce the risks of material misstatements to the Financial Statements

15. A material weakness in internal control is defined by ISA 260 as *'...a deficiency in design or operation which could adversely affect the entity's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements*'. I did not identify any such weaknesses.

16. Internal Audit provided an 'Adequate' opinion on internal control for the year ended 31 March 2010. This opinion reflects a generally sound system of internal control with broad operational compliance, but with some weaknesses in the design of controls and their application which could put the achievement of particular system objectives at risk.

The Health Board's significant financial and accounting systems were appropriately controlled and operating as intended, although there are a number of system weaknesses which require management action

17. I did not identify any material weaknesses in the Health Board's significant financial and accounting systems which would impact on my opinion. There were a number of detailed issues arising from my financial audit work, including continuing healthcare claims and the replacement of assets. These issues are set out in my Financial Accounts Report which was considered by the Audit Committee in September 2010.

18. I also considered the Health Board's information technology infrastructure supporting the Oracle FMS, ESR Payroll and Pharmacy systems. These are national systems that are administered and hosted by a service provider (the Health Board working with Patech and McKesson for the FMS and ESR respectively and NWIS for the Pharmacy system). No material issues arose from my reviews, although I have made some recommendations for improvement, as set out in my Financial Accounts Report. All my recommendations were accepted except for one where we had identified concerns about the close proximity of the primary and secondary data centres used to house key clinical and financial systems. However, the Health Board has undertaken to review arrangements in this area with a view to reassessing the risk and identifying if any actions can be taken to mitigate it.

19. Internal Audit also reported on a number of system weaknesses which require ongoing management action. Management action plans have been developed to strengthen the control weaknesses identified in these reports, and the reports receive particular scrutiny from the Audit Committee.

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

20. 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. To assist in this auditors have undertaken a 'structured assessment' of the relevant corporate arrangements in the Health Board. The findings from this work have considered the arrangements for:

- financial management;
- governance and accountability; and
- using key 'enablers' to support the efficient, effective and economical use of resources.

21. This section of the report also summarises the findings from a number of specific performance audit reviews I have undertaken at the Health Board over the last 12 months.

The Health Board, like all other Health Boards in Wales, has significant financial challenges that will require it to strengthen its service, operational, workforce and financial planning and monitoring arrangements

22. In the current economic climate, high standards of financial management are more important than ever. This section of the report summarises auditors' findings on the Health Board's financial management arrangements, and considers:

- financial planning arrangements;
- cost control and budget monitoring arrangements; and
- the progress being made with cost savings programmes, and the ability of the Health Board to keep spending within its resource limits.

The Health Board needs to strengthen its service, operational, workforce and financial planning

23. The Health Board's five year strategic framework approved in July 2010 highlights the need for savings of £344.6 million over the five year period. For 2010-11, savings of £79.3 million were identified in the final Operational Plan, but it is evident that the Health Board still has much to do to develop a robust financial planning framework.

24. The Health Board has recognised that further work is required to integrate service, workforce and financial plans and is working towards addressing this in the 2011-12 Operational Plan. This will then enable the Health Board to show how the resources used in the business are achieving its operational and strategic aims.

Financial monitoring and reporting is developing but more work is needed to ensure all savings plans are underpinned by robust action plans for delivery

25. During 2010-11, the Health Board has done considerable work to enable it to compile appropriate reports to support the monthly monitoring returns that are required by the Assembly Government. As well as supporting Assembly Government, the information used to compile the monthly report also provides the basis on which the Board is informed of its monthly and projected yearend financial position.

26. The Operational Board of Directors is responsible for monitoring the delivery of the savings plans. The Board has also established a Finance Task and Finish Group and this provides a good mechanism to scrutinise and challenge the delivery of individual savings plans. Whilst progress is being made, there are a number of risks associated with the delivery of the savings plans, which are being managed and mitigated. Further work is needed to ensure that all savings plans are underpinned by robust action plans for delivery.

With additional funding of £28.4 million from the Assembly Government, for operational in year pressures, the Health Board is now predicting a break-even position at the end of the financial year, but there are significant financial pressures in future years

27. Until recently the Board has been forecasting a year end deficit of £28.4 million. Additional funding has now been provided by the Assembly Government for operational in year pressures and the Board is currently forecasting a breakeven position. There are still a number of risks associated with the delivery of the 2010-11 savings plans, although these are being managed and mitigated.

28. Despite monitoring and challenge by the Operational Directors Group and the Board's Finance Task and Finish Group it is clear that the savings levels originally predicted for 2010-11 will not be achieved. Going forward, the additional funding and non recurrent nature of some of the 2010-11 savings means that the Health Board is currently anticipating carrying forward an underlying deficit of £39.6 million into 2011-12. The Health Board will need to ensure that all future savings plans are subject to a robust analysis so that savings levels are achievable.

The Health Board's governance arrangements are generally sound and further work is ongoing to ensure they provide a framework which drives improvement

29. High standards of governance and accountability are fundamental requirements in demonstrating effective stewardship of public money and the efficient, effective and economical use of resources. Boards of NHS bodies need to ensure that they have an effective 'assurance framework' in place to support decision making and to scrutinise performance. As part of the Structured Assessment, auditors have examined the Health Board's arrangements for governance and accountability.

30. I have drawn the conclusion set out above as a result of the following findings.

The Health Board's five year strategic framework sets out a clear strategic direction and this is supported by operational and modernisation plans, however, there is some tension between meeting savings targets and achieving corporate objectives

31. The Health Board has a clear organisational vision which is resonated throughout the organisation. Clear strategic objectives have been established which address local and national priorities and there are clear linkages between the strategic plan and its operational plans at a corporate, divisional and directorate level.

32. The strategy and the operational plans include measurable targets with key steps on how objectives are going to be achieved and the proposed Board Assurance Framework will help to provide assurance that objectives are being met.

33. There has been consideration of the required resources and capacity to deliver the five year strategy although the financial pressure on the Health Board is causing some tension between the achievement of objectives and the need to make significant financial savings.

The Health Board has developed an organisational structure which supports the delivery of its strategic objectives although it recognises, at just 12 months into the new organisation, more needs to be done to equip staff with the right skills and capacity, to improve communication and clarify roles and responsibilities

34. The Health Board has adopted a distinct pyramid organisational structure which is designed to support the delivery of the strategic objectives through its two operational directorates; primary, community and mental health directorate and acute hospital services directorate, supported by a number of corporate enabler functions.

35. The organisational structure, which has been discussed and approved by the board, is also designed to support both vertical and horizontal communication. Mechanisms are in place to communicate to staff the roles and responsibilities within the structure although the appointments process has been slow in some parts of the structure. The new structure will take some time to bed down and consequently many staff are still unclear as to how the structure operates.

36. The two operational divisions are clearly aligned to their relevant focus although there are concerns that the two divisions could work in silo and full collaborative working across the eight divisions is not yet in place, although it is recognised that the recent focus on the Winter Plan has seen some positive collaborative working across the divisions. The adoption of a triumvirate model, consisting of lead clinician, manager and lead nurse at a divisional and directorate level clearly promotes collaborative working between managerial, medical and nursing staff. The Health Board structure promotes a noticeable shift from a traditional management led structure that had been in place in the former organisations, to a structure which is focused on clinical leadership and engagement. The Health Board considers the current position is where it would expect to be, just 12 months into the new organisation and at this stage recognises that more needs to be done to equip the leads with the appropriate skills and resources to drive the business.

37. There has been close engagement with key stakeholders in the development of the organisational structure and the development of the locality and neighbourhood structure, supported by the Integrated Health and Social Care Board will support effective working across health and social care and wider partners.

There is an effective Board in place within Cardiff and Vale which is supported by a range of committees and sub-committees although the focus of some of the committees is being reviewed

38. There is a strong Board in Cardiff and Vale with a clear focus on the business of the organisation. Committee structures have been put in place in line with the Health Board's governance framework although some duplication exists across committees and the focus of some is now being reviewed with a view to reporting to Board in March 2011.

39. Mechanisms are in place to ensure compliance with all key legislation and Board champions and leads have been put in place in line with Assembly Government requirements as well as some local priorities.

The Health Board is developing a framework for risk management which will be implemented in 2011 and good progress has been made to promote a culture which is open to managing risk and learning lessons from past events

40. After a slow start, a draft risk management policy has recently been approved by the Audit Committee and a Board Assurance Framework is to be considered by the Board in March 2011. This framework establishes a clear process for identifying and recording corporate and strategic risks through the Director of Governance and a revised risk assessment and risk register procedure clearly states the measures for categorising risks and these will be implemented in 2011.

41. There is a strong focus on risk management at the top of the organisation which has been reinforced through the leadership development programme. This now needs to be filtered throughout the organisation as part of the implementation of the risk management procedures although arrangements are already being reinforced to ensure risks are recorded appropriately at a ward, directorate, divisional and corporate level.

42. There has also been a real focus on learning lessons through such initiatives as *Putting Things Right* and the monitoring and auditing of mortality rates which is promoting an open culture.

43. The locality and neighbourhood structures will support the identification of risks in relation to partnerships as the revised risk management framework along with the organisational structure is embedded. Monitoring arrangements are in place although these need to be tried and tested to ensure that risks are reported and monitored at the right forum.

Appropriate internal control mechanisms are in place which could be strengthened by focusing the attention of the Audit Committee to higher risk areas on its agendas and by improving the effectiveness of the use of resources for clinical audit

44. The Health Board's Audit Committee is an effective committee and over the last 12 months has been getting to grips with its agenda although its focus needs to be reviewed in line with the other committees providing assurance to the Board to ensure that the time allocated to the committee is used effectively.

45. The NHS Wales Standing Orders and Standing Financial Instructions (SFIs) have been adopted and arrangements are in place to review and monitor compliance through the Audit Committee and the Director of Governance.

46. Internal Audit provides a satisfactory service to the Health Board and is compliant with the Internal Audit Standards for the NHS in Wales. Clinical audit is considered a fundamental part of the quality and safety agenda although planning and delivery to date has been based on individual areas of interest and previous national priorities. In future resources will be reprioritised and used more effectively.

47. There is evidence of other sources of assurance being used to support internal controls.

The Health Board has generally sound Information Management arrangements which could be strengthened by refocusing scrutiny and redirecting resources to support the delivery of the informatics plan

48. The Health Board has a clear strategic approach to Informatics, encompassing both IM&T and Information, which focuses on how these can be used to further the corporate aims of the organisation. This is supported by effective management arrangements with good reporting lines to the Board, although the remit of the Director of Planning who is responsible for Informatics is very broad and Information Management will therefore be transferring to the Director of Innovation and Improvement from 1 April 2011.

49. There are scrutiny arrangements in place which have the potential to be very effective, although they need to be better focussed in line with the wider review of the Health Board's committees. Currently there is oversight in regard to Informatics in a number of committees, including the Board and clarity over roles and responsibilities could be leading to duplication and delays in decision making. There is evidence of a strong strategic approach to compliance with legislation and effective data protection which are the responsibility of the Information Governance committee.

50. There is a framework in place to support the prioritisation and delivery of projects although the level of funding to meet the informatics needs of the organisation is insufficient. Good use of information is apparent, with a range of initiatives currently underway although more could be done to minimise the number of standalone IT systems.

The Health Board has established a robust performance management framework across the organisation which supports performance monitoring and reporting at all levels and is underpinned by a clear focus on data quality

51. A detailed performance management framework is in place across the organisation which is clearly aligned with the Health Boards strategic objectives. This framework outlines the arrangements for reviewing and reporting performance and promotes a culture of open and honest assessment of performance at all levels which is reflected throughout the organisation.

52. Whilst the Board performance report contains some metrics for primary, community and mental health services, the Health Board has recognised that there is a gap in this area and a more comprehensive information framework for these services is currently being developed.

53. Data quality is a high priority for the Health Board and arrangements are in place to ensure that assurances can be given to the quality of its performance data through strengthened clinical coding arrangements, central performance reporting controls and routine data quality checks.

54. We have identified the performance framework with the Health Board as an area which other Health Board's in Wales may wish to consider.

Building on the work of the former organisations, the Health Board is making progress in ensuring appropriate arrangements are in place to promote and ensure probity and propriety in the conduct of its business

55. The Health Board has put arrangements in place to ensure that codes of conduct and other relevant policies and procedures are being updated and implemented to reflect the new organisation. With some 400 policies carried over from the former bodies, this process will take some time.

56. The Health Board is promoting an open culture to fraud and adequate counter fraud arrangements are in place. Counter fraud services are provided in house by the Internal Audit Service and they undertake a range of preventative and reactive activities, including fraud awareness presentations to staff. The counter fraud function routinely reports to the Audit Committee.

The Health Board has made good progress in strengthening important 'enablers' that can assist in more effective, efficient and economical use of resources

57. Sound management of key resources such as people and assets is an essential feature in achieving good value for money. Plans for service development and cost savings need to be underpinned by effective workforce planning, partnership working and engagement with the community. This section of the report summarises my findings in the following areas:

- workforce planning arrangements;
- procurement;
- asset management;

- working with partner organisations; and
- engaging with service users.

The Health Board has made a good start on improving workforce planning by laying the foundations it needs for a clear strategic perspective, good information to underpin it, and the engagement and understanding of staff on these issues

58. There has been a considerable amount of work during the first year to put in place the foundations for more effective workforce planning. The framework includes a Workforce Strategic Development Group with membership that extends to local government and the third sector. A Workforce Strategic Plan and Implementation Plan have been established and a Workforce Information Board is being set up in line with national requirements.

59. The development and understanding of workforce information is evolving and is set to improve further over time as relationships between the corporate function and the divisions mature. The Health Board is the only one in Wales to have an accurate real time picture of its establishment. Information readily shows all new posts funded.

60. Workforce productivity and efficiency are high level priorities although progress needs to be accelerated to realise the benefits of making best use of the Health Board's staff, for example clinicians. There is a view that prospectively it will be necessary to link the cost of pay with what is being delivered, and that the route to this may be through patient level costing.

Capital assets will play a fundamental part in the achievement of the Health Board's five year strategic plan and clear steps are being made to ensure that these assets are used effectively in partnership with key stakeholders

61. Although the Health Board has yet to formalise its own integrated estates strategy, the use of its assets features heavily in its five year strategic plan and the Health Board is continuing to benefit from significant central capital investment to help rationalise and modernise its facilities although the level of funding that the Health Board is likely to receive is uncertain.

62. There are clear arrangements governing the management of asset and estate functions. The Director of Planning holds responsibility for the Health Board's asset and estates management and scrutiny arrangements for asset management decisions are through the Strategic Planning Committee on behalf of the Board.

63. Through the locality structure within the primary and community division, there are early discussions around joint asset planning with other public sector partners to ensure best use is made of all estate resources, which is good practice.

64. Although included in the performance management and accountability framework, we have however found limited evidence of performance management of the Health Board's capital assets. It is encouraging to see that the Health Board has recognised this gap and is currently benchmarking its estates service using the CIPFA benchmarking database. A paper relating to estates performance will be reported to the Board in June 2011.

The Health Board has recognised that its procurement arrangements lacked the direction, resources and influence to ensure that benefits could be fully realised and is putting plans in place to improve this area of the business

65. The procurement function is well positioned in the organisational structure, but has lacked an agreed operational strategy or action plan to help drive the promotion, or reinforce the role, of this service. An interim lead for procurement was appointed on a shared basis with Cwm Taf Health Board in October 2010 who reports directly to the Director of Finance. The interim lead has recognised that the influence of the procurement function needs to be increased, and as a result has now finalised the first draft of the Strategy.

66. A large proportion of the staff members are involved in 'non-core procurement activities', and there are a high level of vacancies, ie, 20 per cent within the 'core' element of Procurement. This has limited the capacity of the service to develop and deliver against its profile and activities. This suggests that the service are attempting to maintain essential activities at the current levels, but are unable to develop the scope of services further. A new procurement structure has been developed and approved, which may lead to these vacancies being filled.

67. The initial cost reduction programme for 2010-11 put forward by the Procurement team has been considered unrealistic and unachievable, given the circumstances above, the interim Head of Procurement has now revised this, in order to present a more realistic achievable figure.

After a slow start there is greater clarity about roles and responsibilities for partnership working, a clear acknowledgement of their importance from the Chief Executive down, and progress on different aspects of partnership working

68. The Chief Executive has called a summit of partner agencies, demonstrating the significance of external relationships to the Health Board. Internal structures and roles have been established for partnership working, including a locality manager role in the Vale appointed jointly with the local authority. The Planning directorate has been defined as the lead for corporate partnerships together with the Director of Public Health with service delivery partnerships sitting with the operational directorates.

69. An Integrated Health and Social Care Programme Board has been established, which is led by the Director of Primary Care, Community and Mental Health to support the delivery of the operational plan on aspects which span the remit of health and other stakeholders. This is supported by the development of the neighbourhood locality model which is aligning health delivery with social services delivery and bringing health into the neighbourhood profile. These arrangements have only recently been established and will take time to embed.

The Health Board has increased the focus on community and patient engagement and has been putting in place the necessary structures and processes to support associated issues

70. The Health Board has appointed to some key roles in the area of community and patient engagement and this is creating greater focus on the issues than had existed previously. A Communications and Engagement framework has been signed off and a Patient Feedback Strategy is being developed.

71. The Health Board has made good progress in establishing the foundations to ensure that there is a robust framework for capturing patients' views on services. Surveys, patient stories, and other sources of feedback are all used as key sources of information. There has been a survey of patient experience activity in all directorates.

Performance audit work has identified acceptable arrangements in waiting list management and catering with aspects of good practice, and despite some improvements more needs to be done to improve adult mental health services

72. This section of the report brings together the findings from performance audit work which has looked at specific areas of service delivery within the Health Board. It summarises the findings from work carried out on:

- accuracy of waiting list data;
- adult mental health services; and
- hospital catering.

We have found the accuracy of the Health Board's waiting list data and arrangements in place for recording and reporting this data to be acceptable

73. In 2007, we undertook a review to provide independent assurance that the waiting list figures reported by the NHS trusts in Wales were accurate. We did not identify any deliberate misreporting of waiting list information. However, in seven of the 12 trusts reviewed, we identified some or significant concerns about aspects of waiting list management which could lead to inaccurate data. Given our concerns raised in 2007, and the new challenges presented by the Referral to Treatment (RTT) target, we examined again whether health boards in Wales have the necessary management arrangements in place to produce robust waiting list data.

74. For the Health Board, we found the accuracy of the waiting list data and arrangements in place for recording and reporting this data to be acceptable. We came to this conclusion because:

- Waiting list data is of acceptable accuracy, although we identified some minor data inaccuracies:
  - we found no inconsistencies between the GP referral information and the Health Board's records; and
  - we found some inaccuracies when cross-checking the patient administrative systems, case notes and RTT guidance.
- Acceptable arrangements for recording and reporting waiting list data are in place, although there are some areas which need attention:
  - accountabilities are clearly defined but there is some scope to strengthen the application of these arrangements;
  - acceptable arrangements are in place for the preparedness for RTT implementation;
  - the Health Board had, at the time of our audit, an up-to-date waiting list policy although the new working practices had not yet been fully embedded;
  - the effectiveness of the Health Board's procedures, processes and IT systems in relation to managing waiting list data are overall robust; and
  - The Health Board has been actively validating its waiting list data but the focus has been on checking data quality where patients are close to breaching the 26-week RTT target.

Although there have been important improvements in adult mental health services since 2005, there are still unacceptable gaps in services and evidence of inequalities across the health community

75. In 2005, the Assembly Government asked the Audit Commission in Wales to undertake a baseline review of mental health services for adults of working age. The review was intended to inform the implementation of the National Service Framework (NSF), and act as a benchmark against which future progress could be measured. An all-Wales report, published by the Wales Audit Office in October 2005, was supported by 22 local reports, covering services in each Local Health Board (LHB) and local authority area.

76. To assess the extent and consistency of improvement we have undertaken a follow-up to our 2005 baseline review. The follow-up review again covers NHS and local authority services, but we have based the reports on the new Health Board areas.

77. We have focused the follow-up review on six key issues that the baseline review identified as being common problems across Wales. We did not examine service areas in which other major review work was underway or planned, such as the review of the care planning process. The issues we selected are important to many service users and reflect Assembly Government priorities.

78. Against each of the six issues, we set out to establish whether there has been significant improvement since the baseline review. We concluded that in Cardiff and Vale despite some important steps having been taken, progress in developing adult mental health services since 2005 has been slow and the health community is still a long way from providing a comprehensive mental health service that meets national standards. For each of the six issues, we concluded that:

- although NHS expenditure on adult mental health has increased, Social Service expenditure has fallen, funding to support key service development has not been made available and there have been weaknesses in planning arrangements;
- despite some improvements mental health services in primary care are still too variable and there is a lack of comprehensive support to and liaison with general practices;
- there is evidence of a shift from inpatient to community services but there are key gaps in service provision, national guidelines are not being met, and tensions between community teams exist;
- there is no plan for implementing a stepped model of care, access to psychological therapies has not significantly improved, and long waiting times persist in secondary care;
- housing policies and practices are still not supporting people with mental health problems effectively, and there has been limited progress towards meeting the NSF targets relating to housing; and
- service providers are still not adequately supporting and involving service users in planning and managing their care.

Although the Health Board's catering arrangements demonstrate many aspects of good practice, these are not consistently applied within and across hospitals. This inconsistency is the result of poor communication between the different staff groups involved in the service, which can affect the quality of the service provided

79. The Wales Audit Office decided that it would be timely to undertake further audit work on hospital catering to review progress since the Audit Commission in Wales report was published in 2001-02, and to examine the extent to which practices set out in the Hospital Nutritional Care Pathway are being embedded.

80. Our review sought to determine whether hospitals in Wales were providing efficient catering services that met recognised good practice. Our audit work looked at the hospital catering 'food chain' from planning and procurement through to the delivery of food to the ward and the management of meal times.

81. Our overall conclusion is that although the Health Board's catering arrangements demonstrate many aspects of good practice, these are not consistently applied within and across hospitals. This inconsistency is the result of poor communication between the different staff groups involved in the service, which can affect the quality of the service provided. We came to this conclusion because:

- the planning of the catering service is effective but would be strengthened by stronger Board scrutiny;
- the Health Board procures food effectively and is generally good at controlling the cost of food production and catering, but it wastes far too much food in some areas;
- the Health Board provides patients with good quality food, although changing some existing practices and improving the communication between staff in some areas could improve the patient experience;
- some wards are better than others at ensuring that catering and nutrition supports patients' recovery with one ward falling well short of acceptable practice; and
- patient satisfaction with hospital catering is relatively low and because it does not share the patient views it collects between groups of staff, the Health Board misses an opportunity to learn and improve.

82. In coming to these conclusions we identified a number of key strengths within the catering service and the way the Health Board delivers its services. These included:

- the service is underpinned by sound strategies and policies that have been developed with input from all the appropriate staff groups;
- dieticians are fully involved in menu planning and assessing the nutritional content of the standard costed recipes used by the Health Board;
- food production and transportation arrangements mean that meals arrive at the ward in a good state, and remain like that while food is being served;
- the ward based catering arrangements at University Hospital Wales (UHW) are flexible and support patient choice;
- there is evidence that nutritional screening of patients on admission is well embedded and that food and fluid intake is monitored using appropriate nursing tools;
- nutritional care plans are produced for patients who require them and there are mechanisms to help identify the patients who need assistance with eating and who have specific nutritional requirements; and
- patients recorded relatively high levels of satisfaction with the food and catering service at University Hospital Llandough (UHL).

83. There are number of key areas which could be improved and these included:

- Food wastage levels recorded during the audit were worryingly high and in two wards we visited, around 75 per cent of the food delivered to the ward was wasted, either as unserved meals, or as plated waste. This wastage indicates significant scope for more efficient processes in terms of ordering meals and controlling portion size.
- Many wards are still not adopting the practice of protected meal times.
- In some wards more can be done to prepare the ward environment for meals so that it is more conducive to the enjoyment of food.
- Training for ward based caterers needs to be reviewed to ensure that they have a good understanding of nutrition and the processes the Health Board has put in place to meet patients' individual nutritional needs.

- Arrangements of delivery of meals to patients at UHL needs to be reviewed to ensure that patients always receive the correct meal.
- Whilst recognised good practice such as the use of red trays to identify patients with specific dietary needs is in place, it is not employed consistently across wards.
- Catering and nursing staff have separate arrangements for collecting patients' views on the catering service and mechanisms have not been developed for pulling together this information to provide a holistic view to inform service planning.
- Whilst UHW can demonstrate many aspects of recognised good practice, our surveys have shown that patient satisfaction with hospital food at this site is relatively low and more work needs to be done to fully understand the reasons behind this.

Appendix 1

Reports issued since my last annual audit letter

Report	Date
Financial Audit reports	
Report to those Charged with Governance	June 2010
Financial accounts report	July 2010
Funds held on Trust – Report to those Charged with Governance	November 2010
Performance Audit reports	
Waiting list data quality	June 2010
Adult Mental Health Services	October 2010
Hospital Catering	November 2010
Structured assessment	March 2011
Other reports	
Audit Strategy	April 2010
Interim annual audit letter 2009-10 predecessor bodies	June 2010
Annual Audit Report	January 2011

Audit fee

The Audit Strategy for 2010 set out the proposed audit fee of £439,460 (excluding VAT). The table below sets out my latest estimate of the actual fee, on the basis that some work remains in progress.

Analysis of proposed and actual audit fee 2010

Code area	Planned fee (£)	Estimated actual fee (£)
Audit of accounts	264,628	264,628
Performance audit	174,832	174,832
Total	**439,460**	**439,460**

In addition to the fee shown above, the audit work undertaken in respect of the shared services provided to the Health Board by the Business Services Centre was £14,966.

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