WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

February 2011

Author: Auditor General for Wales **Ref: 126A2011**

Annual Audit Report 2010

Aneurin Bevan Health Board

Contents

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Summary

1. An interim annual letter was presented to Aneurin Bevan Health Board (the Health Board) in March 2010. That report related to my audit work in the final six month period to 30 September 2009 of the Health Board's predecessor bodies.
2. This report summarises the findings from audit work I have undertaken at the Health Board during the latter part of 2009 and throughout 2010.
3. 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.
4. My audit work has focused on the significant financial and operational risks facing the Health 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.
5. The key messages from my audit work are summarised under the following headings.

Audit of accounts

6. My work on the audit of accounts has led me to give an unqualified opinion on the financial statements of Aneurin Bevan Health Board.
7. I have also concluded that:
   - the Health Board's accounts were properly prepared and materially accurate;
   - the Health Board received additional non-recurring funding from the Assembly Government and achieved financial balance at the end of 2009/10;
   - the Health Board had an effective internal control environment to reduce the risks of material misstatements to the Financial Statements; and
   - the Health Board's significant financial and accounting systems were appropriately controlled and operating as intended.
8. In giving an unqualified opinion, I have drawn the Board's attention to a number of issues. These issues can be summarised as follows:
   - The draft accounts were submitted for audit on time. This was a significant achievement as they were necessarily based on a consolidation of the accounts of each of the six predecessor organisations which operated separate financial ledgers throughout the year. The Health Board is not yet able to comply fully with the International Financial Reporting Standard on

accounting for assets that are replaced, as it does not have the appropriate systems or information available to readily identify such values.

- Improvements can be made to the method by which the Health Board seeks internal assurance on the continued use of assets to ensure that its records accurately reflect the equipment held at the balance sheet date. The Health Board also needs to strengthen the audit trail for asset balances in the draft accounts and the assets inherited from the former local health boards need to be included within the asset management system.
- Liabilities for retrospective Continuing Healthcare continue to be a significant financial issue for the Board. It is clear that further work is required in this area to ensure that progress is made in assessing accurately the financial impact of outstanding claims.

9. I note that the Health Board received additional non-recurring funding from the Assembly Government and achieved financial balance at the end of 2009/10.

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

10. I have reviewed the Health Board's arrangements for securing economy, efficiency and effectiveness in the use of its resources. My work has taken the form of a structured assessment of the relevant corporate arrangements in the Health Board, and a number of performance audit reviews on specific areas of service delivery. This work has led me to draw the conclusions set out below.

The basic requirements of a sound governance and accountability framework are in place although further work is needed to develop arrangements in some important areas

11. In reaching this conclusion I have found that:

- the Health Board has set a high level five year vision but this is not yet fully supported by sustainable service, workforce and financial plans;
- the organisational structure adopted by the Board should support delivery of its strategic objectives as long as ongoing work is undertaken to ensure that it is understood by all staff, and is supported by effective clinical engagement and leadership;
- the Health Board has a scheme of delegation that is broadly sound but this will need to continue to evolve and be regularly reviewed to ensure it constitutes an effective governance framework;
- whilst the Health Board's approach to operational risk management appears broadly sound, its corporate risk management arrangements are not yet fully effective;
- key internal control mechanisms are in place but some of these could be strengthened further;
- whilst the Health Board has a number of key strengths to build upon in relation to ICT, there are challenges to be addressed in relation to IT

infrastructure, implementation of ICT plans and using the Information Governance committee to best effect;

- there have been ongoing improvements to the way in which performance information is reported to the Board, although further work is needed to ensure that the information is clear and broad enough to allow delivery of the Board's strategic objectives to be monitored; and
- the Health Board has made good progress in establishing the necessary arrangements for ensuring probity and propriety in the conduct of its business, although further work is needed in a few areas.

There is evidence of positive work to develop important 'enablers' that can assist in more effective, efficient and economical use of resources, although progress in important areas such as workforce planning needs to be accelerated

12. In reaching this conclusion I have found that:

- whilst there is evidence of progress in respect of workforce planning, a workforce plan for the Health Board that is fully responsive to the current service and financial pressures has yet to be developed;
- the Health Board's approach to managing its asset base is broadly sound, although there are challenges associated with backlog maintenance and a need to accommodate risks connected with the timing of the Specialist and Critical Care Centre development;
- the Health Board appears to be addressing weaknesses we have previously identified in its procurement function;
- good foundations exist to support effective partnership working between the Health Board and its five constituent local authorities; and
- there is evidence of a number of positive initiatives in relation to public and patient engagement.

The Health Board needs to develop its financial management arrangements alongside service and workforce plans to more effectively address the financial challenges it faces

13. In reaching this conclusion I have found that:

- financial planning needs to be developed alongside service and workforce planning;
- financial reporting is developing but more work is needed to show how financial performance links to operational targets as part of overall performance reporting to the Board; and
- with additional funding of £28.7 million from the Assembly Government, the Health Board is now predicting a break-even position at the end of the financial year, but there will be significant financial pressures in future years.

Individual performance audit reviews have highlighted a number of specific and often significant challenges for the Health Board; in all cases initiatives are underway to address the concerns identified although progress will need to be closely monitored to ensure the necessary improvements are secured

14. In reaching this conclusion, I have found that:

- the Health Board appears to be developing sound approaches to organisational learning that should help ensure that the necessary lessons are learnt from complaints, adverse incidents and clinical negligence claims;
- the Health Board's IT systems do not readily support accurate reporting of referral to treatment time data;
- 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;
- whilst hospital catering arrangements demonstrate many aspects of recognised good practice, there is scope to reduce undesirable variation in practice and to take action to minimise unnecessary food waste; and
- there are some specific challenges for the Health Board in respect of medical staffing, relating to consultant job planning and reducing reliance on locum doctor in A&E.

Agreeing my findings with the Executive Team

15. This report has been agreed with the Chief Executive and the Director of Finance. It will be presented to the Audit Committee on 18 February 2011. It will then be presented to a subsequent Board meeting and a copy provided to every member of the Board.

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

About this report

17. This Annual Audit Report to the Board members of Aneurin Bevan Health Board sets out the key findings from audit work undertaken between October 2009 and November 2010.

18. 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.

19. 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.

20. 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.

21. 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.

22. 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, in comparison to the fee that was set out in the Audit Strategy.

Section 1: Audit of accounts

23. 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/surplus, 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

24. 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.
25. In giving this opinion, auditors are required to comply with International Standards of Auditing (ISAs).
26. 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 issued an unqualified opinion on the financial statements, although in doing so I brought several issues to the attention of those charged with governance

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

27. The draft accounts were submitted for audit in line with the agreed deadline of 14 May 2010. This was a significant achievement as the draft accounts were necessarily based on a consolidation of the accounts of each of the six predecessor organisations which operated separate financial ledgers throughout the year. This complication has now been resolved with the establishment of a single ledger for the whole Health Board from 1 April 2010.
28. The draft accounts included a number of classification errors and adjustments which were corrected during our audit. Next year the Health Board should be able to ensure that there is a more detailed internal review of the draft financial statements prior to their submission by building it into their closedown timetable.

29. The Board and we agreed to hold a 'post project learning' session. This session identified a number of areas for improvements to the accounts preparation process in readiness for the production of the 2010-11 draft accounts and the Board have prepared a plan to address them.

30. I am required by International Auditing Standard 260 (ISA 260) to report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. This year's report was issued to the Health Board's Audit Committee in June 2010. Exhibit 1 summarises the issues raised.

Exhibit 1: Issues identified in the ISA 260 Report

Issue	Auditors comments
A number of corrections were made to the financial statements	The adjustments required, largely related to where estimates and provisions had been included in the draft accounts. Amendments were made as a result of more up to date or actual figures being available prior to concluding our audit. The net impact of these corrections increased expenditure in the Operating Costs Statements by some £78,000.
The Health Board is not yet able to comply fully with the International Financial Reporting Standard on accounting for assets that are replaced	The outstanding value of replaced asset needs to be taken out of the asset values (de-recognised) and any gain or loss should be reflected in the revenue account. The Health Board does not currently have appropriate systems or information available to readily account for the de-recognition of such assets.
The Health Board needs to improve its management of fixed assets in relation to circularisation and simplifying audit trails	The manner in which fixed asset balances are compiled is complex and errors were identified in the draft accounts. Improvements in the audit trail to support the draft accounts are therefore required. Additionally, the Health Board's fixed asset system did not include details of all assets inherited from the former local health boards.
The accuracy of Continuing Healthcare (CHC) records needs to be improved as we found a number of errors from our sample testing	Our audit identified that improvements are required to the process by which provisions and contingent liabilities are identified because information recorded on the retrospective CHC claims database is in many cases too incomplete to reach a robust assessment of the Health Board's financial liability. We also determined that there are issues over the accuracy and reconciliation of the data contained in the financial ledger and the separate databases for retrospective CHC claims, ongoing CHC claims and funded nursing care costs.

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

- 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 properly prepared in accordance with Treasury's instructions.
- The Summary Financial Statements and Annual Report which have been published, we concluded that the summary statements are consistent with the full financial statements.

- The Pooled Budget Memorandum account, our audit report concluded that the form of the Memorandum Account could be refined, and the control processes adopted to prepare it could be strengthened by the addition of an independent check on its accuracy.
- The separate audit also undertaken to assess whether the Funds Held on Trust accounts show a true and fair view of the financial position of the charitable funds at the accounting date and of the charity's incoming resources and resources expended for the year is now complete. Final clearance was delayed by the need to obtain Charities Commission approval to transfer the funds into the name of the Health Board.

The Health Board received additional non-recurring funding from the Assembly Government and achieved financial balance at the end of 2009/10

31. The Health Board achieved its Revenue Resource Limit of £884.952 million and reported an underspend of £80,000 which took into account the additional year-end revenue non-recurring funding from the Assembly Government.

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

32. Our work did not identify any serious concerns in relation to the Health Board's internal control environment and its ability to reduce the risks of material misstatements to the financial statements. However, our report to management on the final accounts identified a number of recommendations in respect of the Health Board's internal controls. These issues have been discussed and agreed with management. We concluded that the Health Board has appropriate internal controls within key financial systems other than the payroll/human resources system and the Continuing Healthcare system about which Internal Audit had also raised concerns with predecessor bodies.

The Health Board's significant financial and accounting systems were appropriately controlled and operating as intended

33. Generally, our work confirmed that the Health Board's significant financial and accounting systems were appropriately controlled and were operating as intended. However, as identified in paragraph 8 and Exhibit 1 above, improvements can be made to the methods by which the Health Board accounts for its fixed assets and continuing healthcare costs. These matters have been brought to the attention of the Audit Committee.

34. Our Information Technology specialist colleagues also reviewed and tested the Oracle Financial Management Systems. While their review noted that the system is a national system, administered by the Central Team hosted in Cardiff and Vale University Health Board and hosted by a service provider, Patech, they did identify some recommendations for improvement and these were agreed with management in our final accounts report.

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

35. 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 meeting this requirement, 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:

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

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

The basic requirements of a sound governance and accountability framework are in place although further work is needed to develop arrangements in some important areas

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. Their findings are summarised in Exhibit 2.

Exhibit 2 Governance and accountability arrangements

Main conclusion	Further information
Strategic vision	
The Health Board has set a high level five year vision, but this is not yet fully supported by sustainable service, workforce and financial plans	The Health Board's five year plan sets out a high level vision of what it wants to achieve, and in doing so it provides a mechanism for setting out the priorities for action and identifying high level measures of success. Whilst there has been good engagement with stakeholders such as the Community Health Council, and open and transparent discussions on the plan at the main Board, the timescales for its production have limited a full and wide consultation with the health community. The current strategic planning arrangements can be strengthened by developing plans which set out how services will be transformed and modernised. Further development of targets and outcome measures associated with the five year plan would also be desirable.

Main conclusion	Further information
Organisational structure	
The organisational structure adopted by the Health Board should support delivery of its strategic objectives as long as ongoing work is undertaken to ensure that it is understood by all staff, and is supported by effective clinical engagement and leadership	The Health Board has adopted a considered and inclusive approach to the development of its staff structure, taking time to canvass views from across the organisation. The resulting structure should support the Board in delivering its strategic objectives, although more work will be needed to ensure that the structure and its associated lines of accountability are understood by staff. The structure has been designed to promote integration of clinical and managerial staff, although our work across a range of performance audit projects points to some ongoing challenges with clinical engagement. The organisational structure comprises localities (which are coterminous with unitary authorities) and a number of operational divisions. As the structure continues to bed in, there will need to be ongoing reviews to ensure that there is appropriate integrated working across the Health Board and that activities and resources do not become 'silo' based.
Scheme of delegation	
The Health Board has a scheme of delegation that is broadly sound but which will need to continue to evolve and be regularly reviewed to ensure it constitutes an effective governance framework	The organisation's Board appears to be operating effectively and it has adopted a scheme of delegation that fulfils the basic requirements of an effective governance framework. There is, however, a need to continue to evolve and review arrangements to ensure that the roles of the respective sub-committees of the Board are clear and are supported by sound arrangements for collaborative working between the different committees. This applies in particular to the role of the Governance and Assurance Committee which was created during 2010 as a means of bringing together issues that arise from the different sub committees. Given the scale and complexity of the Health Board's business there will be a continued challenge to keep the agendas for committee meetings realistic and to avoid committee discussions becoming overly operational.
Management of risk	
Whilst the Health Board's approach to operational risk management appears broadly sound, its corporate risk management arrangements are not yet fully effective	Whilst risk management at the department, operational and clinical levels are generally well practised, there is a need to further develop the arrangements for corporate risk management to ensure all the relevant risks are picked up and that the corporate risk register appropriately informs the work of the Board.

Main conclusion	Further information
Internal control environment	
Key internal control mechanisms are in place but some of these could be strengthened further	The Audit Committee is contributing effectively to the governance of the Health Board and has undertaken an honest evaluation of its first year's work that will usefully inform its forward work programme. An important issue which emerged from this evaluation was the need to clarify the Audit Committee's role in providing overall assurance to the Board within the sub committees structure that the Health Board has created. The Statement of Internal Control (SIC) forms a key part of the Health Board's governance arrangements. However, scope does exist to give greater prominence to the SIC within the organisation and to make it more comprehensive in terms of how retrospective risks were tackled and how prospective risks will be managed, it could also have a clearer focus on quality of care and outcomes. Internal audit (IA) arrangements have been strengthened as a result of the appointment of a new contractor to substantially deliver the service. There is a risk based programme of IA work that is starting to contribute effectively to Board assurance arrangements. The current clinical audit activity does not connect clearly to the Board's strategic objectives and the risks it faces. More work needs to be done to make sure that clinical audit becomes a more integral part of the Board's wider assurance and integrated framework.
Managing performance	
There have been ongoing improvements to the way in which performance information is reported to the Board, although further work is needed to ensure that the information is clear and broad enough to allow delivery of the Health Board's strategic objectives to be monitored	Over the last 12 months there have been noticeable improvements in the way that performance information is reported to the Board. A dashboard approach is now combined with performance trend information, and more detailed reports are also prepared on specific issues. There is scope to secure further developments to the current arrangements. The use of dashboard dials in performance reports should be reviewed as they are not always immediately easy to interpret. There will also be a need to expand the content of performance information reported beyond Annual Operating Framework measures to help measure delivery of the Board's wider strategic objectives.
Ensuring probity and propriety	
The Health Board has made good progress in establishing the necessary arrangements for ensuring probity and propriety in the conduct of its business, although further work is needed in a few areas	Appropriate arrangements have been introduced to promote and help ensure probity and propriety in the conduct of the Health Board's business. Further developments will be required to adopt a code of conduct for all members of staff, and to promote awareness of such a code. In addition, procedures should be introduced to deal with

Main conclusion	Further information
	potential conflicts of interest that may arise during procurement processes. The "risk of fraud" could feature more prominently in the Health Board's approach to risk management, and the content of the Local Counter Fraud Services work-plan would be usefully informed by the completion of a risk assessment exercise by the Health Board.

There is evidence of positive work to develop important 'enablers' that can assist in more effective, efficient and economical use of resources, although progress in important areas such as workforce planning needs to be accelerated

37. 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;
- information technology;
- procurement;
- asset management;
- working with partner organisations; and
- engaging with service users.

Exhibit 3 Factors enabling efficient, effective and economical use of resources

Main conclusions	Further information
Workforce planning	
Whilst there is evidence of progress in respect of workforce planning, a workforce plan for the Health Board that is fully responsive to the current service and financial pressures has yet to be developed	The Health Board has given much time and attention to workforce planning and progress is evident. However, the preparation of a workforce plan that is fully responsive to current service and financial pressures is still outstanding. Such a workforce plan is a key output that is needed to underpin the delivery of the Health Board's strategic and operational objectives, and ensuring they remain affordable and deliverable in terms of staffing.
Information technology	
Whilst the Health Board has a number of key strengths to build upon in relation to ICT, there are challenges to be addressed in relation to IT infrastructure, implementation of ICT plans and using the Information	The information governance and ICT agenda has prominence within the Health Board. A comprehensive, if ambitious, local ICT implementation plan is in place and good progress is being made with local implementation of national ICT schemes. There are also examples of innovative practices such as the e-referral and e-discharge

Main conclusions	Further information
Governance Committee to best effect	schemes. The Health Board's outdated PAS is due to be replaced by the Myrddin system during 2011. This is a positive and overdue development, although risks will need to be managed in terms of maintaining management information during the transfer of data from the old to the new system. The problems we identified in relation to system resilience are not yet fully resolved, and the ICT strategy and supporting implementation plan have not yet been fully resourced, leading to concerns that the Health Board's plan may not be affordable. The extent of the ICT agenda is significant and will require close oversight and scrutiny by the Information Governance Committee. Challenges have been evident to date in keeping agendas for this committee manageable and maintaining a balance between strategic oversight and operational detail.
Procurement	
The Health Board appears to be addressing weaknesses we have previously identified in its procurement function	The Health Board appears to be making good progress in implementing the recommendations made following previous Wales Audit Office work on procurement in the predecessor NHS Trust. A more detailed follow-up review of progress is currently underway and will be reported to the Health Board later in 2011.
Asset management	
The Health Board's approach to managing its asset base is broadly sound although there are challenges associated with backlog maintenance and a need to accommodate risks connected with the timing of the Specialist & Critical Care Centre (SCCC) development	Technical asset management arrangements are broadly sound and there are good examples of joint asset use with other agencies. However, backlog maintenance costs remain a challenge with costs increasing slightly in 2009-10 to stand at just under £57.3 million. However, the replacement of a number of older hospitals and the opening of new hospitals at Ystrad Mynach and Ebbw Vale will significantly reduce these costs in subsequent years. A comprehensive estates strategy has yet to be produced, largely due to continued uncertainty over the timing of the development of the Specialist & Critical Care Centre at Llanfrechfa. The discussions with the Assembly Government on this development remain positive, however, and a phased implementation of the new facility is being considered.
Working with partner organisations	
Good foundations exist to support effective partnership working between the Health Board and its five constituent local authorities	The creation of locality divisions within the Health Board's organisation has supported partnership working with local authorities and provided a mechanism to build on positive examples of partnership working that existed before NHS reorganisation. There are encouraging examples of joint working in

Main conclusions	Further information
	key areas such as mental health and frailty, and positive working arrangements have been developed with the Community Health Council (CHC). These positive partnership working arrangements will need to be maintained as key programmes such as the Frailty work move from the planning to implementation phase. The Health Board will also need to develop consistently positive working relationships with all five unitary authority areas to ensure that the pace of change and service development remains even across all localities.
Engaging with service users	
A good start has been made on public and patient engagement	There has been a notable focus on the use of patient stories as a mechanism to describe the experience of service users, and to learn from adverse incidents and complaints. A patient experience strategy has also been developed. A joint planning committee has been created with the Community Health Council and provides a positive mechanism for engagement and consultation, and a potential exemplar for others in Wales to follow. A good marker of the Health Board's approach to public engagement is the fact that it has been able to smoothly progress potentially controversial service changes that include hospital closures. This bodes well for the future public engagement that will be necessary as the Health Board takes forward its strategic plans.

The Health Board needs to develop its financial management arrangements alongside service and workforce plans to more effectively address the financial challenges it faces

38. In the current economic climate, high standards of financial management are more important than ever. This section of the report summarises my 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.

Exhibit 4 Financial management arrangements

Main conclusion	Further information
Financial planning	
Financial planning needs to be developed alongside service and workforce planning	Financial planning does not yet link clearly to the Health Board's overarching strategic objectives, and the high level five year financial plan is not currently supported by robust service delivery and workforce plans. Further work is needed to make the necessary links between financial and service planning, and to accommodate the potential impact of any major capital or cost savings programmes.
Cost control and budget monitoring	
Financial reporting is developing but more work is needed to show how financial performance links to operational targets as part of overall performance reporting to the Board	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 Wales Assembly Government (WAG). This work has been done during a period involving a move to a single ledger platform on 1 April 2010 from six previous ledgers for its predecessor bodies. Budgets have been fully reconciled to the new ledger. As well as supporting WAG, the information derived to compile the monthly report provides the basis on which the Board is informed of its monthly financial position. It also shows the projected year-end position. However, the underlying causes of the current and expected overspend are not always easy to identify. Also, it is not clear what action (if any) is being taken to address overspends against budget.
The ability to keep spending within resource limits	
With additional funding of £28.7 million from the Assembly Government 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	At the beginning of the year, the Health Board identified the need to make savings of £78.6 million in year to enable its spending to remain within available resources. The run rate has improved during recent months and the Board is projecting savings of over £50 million by the year end. 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 £24.8 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. Until recently the Health Board was forecasting a year-end deficit of £31 million. Additional funding has now been provided by the Assembly Government and the Health Board is currently forecasting a break-even position.

Individual performance audit reviews have highlighted a number of specific and often significant challenges for the Health Board; in all cases initiatives are underway to address the concerns identified although progress will need to be closely monitored to ensure the necessary improvements are secured

39. 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:
    - learning the lessons from complaints, incidences and clinical negligence claims;
    - accuracy of waiting list data;
    - adult mental health services;
    - hospital catering;
    - realising the benefits of the new consultant contract; and
    - A&E medical staffing arrangements.

The Health Board appears to be developing sound approaches to organisational learning that should help ensure that the necessary lessons are learnt from complaints, adverse incidents and clinical negligence claims

40. Audit work undertaken at Gwent Healthcare NHS Trust shortly prior to NHS reorganisation, highlighted that the Trust still had a lot of work to do to strengthen its arrangements for learning from complaints, claims and adverse incidents. The main areas of concern were:
    - weaknesses in the way information was reported to the Trust Board;
    - committees and sub-groups with overlapping responsibilities;
    - failure to meet the target time for responding to complaints;
    - the need to involve medical staff more closely in the process of investigating and learning from complaints and adverse incidents;
    - inconsistent approaches to incident reporting; and
    - a need to improve compliance with policies and procedures for dealing with serious incidents.

41. Positively, the Trust had begun implementing a number of measures to strengthen these arrangements immediately prior to NHS reorganisation. The Clinical Governance workstream that was created as part of the transition programme in the Aneurin Bevan Health Community was able to review and build on the work of the Trust. The outputs from this workstream provided a sound basis for the development of new structures, processes and frameworks in the new Health Board.

42. There is a clear focus on organisational learning within the new Health Board through the creation of the post of Head of Organisational Learning, and through the work of the Quality and Patient Safety Committee, a standing Committee of

the Board. A programme of work is underway which should help address the issues identified by the audit work in the former Trust.

The Health Board's IT systems do not readily support accurate reporting of referral to treatment time data

43. In late 2009 work was undertaken to examine the accuracy of waiting list data collected and reported by the Health Board. The work also examined the rigour of the processes used to generate the waiting list data. The waiting list data examined related to referral to treatment time (RTT), which measures the time taken from the receipt of a referral from a GP to the initiation of definitive treatment.

44. Data checking by auditors showed the quality of the waiting list data to be acceptable. Some minor errors and inconsistencies were detected, however, these were not deliberate and did not fundamentally undermine the accuracy of the data being reported. Auditors also found that the governance and accountability arrangements surrounding waiting list data were robust, with clear and effective senior executive input and oversight.

45. However, the audit work did highlight significant problems with the functionality of the existing Patient Administration System (PAS) within the Health Board. The present system is unable to capture and record the entire RTT pathway and relevant information such as waiting times for therapies, is held on separate stand-alone systems which are not fully linked to the main PAS.

46. Staff have to compensate for these limitations by undertaking additional work to collect complete patient pathway data from a number of different sources. This work is time consuming and increases the risk of data inaccuracies. A project is underway to replace the existing PAS, although this will not be complete until mid-2011. There will also be challenges and resource implications associated with transfer of information from the old to new systems.

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

47. In 2005 the Wales Audit Office undertook a baseline review of adult mental health service across Wales. This review resulted in the production of local reports for each unitary authority/LHB area in Wales. During 2009 follow-up work was undertaken across Gwent, focusing on six key areas which were identified as concerns in the original review. The findings from the follow-up work have been reported to the Health Board and its constituent unitary authorities. The key messages are summarised below.

Exhibit 5 Progress in addressing concerns with adult mental health services

Key issue	Position in Gwent in 2005	Follow up findings
Planning and funding	There was no multi-agency vision or agreed service model in place	There has been variable progress across Gwent in the planning and funding of services since 2005,

Key issue	Position in Gwent in 2005	Follow up findings
		although the current plans to develop a joint mental health strategy and a whole system service model are a positive step forward.
Mental health services in primary care	There was significant scope to improve mental health service provision in primary care	Steps have been taken to improve primary care provision of mental health services, although further work is needed to ensure that practice staff have had sufficient training in mental health and also to increase the support provided to practices by specialist services.
Community based services	There were gaps in community services and inequalities in provision across Gwent	There has been a shift in resources from in-patient to community services and a broad range of community services are now in place. However, overall community staffing levels are comparatively low and there are capacity constraints within some services.
Talking therapies	Some psychological therapy services were in place but resources were not sufficient to meet demand	There have been improvements to psychology therapies since 2005 and there has been some progress in moving towards a "stepped" model of care, but we have not been provided with evidence of any widespread reduction in waiting times.
Accommodation and housing	Agencies were struggling to meet the housing and accommodation needs of service users	Housing policies and practices are still not effectively supporting people with mental health problems, and there has been variable progress towards meeting the targets for housing services set out in the NSF.
Involving service users in their care	Service users' experience of care planning were too variable and there was a lack of up to date information for service users in some parts of Gwent	More still needs to be done to adequately support and involve service users in their care, although there is evidence of recent improvements in care planning.

48. The follow-up work showed that there was still unacceptable variation and inequality in the provision of adult mental health services across Gwent. Further modernisation and remodelling of services is needed to address this concern. Following NHS reorganisation there have been a number of notable developments to the arrangements for planning, managing and scrutinising services through the revised management arrangements within the Health Board, the creation of a Mental Health Committee with multi-agency representation, and the formation of an integrated Health and Social Care Partnership Board. These initiatives should provide a fresh impetus for securing the continued service developments which are necessary.

Whilst hospital catering arrangements demonstrate many aspects of recognised good practice, there is scope to reduce undesirable variation in practice and to take action to minimise unnecessary food waste

49. During the summer of 2010 a review of hospital catering services was undertaken within the Health Board to determine whether catering services were being delivered effectively and in line with recognised good practice. Auditors reviewed arrangements across the catering 'food chain' from planning and procurement through to delivery of food to the ward and the patients. The work involved observation at wards in the Royal Gwent and Nevill Hall hospitals. The audit findings were reported to the Health Board in October 2010 and incorporated the results of work carried out by Internal Audit on the implementation of the all-Wales nutritional care pathway. The main findings from the audit work on catering are summarised below.

Exhibit 6 Hospital catering services

Main conclusions	
• The planning of catering services is effective although there is scope to improve nutritional assessment of menus and board level scrutiny of service performance. • Hospital food is effectively procured and the cost of food production is well controlled, however, the way wards order food at Nevill Hall is leading to unnecessary levels of food waste. • Meals are received on the ward in a good condition but the ward environment is not always well prepared for mealtimes, and in Nevill Hall nurses on some wards are not sufficiently involved with the meal service. • The ward level arrangements for assessing patients' nutritional status and monitoring their food and fluid intake varies significantly across the Health Board. • Our surveys showed that patient satisfaction with the meal service is relatively high, however, the Health Board's arrangements for capturing patients' views need to be improved and better co-ordinated.	
Key strengths	**Areas for improvement**
• Eighty two per cent of patients responding to our survey indicated that they were satisfied with the food they received. • Menus provide patients with a good choice of meals and are able to cater for specific dietary requirements and preferences. • Comprehensive strategies and policies for catering and nutrition are in place and are being updated to reflect new management arrangements following NHS reorganisation. • Procurement arrangements are well controlled and the Health Board is the first in Wales to develop its own sustainable procurement policy. • Cost control has been assisted by the	• Nutritional screening of patients on admission, and throughout their hospital stay is inconsistent and needs to be improved on many wards. • Recording of food intake needs to be more consistent, and food and fluid charts need to be signed off by qualified nurses. • The majority of menus have not been nutritionally assessed. • The protected meal time policy needs to be more widely implemented across the Health Board. • Meal ordering processes at Nevill Hall need to be improved to ensure that patients receive the correct meal, and that wastage is minimised. • Arrangements need to be introduced

introduction of a defined daily food cost allowance. • The non-patient catering service in the Royal Gwent is the only one in Wales to operate at a profit. • Food arrives at the ward in a good state reflecting investment in catering trolleys. • A Fundamentals of Care Forum for ward managers has been established at the Royal Gwent which provides a mechanism for staff to share learning and best practice. • Sound arrangements for nutritional screening and monitoring were observed on some wards visited.	to provide more control over portion size. • Forums that help ward managers introduce more effective practice need to be established in Nevill Hall. • The Board needs to receive more meaningful information on the performance of catering and nutrition services to support more effective scrutiny. • The results from separate patient surveys undertaken by catering and nursing staff need to be shared and used more effectively to inform service developments.

There are some specific challenges for the Health Board in respect of medical staffing, relating to consultant job planning and reducing reliance on locum doctor in A&E

50. During 2010, work was completed on two separate aspects of medical staffing: a review of benefits realisation from the amended consultant contract; and a review of medical staffing arrangements in Accident and Emergency medicine. These reviews have highlighted specific challenges for the Health Board given that:

- with the exception of a small number of specialties, neither the Health Board, nor its consultants are getting all the intended benefits from the consultant contract; and
- there has been limited success to date in resolving longstanding A&E medical staffing problems and further action is needed to tackle vacancies, reduce reliance on locum doctors and to adopt a more proactive approach to managing staff wellbeing.

51. The main findings from both these reviews are summarised below.

Exhibit 7 Medical staffing challenges facing the Health Board

Securing the benefits from the amended consultant contract

With the exception of a few specialties, the Health Board is not using job planning as an effective tool to support service planning and modernisation:

- there are weaknesses in the way the Health Board currently manages consultant job planning;
- whilst there is evidence that job planning is being used to support service development in certain specialties, this was not a typical finding; and
- the new clinical leadership model has the potential to improve the effectiveness of job planning but more work is needed to ensure that it is effectively embedded and that the added investment delivers the intended benefits.

More work is needed to ensure that the contract facilitates a positive and fairer working environment for all consultants:

- recruitment and retention of consultants was generally seen as positive by the Health Board, however, there can be perceived inequities within and between clinical teams resulting from the way some new posts are advertised;
- many consultants are still working in excess of 10, and sometimes 12 sessions a week;
- the consultant contract is not being used as a vehicle to address variances in consultant productivity; and
- the European Working Time Directive is resulting in some consultants taking on additional unplanned work, which is impacting on their ability to deliver scheduled job plan commitments.

A&E medical staffing

- Spending on agency locum doctors in the main A&E departments is rising significantly, driven by increasing vacancies in permanent posts.
- A&E doctor rotas and shift working have been improved but cannot be sustained without changes to the medical staffing model.
- Significant funding, recruitment and training challenges need to be addressed before new workforce plans can be implemented successfully.
- The effectiveness of policies, procedures and initiatives in relation to staff wellbeing is not systematically monitored or adequately reported.

52. The Health Board is aware of the need to improve job planning and initiatives are underway to strengthen the existing arrangements, most notably via the implementation of a six-month programme of work that will aim to cover most of the areas of concern identified by auditors.

53. Some of the problems identified in the review of A&E medical staffing have been lessened as a result of vacant middle grade posts being filled. Other initiatives have been progressed, such as rotation of consultants between the Royal Gwent and Nevill Hall to alleviate the gap in the rota at the latter. Work is also underway to develop a new workforce model and viable rotas, and to ensure middle grade and non-training posts within A&E are seen as attractive.

Appendix 1

Reports issued since my last Annual Audit Letter

Report	Date
Financial Audit reports	
ISA260 Reports for predecessor bodies	March 2010
Financial Accounts Audit and Report to those Charged with Governance – 2009/10 Financial Statements	June 2010
Final Accounts Report to Management	September 2010
Financial Accounts Audit and Report to those Charged with Governance – Funds Held on Trust 2009/10 Financial Statements	November 2010
Performance Audit reports	
NHS Reorganisation (summarised in interim annual audit letter for predecessor bodies)	November 2009
Waiting list data quality	April 2010
Review of arrangements for learning from complaints, incidents and clinical negligence claims	June 2010
Review of Accident & Emergency Department Medical Staffing	September 2010
Hospital Catering	October 2010
Adult Mental Health Services	November 2010
Pay Modernisation: Consultant Contract	December 2010
Structured assessment	February 2011
Other reports	
Audit Strategy	February 2010
Interim annual audit letter for predecessor bodies	June 2010

There are also a number of performance audits that are either planned or underway within the Health Board. These are listed below and estimated dates for completion of the work shown.

Report	Estimated completion date
Ward staffing data comparisons	February 2011
Emergency admissions	February 2011
Operating theatres and day-case surgery	March 2011
Follow up reviews of EWTD, Outpatients, Procurement and Maternity	February – April 2011
Resilience of ICT systems	May 2011

Audit fee

The Audit Strategy for 2010 set out the proposed audit fee of £480,780 (excluding VAT). My latest estimate of the actual fee, on the basis that some work remains in progress, is in accordance with the fee set out in the strategy.

In addition to the fee set out above, the audit work undertaken in respect of the shared services provided to the Health Board by the Business Services Centre was £37,415.

It should also be noted that the audit strategy indicated that performance audit work was to be undertaken on continuing healthcare. The applicability of this work is currently being discussed with the Health Board. These discussions may result in this work being substituted for another topic.

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ
Tel: 029 2032 0500
Fax: 029 2032 0600
Textphone: 029 2032 0660
E-mail: wales@wao.gov.uk
Website: www.wao.gov.uk