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Author: Auditor General for Wales

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Interim Annual Audit Letter 2009-10 for  
predecessor bodies

**Cardiff and Vale University Local  
Health Board**

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## Summary

1. This interim Annual Audit Letter to the Cardiff and Vale University Local Health Board (the UHB) relates to my audits of the final, six-month period to 30 September 2009 of the UHB's predecessor bodies. The work reported on in the letter was set out in the agreed audit strategies for the following organisations:
  - Cardiff and Vale NHS Trust
  - Cardiff Local Health Board
  - Vale of Glamorgan 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 UHB's predecessors faced significant changes and challenges in their last six months. Most notably, there was a need to prepare for the programme of reform in NHS Wales which led to their demise and the establishment of the new UHB on 1 October 2009.
4. My work in 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 work that examined the transition arrangements for establishing the new UHB as part of the NHS reforms. 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>.
5. The aim of the transition arrangements was to manage the business continuity, financial, human resource and many other risks associated with the reform programme. My work showed that the UHB's predecessors contributed effectively to these arrangements within the Cardiff and Vale health community. The transition arrangements also covered the demising period of account and the introduction of International Financial Reporting Standards (IFRS).
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 organisations and the new UHB. Auditors discussed

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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 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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and agreed these reports with officers and presented them to the relevant audit committees. The reports I have issued are shown in Appendix 3.

8. From my financial audit work I have concluded that the predecessor bodies' resources were, in all material respects, properly used and accounted for in the six-month period ended 30 September 2009, although the Trust's accounts required a material adjustment in respect of fixed assets:
  - the predecessor bodies' six-month accounts were properly prepared and materially accurate, although issues in relation to continuing healthcare (CHC) claims and asset lives and depreciation resulted in modified audit opinions;
  - the health community's financial position at demise, and as forecast to the year-end, indicates that there are significant financial risks to be addressed by the UHB in 2010 and beyond; and
  - the predecessor bodies' significant financial systems were generally fit for purpose, but issues were identified in relation to CHC claims and capital accounting.
9. My performance audit work concluded that the predecessor bodies had appropriate corporate arrangements in place to support effective use of resources:
  - there were no significant weaknesses in the predecessor bodies' arrangements to help them achieve economy, efficiency and effectiveness in their use of resources, although there were some areas in which further progress needed to be made; and
  - recent performance audit work undertaken in the demising organisations highlighted a number of challenges which the UHB will need to address.
10. The work I undertook in response to NHS re-organisation showed that the transition programme in the health community was well managed overall and there were no significant issues arising:
  - the required work-streams were put in place to establish the UHB in shadow and then full operational form; and
  - clear project objectives and outcomes were set and delivered.
11. The UHB needs to consider the findings from my performance work referred to above. The legacy report that draws together the main findings of recent external audit work in each of the demising bodies will assist with this.
12. This Letter has been discussed and agreed with the Chief Executive, and will be presented to the Audit Committee. It will then be presented to a subsequent Board meeting and a copy will be provided to every member of the UHB.
13. I aim to deliver a high standard of audit, which makes a positive and practical contribution and supports the UHB's own agenda. I am grateful to your predecessors and their staff for their assistance during the audit.

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John Herniman  
Engagement Partner  
For and on behalf of the Auditor General for Wales

Date: 15 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, although the Trust's accounts required a significant adjustment in respect of fixed assets**

14. The financial statements are an essential means to account for stewardship of the resources at the bodies' disposal and their financial performance in the use of those resources.
15. 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.
16. My financial audit work covers the following key areas:
  - Financial statements (or accounts)
  - Financial health
  - Financial management
  - Financial systems

**The predecessor bodies' six-month accounts were properly prepared and materially accurate, although issues relating to CHC claims and asset lives and depreciation resulted in modified audit opinions**

17. This year the predecessor bodies within the health community were required to submit their six-month unaudited accounts to the Wales Audit Office by 7 December 2009 (this was an agreed one-week extension to the initial deadline). Against this target, the bodies submitted their accounts on 4 December 2009 and the accounts were supported by good quality working papers and schedules. This allowed the audited accounts of the Local Health Boards (LHBs) to be submitted to the Assembly Government by the required date of 1 March 2010. This was a particular achievement given the additional work required to implement IFRSs and prepare for NHS reorganisation.
18. Completion of the Trust's accounts was deferred because of issues arising in respect of the extension of asset lives initiative. The initiative provided significant in-year and ongoing savings on depreciation (£4.5 million in 2008-09) and was also being applied to other LHBs in Wales. The approach to extending asset lives has now been deemed by HM Treasury as non-compliant with accounting standards as applied by the Government Financial Reporting Manual, and the



Assembly Government has indicated that the approach is not to be applied. It was therefore necessary to reverse the accounting entries arising from the initiative which the Trust had applied in 2008-09 and continued into 2009-10.

19. The need to amend the accounts resulted in a delay in completion and certification. The Assembly Government was aware of the delay and was also involved in resolving the issue.
20. The required adjustments involved in-year depreciation, asset balances and the consequential restatement of prior-year comparators. Whilst the in-year amendments were made, the UHB declined to adjust prior year (2008-09) comparators but included a comprehensive note of the impact within the 2009-10 accounts. I reviewed the impact of the non-adjustment on the 2009-10 accounts and concluded that the effect was not material to my opinion, but it did warrant an Emphasis of Matter Note drawing attention to the issue.
21. I am required by International Standards 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.
22. My Financial Audit Engagement Partner reported these issues to the Audit Committee on 25 February 2010 before the accounts were submitted to the Board. The LHBs' accounts were approved by the Board and signed by the Accountable Officer on 25 February 2010. Following resolution of the asset relieving issue, the impact on the Trust's accounts and my opinion were reported to the Audit Committee on 29 April 2010. Further detail is provided in Exhibit 1 which sets out the key issues from the ISA 260 reports as presented on 25 February 2010 and as updated for the Audit Committee on 29 April 2010.

#### Exhibit 1: ISA 260 reporting requirements

Reporting requirement	Auditor's response
Expected modifications to the auditor's report.	<p><b>Cardiff LHB and Vale of Glamorgan LHB</b></p> <p>I modified my opinion on the accounts of both LHBs to include an Emphasis of Matter Note drawing attention to the uncertainties surrounding the costs of CHC claims received which have not yet been assessed.</p> <p><b>Cardiff and Vale NHS Trust</b></p> <p>My opinion was modified to incorporate an Emphasis of Matter Note drawing attention to the non-adjustment of opening comparators following the reversal of the accounting entries relating to the asset re-living exercise.</p>

Reporting requirement	Auditor's response
Unadjusted misstatements	<p><b>Cardiff LHB</b> There were no unadjusted misstatements.</p> <p><b>Vale of Glamorgan LHB</b> As agreed with those charged with governance, the accounts were not adjusted for the following:</p> <ul style="list-style-type: none"> <li>• no holiday pay accrual had not been calculated, however the value is considered to be non-material; and</li> <li>• costs in respect of the GMS enhanced service for influenza are overstated by £84,000, however this is not a material misstatement.</li> </ul> <p><b>Cardiff and Vale NHS Trust</b> Two issues were originally reported which were subsequently resolved:</p> <ul style="list-style-type: none"> <li>• adjustment for an Assembly Government credit note provision; and</li> <li>• the impact of the review of asset lives.</li> </ul> <p>Following resolution of both issues, the accounts were adjusted but there remained an unadjusted misstatement in respect of opening comparators which required Audit Committee approval on 29 April.</p>
Material weaknesses in the accounting and internal control systems identified during the audit.	<p><b>Cardiff and Vale NHS Trust</b> I did not identify any material internal control weaknesses which would impact on my opinion, however, Internal Audit reported some system weaknesses which require management action. In addition, the impact of the asset re-living issue on the capital accounting system would need to be considered further.</p> <p><b>Cardiff LHB and Vale of Glamorgan LHB</b> At both LHBs the arrangements for managing CHC claims need to be strengthened. This involves improving claims assessment procedures and applying more resources to the backlog of claims.</p>
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.	<p><b>Cardiff and Vale NHS Trust</b> The Trust experienced significant cash flow difficulties in the period ending 30 September 2009, and the UHB's cash position is deteriorating.</p>

23. Following a review of the accounts by the Audit Committee on 25 February 2010, I issued my opinions on the LHBs' accounts on 12 March 2010 and laid them before the National Assembly in accordance with the required timescale. For both of the LHB accounts, I included an Emphasis of Matter Note within my audit report. It drew attention to the uncertainties surrounding the costs of CHC claims received which have not yet been assessed. The Trust's accounts were subsequently approved by the UHB's Audit Committee under delegated powers on 29 April 2010. I issued my opinion, including the Emphasis of Matter note, on the accounts of the Trust on 4 May 2010 and laid them on 5 May 2010.

### **The health community's financial position at demise, and as forecast to the year-end, indicates that there are significant financial risks to be addressed by the UHB in 2010 and beyond**

24. The Trust's position as set out in its half-year accounts was amended to a deficit of £1.753 million as a result of the accounts adjustments in respect of asset relifing and Assembly Government funding.
25. The LHB accounts do not disclose financial performance, as the resource limit is an annual target, and the six-month accounts present a statement of expenditure incurred to date. In respect of the Trust, whilst there is disclosure of financial performance for the accounting period, achievement of breakeven was not set as a statutory duty.
26. In respect of establishing the health community position, the UHB reported a month six position to the Assembly Government which showed a combined deficit of £9.977 million.

#### **Exhibit 3: Month six health community financial position**

<b>Predecessor body</b>	<b>Financial deficit £ million</b>
Cardiff LHB	£0.974
Vale of Glamorgan LHB	£1.083
Cardiff and Vale NHS Trust	£7.920
<b>Total</b>	<b>£9.977</b>

27. The Director of Finance's report to the Audit Committee provided a reconciliation between the Trust's annual accounts deficit to the monitoring return deficit.
28. In going forward, the UHB reported a 2009-10 Month 11 position to the Assembly Government which showed a deficit of £7.451 million, with a projected year-end deficit of £4.406 million. The position at Month 12 produced a significant movement, with the UHB reporting a surplus of £0.075 million. This movement was attributed to a combination of additional funding from the Assembly Government and the delivery of savings plans. In addition, the UHB also reported a small underspend of £0.061 million against its Capital Resource Limit.

29. In respect of 2010-11, the UHB's Interim Financial Plan identifies that it faces an extremely challenging agenda, and that the delivery of all national priorities would require a total savings target of £87.5 million. This comprises £74.6 million of largely unavoidable commitments (eg, inflation and cost pressures) and £12.9 million local developments (eg, Local Delivery Plan priorities).
30. To address the savings requirement, the UHB has established arrangements based on local themes being the responsibility of individuals, Divisional Directors and Executive Directors, and a wide range of corporately managed themes that are led jointly by designated Executives and Divisional Directors. The UHB has also established a Programme Management Board, chaired by the Chief Executive, which oversees progress on the delivery of savings.
31. To date, the UHB has identified a £75 million savings programme based on a £20 million local target coupled with £55 million of corporate savings. Further work is being undertaken to prioritise the service requirements to address the required efficiency improvements.
32. It is clear from the above projections that despite achieving financial balance in 2009-10, there are significant financial issues which the UHB needs to address in 2010 and beyond. I will be monitoring the financial position of the UHB (and other health bodies in Wales) as part of my programme of work for 2010-11.

### **The predecessor bodies' significant financial systems were generally fit for purpose but issues were identified in relation to CHC claims and capital accounting**

33. My review of the bodies' financial systems involved documenting the significant financial systems and, where necessary, testing the operation of internal controls.
34. I have concluded that the significant financial systems in each of the demised bodies could be relied upon to produce materially correct outputs.
35. The detailed issues arising from my audit are set out in a financial accounts report which was presented to the Audit Committee on 29 April 2010. The key issues arising, as also set out in my ISA 260 reports relate to:
  - the need to strengthen arrangements for managing CHC claims; and
  - the need to reverse accounting entries in relation to the review of asset lives initiative (further details of this are set out above).

## The predecessor bodies had appropriate corporate arrangements to support effective use of resources

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

36. In examining the predecessor bodies' accounts, 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.
37. 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.
38. Following my review of the predecessor bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources, I concluded that there were no significant weaknesses that would require me to provide an adverse opinion. However, there are some issues that need to be addressed by the successor body:
- my report on Translating Strategy Into Action was undertaken on a health community basis and concluded that the creation of the new UHB provides an opportunity to learn lessons from the difficulties the legacy organisations experienced in jointly translating shared strategic priorities into tangible changes in services and outcomes for citizens;
  - Internal Audit's annual assurance statement on the Trust referred to limitations over assurance in some systems; and
  - payroll overpayments are an ongoing issue for the UHB and are being closely monitored by the Audit Committee.

### **Recent performance audit work undertaken in the demising organisations highlighted a number of challenges which the UHB will need to address**

39. To support the organisational development of the new NHS organisation, I have prepared legacy reports which include a summary of the findings and key messages from recent performance audit work undertaken at the demising bodies.
40. My legacy report for the health community identified the following key issues:
- the UHB needs to demonstrate that its governance and performance management arrangements are driving strategic change and providing assurance of compliance with legislative and regulatory requirements;

- the health community has a history of generally sound financial and asset management but the unprecedented financial pressures facing the UHB will require radical measures to meet financial and operational targets;
  - staff capacity issues and the need for further workforce modernisation have featured in several of my audit reports, although the Trust had made some good progress in reducing sickness absence rates;
  - my recent audit work has highlighted some improvements in performance results but particular challenges remain in respect of admissions management, patient handovers, delayed transfers and maternity services;
  - more effective collaboration and engagement with partner organisations, staff and citizens will be essential to tackle the significant challenges affecting the health and social care community; and
  - the UHB needs to promote innovation more effectively to improve services and outcomes, building on existing examples of good practice.
41. 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 UHB, 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.

## **The transition programme in the Cardiff and Vale health community was well managed overall**

### **The required workstreams were put in place to establish the UHB in shadow and then full operational form**

42. The Transition Director set out the proposed arrangements for the Cardiff and Vale Transition Project at the inaugural meeting of the Transition Board on 12 January 2009. This included the membership and terms of reference for the Transition Board, along with the introduction of the following workstreams:
- Workforce
  - Business Continuity
  - Planning and Partnerships
  - Organisational Development/Culture/Engagement
  - Finance
  - Corporate Issues
  - Information Management and Technology (from June 2009)
43. My engagement team was closely involved throughout the process in a number of ways. This included my Financial Audit Engagement Partner attending Transition Board meetings, and other members of the team attending the workstream meetings. The shadow board was established in July 2009 and the new UHB became fully operational on 1 October 2009.

## Clear project objectives and outcomes were set and delivered

44. The Cardiff and Vale Transition Project outcomes/objectives were to:
- work with the statutory organisations to continue the delivery of effective and efficient health services during the transition period;
  - facilitate the transition to the new organisation, by ensuring the introduction and management of all workstreams necessary to achieve the establishment of the UHB in shadow, and then full operational form;
  - conclude the project within the defined timescales, supporting the statutory organisations in completing the transfer of all resources, rights and liabilities to the new organisation, in line with the statutory framework laid down by the Assembly Government;
  - give effect to the Minister's intentions relating to the organisation and delivery of health services in the health community as specified in the statutory framework;
  - set the culture and tone in support of the new UHB, to accord with the intentions of the Assembly Government for the NHS in Wales; and
  - maintain operational stability and business continuity throughout the period of transition.
45. The UHB's project closure report to the Assembly Government provided a clear analysis of achievements against the above objectives, and also included consideration of lessons learned and issues to be taken forward by the new UHB. Overall, I was satisfied that the transition process was well managed and there were no significant issues to report.



## 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

<b>Accountable Officer's responsibilities</b>	
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.	
<b>Auditor's responsibilities</b>	
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.	
<b>Conclusion</b>	
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 ended 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"> <li>• Cardiff and Vale NHS Trust</li> <li>• Cardiff LHB</li> <li>• Vale of Glamorgan LHB</li> </ul>	
Gillian Body Auditor General for Wales May 2010	Wales Audit Office 24 Cathedral Road Cardiff CF11 9LJ



## Appendix 2

## Criteria for assessing the predecessor bodies' arrangements during the six months ended 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 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 strategies</b>	
Cardiff and Vale UHB	May 2010.
Six-month strategies for Cardiff LHB, Vale of Glamorgan LHB and Cardiff and Vale NHS Trust	These strategies were considered by the predecessor bodies during September 2009.
<b>Financial accounts audit and reports to those charged with governance (ISA 260)</b>	
Cardiff and Vale ISA 260	February 2010 and updated April 2010.
Cardiff LHB ISA 260	February 2010.
Vale of Glamorgan LHB ISA 260	February 2010.
Cardiff and Vale UHB financial accounts report for the predecessor bodies	April 2010.
Legacy report	December 2009.
Other performance reports	See Appendix 4

## Appendix 4

## Performance audit reports

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

### Reporting arrangements for performance audit work

Study	Reported to demised NHS body	Already reported to the new health board	Still to be reported
NHS Re-organisation	✓	✓	
Legacy report (health community)		✓	
Waiting list data accuracy (Trust)		✓	
Adult Mental Health Services (health community)			✓
Hospital Catering (Trust)			✓
Consultant Contract Benefit Realisation (Trust)			✓
Community Services (health community)			✓



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