



THE FINANCES OF NHS WALES 2003

Report by the National Audit Office Wales on behalf of the Auditor General for Wales



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Report by Auditor General for Wales,
presented to the National Assembly on
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This report has been prepared for presentation to the National Assembly under the Government of Wales Act 1998.

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22 May 2003

The Auditor General for Wales is totally independent of the National Assembly. He certifies the accounts of the Assembly and its associated sponsored public bodies; and he has statutory authority to report to the Assembly on the economy, efficiency and effectiveness with which the Assembly and its sponsored public bodies have used their resources in discharging their functions.

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EXECUTIVE SUMMARY

Introduction

- 1 This is my second annual report on the finances of NHS Wales and related issues. It covers events preceeding the restructuring that took effect in April 2003.
- 2 The Audit Commission appoints the auditors of the five health authorities and 15 NHS trusts in Wales. I am responsible for the audit of the three summarised accounts prepared by the National Assembly's NHS Wales Department. This report includes material provided by the Commission, its appointed auditors, and the NHS Counter Fraud Service. I am grateful to these organisations and to the NHS Wales Department for their assistance in producing this report.

Issues covered in this report

- 3 Part 1 of this report sets out the basis of my audit and the work of the Audit Commission and its appointed auditors. In Part 2, I comment on the financial performance of NHS Wales in 2001-02 and note the latest financial forecasts for 2002-03. In Part 3, I provide an update on the proposed restructuring of NHS Wales and consider other key challenges impacting delivery of service, including the measures taken to tackle fraud and implement corporate governance arrangements.
- 4 I laid the 2001-02 Summarised Accounts of NHS Wales before the Assembly on 19 March 2003, together with a report explaining the qualification of my regularity opinion on the summarised accounts of the health authorities. This qualification mirrored the qualifications given by the appointed auditors of four out of the five health authorities in respect of a potential shortfall in prescription income. My opinions on the summarised accounts of NHS trusts and funds held on trust by NHS bodies were unqualified.

Main findings and Conclusions.

Financial performance: annual results and trends

- 5 **2001-02 results:** The result for the year was a total net deficit of £16 million, comprising a £2.8 million deficit from the NHS trusts, a £12.4 million deficit from the health authorities and a £0.8 million deficit from the Dental Practice Board's services in Wales. The comparative results for 2000-01 were an overall surplus of £23.7 million, comprising a £7.6 million surplus from the NHS trusts, a £16.2 million surplus for the health authorities and a deficit of £0.1 million for the Dental Practice Board. The figures for 2000-01 have been restated to take account of a prior year adjustment of £0.623 million resulting from retrospective clinical negligence claims.
- 6 **Strategic assistance funding:** During 2001-02, the NHS trusts received strategic assistance funding of £11.2 million. Without such assistance the deficit for the trusts for the year would have been £14 million and the overall net deficit £27.2 million. The Welsh Assembly Government have announced that there will be no further strategic assistance available.

- 7 **Public sector payment policy and performance:** All NHS bodies are required to pay undisputed invoices within 30 days unless other terms are agreed with suppliers. During 2001-02 health bodies in Wales paid over one million bills with a total value of **£3.1 billion**. Only 83.1% of these bills were paid within the 30 day target, although this represented 95.35% by value and an improvement from the performance reported in 2000-01 (81% and 93.2% respectively). As in previous years there was a wide variation in payment performance across NHS bodies ranging from just under 62.1% for Cardiff and Vale NHS trust to 95.2% for Conwy and Denbighshire NHS trust.
- 8 Payment of all undisputed invoices within 30 days remains an important performance indicator for all NHS bodies in Wales. From 2003-04, the NHS Wales Department have determined that compliance will represent a formal financial duty for NHS trusts and Local Health Boards.
- 9 **Financial standing of NHS Wales:** In 2001-02, the appointed auditors expressed concerns about the financial standing of seven NHS trusts. Although there were agreed recovery plans in place at five of these seven NHS Trusts, the auditors concluded that the plans were unlikely to be achieved in two cases (Cardiff and Vale NHS Trust and Ceredigion and Mid Wales NHS Trust). They also expressed concerns about the absence of an agreed recovery plan at Carmarthenshire NHS trust, one of two Trusts not to have a plan in place.
- 10 The appointed auditors also expressed concerns about the financial standing of three health authorities in Wales. In two of these three cases there were recovery plans in place. In the third case, they concluded that there were acceptable reasons for the absence of an agreed action plan.
- 11 **Forecast of financial performance 2002-03:** Based on expenditure to the end of January 2003, the forecast deficit for 2002-03 is between £39.61 million and £44.08 million. Factors contributing to the deficit, which excludes the agreed write off of £23.7 million loans to Dyfed Powys Health Authority, include the increased premiums payable to the Welsh Risk Pool and the increase in the cost of primary care drugs.

Challenges facing NHS Wales

- 12 **Restructuring:** The National Health Service Reform and Health Care Professions Act 2002 provided for the abolition of the five health authorities in Wales on 31 March 2003 and for the existing Local Health Groups to be reconstituted as 22 Local Health Boards. On 1 April 2003, the Assembly also established an Executive Agency to be known as Health Commission Wales (Specialist Services). There are a number of risks associated with this significant organisational change, which I have continued to monitor closely, in consultation with staff in the Audit Commission and the appointed auditors.
- 13 A special review of Local Health Groups by the Audit Commission in 2001-02 identified a number of major challenges facing Local Health Groups in the transition to Local Health Boards, including corporate governance and financial management arrangements, commissioning, partnership working and performance management, clinical governance and the costs of primary care.

- 14 In addition the Audit Commission identified a number of key risks for the outgoing health authorities as they endeavour to maintain delivery of service, including the loss of key staff and the need to track assets and liabilities transferred from the health authorities to the Local Health Boards. The Audit Commission will be reporting on the abolition of the health authorities in summer 2003.
- 15 In May 2002, the Director of NHS Wales asked me to review the transitional and running cost budgets of the new NHS structures, specifically the assumption that the running costs of the new structure would not exceed the running costs of the existing structure. In reporting the results of my review to the Assembly in December 2002, I concluded that the cost estimates prepared by the NHS Wales Department were generally sound, although additional operational planning work would be needed to identify the savings required for certain parts of the new structure. I also noted that there were major uncertainties surrounding some of the transitional costs estimated by the Department, including redundancy costs and the infrastructure costs associated with accommodation moves. The recommendations resulting from my review were accepted by the NHS Wales Department.
- 16 **Early retirement costs:** During 2001-02, there was an overall increase in the average cost per person of early retirements from NHS trusts and health authorities in Wales. Guidance issued by the NHS Wales Department in April 2002 reminded the Chief Executives of NHS trusts and health authorities of the need to ensure that retirement packages were cost effective and that any settlements to senior staff were reasonable and publicly defensible. This guidance is particularly relevant in terms of the proposed restructuring of NHS Wales, which estimates the transitional costs of redundancy and early retirement from the NHS at £5.6 million to £6.4 million.
- 17 **Progress in tackling NHS Fraud:** During the last year, the Assembly has continued to work with the NHS Counter Fraud Service and the Audit Commission to establish an effective structure to counter fraud in Wales. In October 2002, the Minister for Health and Social Services announced that a measurement study undertaken by the NHS Counter Fraud Service had estimated the loss of income arising from pharmaceutical patient fraud at £8 million for 2001-02. This represents a decrease of some £7 million from the £15 million per annum loss estimated in my report on maximising Income from Prescription Charges which was published in November 2000. The NHS Counter Fraud Service hope to complete a similar measurement study to identify the level of Optical Patient and Contractor Fraud in summer 2003.
- 18 In addition, during 2001-02, the NHS Counter Fraud Service established the Post Payment Verification Unit at Velindre NHS Trust to verify patient prescription payment exemptions claimed. This Unit has the power to levy penalty charges and other surcharges for false exemptions claimed.
- 19 Since becoming operational in May 2001, the NHS Counter Fraud Service Operational Service (Wales) have received a total of twenty four cases of alleged fraud. They have concluded eleven of these cases, resulting in recovery of funds totalling £ 203,271. In addition, Local Fraud Specialists have had 80 case referrals, of which four cases, involving funds of £40,856 have successfully identified that fraudulent activity has arisen.

- 20 **Costs of Agency Nursing:** During 2001-02, NHS trusts in Wales spent £15 million on agency nursing. This represented a 50% increase from expenditure of £10 million in 2000-01. The Welsh Assembly Government are considering these increased costs in the light of concerns expressed by the Audit Committee and following a recent report by the Audit Commission which examined the use of bank and agency nursing staff in NHS trusts in England and Wales.
- 21 **Welsh Risk Pool:** During 2001-02, the Welsh Risk Pool reimbursed health authorities and NHS trusts for payments for clinical negligence and personal injury amounting to some £46.3 million in respect of 136 cases, a rise of £35.9 million from the £10.4 million paid out in 2000-01. The level of payments made during 2001-02 was not fully anticipated when it set the premium levels payable by NHS bodies for that year. As a result the Pool had to collect a further £20 million of premium contributions at a late stage in the year. Since these problems became evident in November 2001, the Welsh Risk Pool have taken a number of actions to strengthen financial management arrangements. In addition, the Director of NHS Wales commissioned an external review of the Welsh Risk Pool which included representatives of the Audit Commission and the National Audit Office.

PART 1 Introduction

Scope

- 1.1 This is my second annual report on the finances of NHS Wales and covers events preceeding the restructuring that took effect in April 2003. In **Part 2** of this report, I comment on the financial performance of NHS Wales in 2001-2002 and note the latest financial forecasts for 2002-2003. In **Part 3**, I examine the restructuring issues proposed for NHS Wales and other key issues impacting on the successful delivery of the service, such as developments in dealing with fraud and topical issues such as corporate governance. The **Appendix** provides more detail about the financial performance of each of the five health economy areas within Wales.
- 1.2 In addition to this report, I have published two Value for Money Reports on NHS Wales during 2002-03:
 - ▶ The NHS Wales Estate: Renewal and Disposal of Property (July 2002) and
 - ▶ The Disposal of the Mid Wales Hospital (October 2002).
- 1.3 At the request of the Director of NHS Wales I have also examined the cost implications of the proposed restructuring of NHS Wales. I provide further information in respect of this examination in Part 3 of this Report.
- 1.4 The NHS (Wales) Summarised Accounts for 2001-2002 incorporated my report on the summarised account of the health authorities, which explained the qualification of the regularity element of my opinion given to that account.

Basis of Audit

- 1.5 Under Section 98(4) of the National Health Service Act 1977, I am required to examine, certify and report to the Assembly on the NHS summarised accounts prepared by the National Assembly for Wales (the Assembly) from the underlying accounts submitted by the five health authorities, the Dental Practice Board (General Dental Services in Wales), and the 15 NHS trusts. My examination of the 2001-2002 NHS (Wales) summarised accounts included an assessment of the reliability of the underlying information contained in the audited accounts of the individual NHS bodies. As in previous years, National Audit Office staff in Wales undertook this task by reviewing the work of the

auditors appointed by the Audit Commission, scrutinising their reports and discussing their findings with them. My staff also examined the consolidation of the individual underlying accounts by the Assembly's NHS Wales Department.

The Audit Commission and the role of its appointed auditors

- 1.6 The five Health Authorities and fifteen NHS Trusts in Wales are each required to publish an annual report and statement of accounts, along with an annual report and statement of accounts for any charitable funds held on trust. These accounts must be prepared in accordance with the Assembly's *Manuals for Accounts*.
- 1.7 In Wales, the Audit Commission appoint the external auditors of health authorities and trusts. PricewaterhouseCoopers remained the appointed auditor of Bro Taf Health Authority, Pembrokeshire and Derwen NHS Trust and Pontypridd and Rhondda NHS Trust, whilst in house District Auditors were appointed to audit the other four health authorities and 13 NHS trusts in Wales.
- 1.8 The Audit Commission promotes the best use of public money by ensuring the proper stewardship of public finances and by helping those responsible for public services to achieve economy, efficiency and effectiveness. Auditors appointed by the Audit Commission (appointed auditors) are required to assess expenditure not just for probity but also for value for money. The Commission and appointed auditors examine public services objectively, often from the users' perspective. Their findings and recommendations are communicated through a wide range of publications and events on an all Wales basis, for England and Wales as a whole, as well as to individual bodies.

- 1.9 In 2001-2002, the appointed auditors carried out their audit of the accounts of individual health bodies in accordance with the Commission's Code of Audit Practice to the timetable prescribed by the Welsh Assembly Government.

The work of the appointed auditors

- 1.10 For each NHS body, the appointed auditor provides an opinion as to whether or not the annual accounts show a "true and fair view" of the body's financial activities during the year and of their assets

and liabilities at year end. They also review the Statement on Internal Control in order to establish whether it reflects compliance with Welsh Risk Management Standards. At the end of each audit, the appointed Auditors prepare an annual audit letter summarising the key issues for the attention of the statutory board of directors, and detailed reports and presentations on specific matters and projects undertaken as part of the audit.

1.11 For the health authorities, auditors are also required to provide an opinion on the regularity of the financial transactions. This regularity opinion states whether in all material respects the income and expenditure has been applied to the purposes intended by the Welsh Assembly Government.

1.12 For the sixth successive year, the appointed auditors issued clear true and fair view opinions in respect of all 15 NHS trusts and five health authorities. However in the case of three NHS trusts (Cardiff and Vale, Ceredigion and Mid Wales, and Carmarthenshire) and one health authority (Dyfed Powys), they expressed concerns about the body's ability to deliver their current service provision given the proposed levels of future finance. I comment further on the financial health of NHS Wales in Part 2 of this report.

1.13 In addition, the appointed auditors qualified their regularity opinions on the accounts of Dyfed Powys, Bro Taf, Gwent and Iechyd Morgannwg Health Authorities in respect of a potential shortfall in prescription income. The accounts of all five health authorities received a similar qualification in 2000-2001. North Wales Health Authority was given a clear regularity audit opinion for 2001-2002 on the basis that it had secured appropriate arrangements during the financial year to identify, monitor and prevent prescription income losses. In addition, it had secured arrangements to recover income lost through falsely claimed exemptions. I consider further the issue of prescription fraud in Part 3 of this report.

Reports and referrals

1.14 As part of their work, appointed auditors consider the legality of actions taken by NHS bodies. In the majority of cases, issues are resolved by discussion with senior NHS management, in some instances resulting in action by the body to ensure that it acts within available powers. In certain circumstances, appointed auditors may decide that it is in the public interest to make a referral to the Assembly or to issue a report in the public interest. No such reports were made in 2001-2002.

1.15 Auditors also have a duty to refer a matter to the Assembly if they have reason to believe that a NHS body has made a decision that involves or may involve unlawful expenditure. Again, no such referrals were made in 2001-2002.

Dental Practice Board

1.16 The Dental Practice Board is a special health authority whose remit covers England and Wales. The Board's auditors (appointed by the Audit Commission) issued a referral to the Department of Health drawing attention to their qualification of the regularity opinion of the 2001-2002 financial statements on the basis that they contain a material amount of inappropriate expenditure, including administrative error, misunderstanding of regulations, inappropriate or poor quality work and deliberate theft. For 2001-2002, the Board have estimated that, for England and Wales combined, approximately £74.6 million (£70 million for 2000-2001) could have been paid inappropriately, of which almost half was in respect of claims for exemption from patient charges. It is not possible to apportion this figure between England and Wales. However, in the context of the summarised accounts of health authorities in Wales, in which the General Dental Services in Wales' expenditure is consolidated, this inappropriate expenditure is not material.

1.17 Assembly officials have informed me that they are currently in joint negotiations with their colleagues at the Department of Health NHS Counter Fraud Service for the Dental Practice Board to carry out verification checks on patient's entitlement to exemption from charges for dental services in England and Wales. I comment further on the work of the Counter Fraud Service in Part 3 of this report.

PART 2 Financial performance of the NHS in Wales: annual results and trends

Introduction

2.1 This part of my report provides an overview of the financial health of NHS Wales summarising:

- ▶ the financial performance of NHS Wales for 2001-2002 (paragraphs 2.2 to 2.5);
- ▶ performance against forecast in 2001-2002 (paragraph 2.6);
- ▶ the financial performance of the health authorities for 2001-2002 (paragraphs 2.7 to 2.8);
- ▶ the financial performance of the NHS trusts for 2001-2002 (paragraphs 2.9 to 2.11);
- ▶ the public sector payment policy and performance of NHS Wales (paragraphs 2.12 to 2.15);
- ▶ the financial standing of NHS Wales (paragraphs 2.16 to 2.18);
- ▶ the latest forecast of the financial performance of NHS Wales, 2002-2003 (paragraph 2.19); and
- ▶ management strategy for addressing financial performance of NHS Wales (paragraphs 2.20 to 2.21).

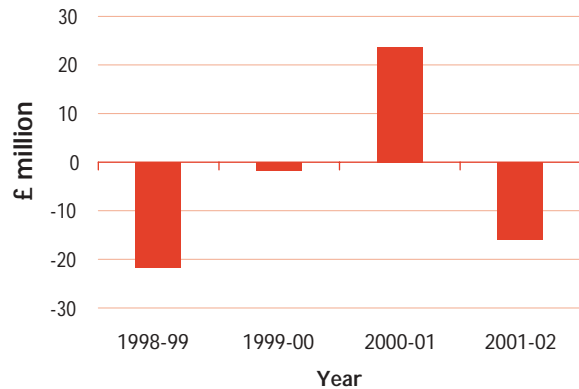
The Appendix contains more detailed analyses of the financial performance within each health economy area of Wales.

Financial performance of NHS Wales, 2001-2002

2.2 The total net deficit, for 2001-2002 was £16 million, as shown in **Figure 1**. This comprised a £2.8 million net deficit amongst the NHS trusts, a £12.4 million deficit generated by the health authorities, and a deficit of £0.8 million from the Dental Practice Board's General Dental Health Services in Wales. The comparable figures for 2000-2001 were an overall net surplus of £23.7 million, comprising a £7.6 million surplus for the NHS trusts, a £16.2 million surplus for the health authorities, and a deficit of £0.1 million for the Dental Practice Board. The figures for 2000-2001 have been restated to take account of a

Figure 1

Total reported net surplus/deficit of NHS Wales for 1998-1999 to 2001-2002



Source: NHS (Wales) Summarised Accounts

prior year adjustment of £0.623 million resulting from retrospective clinical negligence claims in Iechyd Morgannwg Health Authority's accounts.

2.3 The overall net deficit for 2001-2002 of £16 million was reduced by the receipt of £11.2 million strategic assistance funding to NHS trusts in Wales to assist the recovery process. Without this strategic assistance the net financial position of the NHS trusts would have been a net deficit of £14 million, and the overall net deficit would have been £27.2 million. In January 2002 the Minister for Health and Social Services announced that there would be no more strategic assistance available, and that any future support to trusts would take the form of repayable loans.

2.4 In addition to the strategic assistance funding, the Welsh Assembly Government also provided financial support to improve delivery and quality of service in NHS Wales. A new initiative in 2001-2002 was the All Wales Capital Renewal Programme, which received funding of some £40.5 million, primarily utilised for the collective procurement of radiology equipment intended to help reduce NHS Wales' waiting lists. In 2002-2003, the Welsh Assembly Government is providing £8 million funding under the Capital Renewals Programme which will be used to upgrade ultrasound equipment in the NHS.

2.5 The above paragraphs concern the financial performance of NHS Wales as a whole. In paragraphs 2.7 to 2.11 below, I consider the respective performances of health authorities and the NHS trusts.

Performance against Forecast in 2001-2002

2.6 In my report on the Finances of NHS Wales 2002, published on 20 March 2002, I stated that the NHS Wales Department expected the year-end forecast for 2001-2002 to be a deficit of between £8.6 million and £16.8 million. The forecast was still fluid at the time I published my report, mainly due to the paucity of primary care drugs information. The actual outturn for 2001-2002 (a deficit of £16 million) lies towards the upper end of that forecast range. In addition to movements between the forecast and year-end position on primary care drugs, the other factor influencing the size of the deficit was the impact of the additional premiums required to support the Welsh Risk Pool. I comment further on this issue in Part 3 of my report.

Financial performance of the health authorities, 2001-2002

2.7 All of the five health authorities recorded 2001-2002 deficits compared with surpluses in 2000-2001. The total accumulated net deficit of health authorities in Wales at 31 March 2002 was £51.7 million (31 March 2001: £39.3 million restated), as shown in **Figure 2**.

2.8 Under Section 97A of the National Health Service Act Health Authorities have a statutory duty to remain within their cash limits each financial year. This was achieved in all cases during 2001-2002.

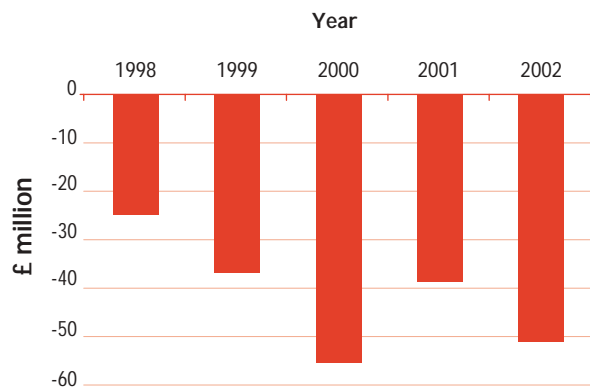
Financial performance of the NHS trusts, 2001-2002

2.9 The 2001-2002 summarised accounts of the NHS trusts report a deficit for the year of £2.8 million (less than 1 per cent of the total operating expenses), with an accumulated deficit at 31 March 2002 of £5.4 million (31 March 2001: £2.6 million).

2.10 NHS Trusts are required to breakeven over a three year rolling period. This period can be extended to five years with Assembly approval. During

Figure 2

**Health Authorities in Wales:
Comparison of accumulated deficits at 31 March for
the years 1998 to 2002**



Source: NHS (Wales) Summarised Accounts and underlying Health Authority accounts for 1997-98, 1998-99, 1999-00, 2000-01 and 2001-02

2001-2002, 14 out of 15 NHS Trusts achieved their breakeven duty. In two of these 14 cases, (Pembrokeshire and Derwen NHS Trust and Ceredigion and Mid Wales NHS Trust), the Assembly had approved an extension in the breakeven duty to coincide with the Trusts' planned period of financial recovery. Carmarthenshire NHS Trust did not achieve its breakeven target during 2001-2002 and had not sought Assembly approval for an extension to the breakeven timescale.

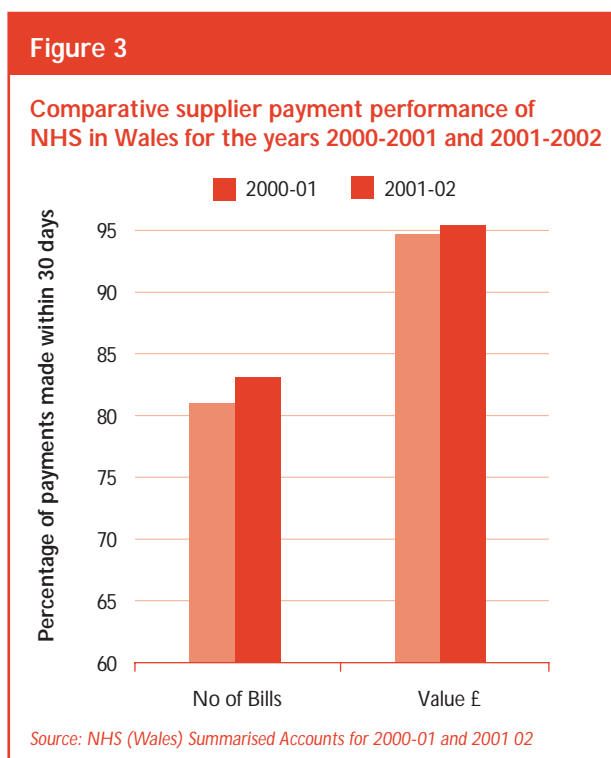
2.11 Other financial duties placed on NHS trusts are a requirement to remain within their External Financing Limit and a requirement to meet the capital cost absorption duty. Capital cost absorption duty measures the repayment of dividends and interest on government borrowing as a percentage of the relevant net assets held by a trust. During 2001-2002, the appointed auditors reported that all of the NHS trusts had remained within their External Financing Limit. However Cardiff and Vale NHS Trust, North Glamorgan NHS Trust and Velindre NHS Trust failed to meet their capital cost absorption duty. The NHS Wales Department has acknowledged that it is difficult for organisations to control whether or not they achieve this duty, as it can be significantly affected by external revaluations of assets and central decisions on the approval of capital schemes. As a result, it will no longer represent a formal financial duty for NHS trusts in Wales, but instead be part of the overall performance management review.

Public sector payment policy and performance

2.12 All NHS bodies are required to comply with the CBI prompt payments code and the Government accounting rules that require all undisputed invoices to be paid within 30 days, unless other terms are agreed with suppliers. The payment performance of each health authority and NHS trust in 2001-02 is disclosed at Annex 4 of the Foreword to the Summarised Accounts.

2.13 **Figure 3** shows the comparative improvement in supplier payment performance on an all Wales basis for 2000-2001 and 2001-2002 in terms of value and number of bills paid.

2.14 During 2001-2002 health bodies in Wales paid over one million bills with a value of £3.1 billion. Although only 83.1% of these bills were paid within the 30 day target, this accounted for 95.35% by value. It also represented an improvement from performance in 2000-2001 when 81% of bills (93.2% by value) were paid within 30 days. However, as in 2000-2001, the appointed auditors noted that there was a wide variation in prompt payment performance between NHS trusts, ranging from just under 62.1% for Cardiff and Vale NHS Trust to 95.2% for Conwy and Denbighshire NHS Trust.



2.15 The NHS Wales Department have told me that they continue to regard compliance with the CBI Supplier Payment Code as an important performance indicator for all NHS Bodies in Wales. They have determined that from 2003-2004, the requirement to pay 95% of undisputed invoices within 30 days will represent a formal financial duty for NHS trusts and the new Local Health Boards.

Financial standing of NHS Wales

2.16 In addition to the audit of accounts, the appointed auditors are required to form a view on the financial standing of each NHS body. In forming such a view, they have regard to:

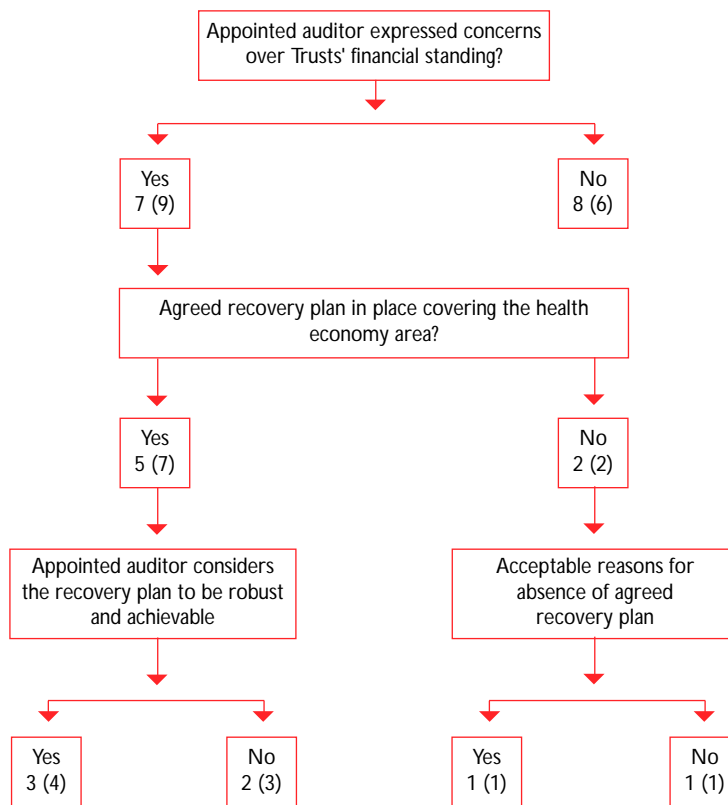
- ▶ the financial performance in the year;
- ▶ the ability to meet statutory and other financial obligations, actual and contingent;
- ▶ known developments, whether current or in the foreseeable future, which might have an impact on financial standing.

2.17 In 2001-02 the appointed auditors expressed concerns over the financial standing of seven trusts (nine in 2000-2001). Although there were agreed recovery plans in place at five of these seven trusts, the auditors concluded that the plans were unlikely to be achieved in two cases (Cardiff and Vale NHS Trust and Ceredigion and Mid Wales NHS Trust). They also expressed concerns about the absence of an agreed recovery plan at Carmarthenshire NHS Trust, which was one of two trusts not to have a plan in place. **Figure 4** summarises the results of the appointed auditors' reviews at NHS trusts during 2001-2002 and 2000-2001.

2.18 The appointed auditors also expressed concerns about the financial standing of three health authorities. There is an agreed recovery plan in place for Gwent Health Authority and acceptable reasons in place for the absence of an agreed action plan at Dyfed Powys Health Authority. Bro Taf Health Authority has prepared a strategic change and efficiency plan in draft form.

Figure 4

Appointed auditors' concerns over NHS trusts' financial standing in 2001-2002 (2000-2001)



Sources: Audit Commission

Forecast of the financial performance of NHS Wales, 2002-2003

2.19 The NHS Wales Department told me that, based on expenditure to the end of January 2003, the forecast operating deficit for 2002-2003 would be between £39.61 million and £44.08 million. This deficit does not take account of the write off of loans to Dyfed Powys Health Authority on abolition totalling £23.7 million. The NHS Wales Department recognised that Welsh Assembly Government service priorities for 2002-03 could not be achieved within health authority allocations, and therefore approved deficits totalling £34.8 million. The key factor contributing to the variance against the approved deficit is the significant increase in the cost of primary care drugs. I note in particular that although the Assembly provided 9.1% cash uplift towards the cost of drugs in 2002-2003, based on the most up to date projections available at the time, the latest cost information indicates a 11.5% increase in the twelve months to December 2002.

Management strategy for addressing financial performance of NHS Wales

2.20 For the first time in 2002-2003, the NHS Wales Department have required health authorities to develop Service and Financial Frameworks. A Service and Financial Framework is a joint statement agreed between the Assembly and its health partners within a defined community, which sets out the way in which the community intends to deliver the annual targets laid down by the Assembly within the resources allocated to it. The Service and Financial Framework must be agreed prior to the commencement of the financial year to which it relates. As a consequence, health authorities have been responsible for finalising the 2003-2004 frameworks which will be led by their successor Local Health Boards.

2.21 Following the agreement of the Service and Financial Framework process in September 2002, the Minister for Health and Social Services Wales asked me to examine the financial position of the Dyfed Powys health community and to consider the capacity of management to deliver against financial, service and recovery plan targets in 2002-2003. In addition the Welsh Assembly Government are currently agreeing the scope of an independent review of the Bro Taf health community with the Audit Commission in Wales and the appointed auditors. In conjunction with these independent reviews, appointed auditors are continuing to work with individual health bodies to ensure a sustainable financial balance is achieved.

Introduction

3.1 This part of my report provides an update on the proposed restructuring of NHS Wales and a number of other key challenges for NHS Wales.

- ▶ the restructuring of NHS Wales (paragraphs 3.2 to 3.14);
- ▶ early retirement costs (paragraphs 3.15 to 3.17);
- ▶ progress in tackling NHS fraud (paragraphs 3.18 to 3.32);
- ▶ corporate governance (paragraphs 3.33 to 3.39);
- ▶ issues from the underlying NHS accounts (paragraphs 3.40 to 3.44);
- ▶ Welsh Risk Pool (paragraphs 3.45 to 3.48);
- ▶ prescription pricing (paragraphs 3.49 to 3.51);
- ▶ Private Finance Initiative (PFI) (paragraphs 3.52 to 3.53); and
- ▶ future reporting issues (paragraphs 3.54 to 3.56).

Restructuring of NHS Wales

3.2 The National Health Service Reform and Health Care Professions Act 2002 gave legal effect to the Welsh Assembly Government's plans to restructure NHS Wales as set out in "Improving Health in Wales, A Plan for the NHS with its Partners" published by the Minister for Health and Social Services in February 2001. Under this plan, the five health authorities were abolished on 31 March 2003 and the Local Health Groups reconstituted as 22 Local Health Boards responsible for deciding on local needs for family health, community health and hospital services. Under this new structure, local government, Local Health Boards and the voluntary sector will work together more closely to achieve better co-ordination of health and social services.

3.3 In addition, on 1 April 2003, the Assembly established an Executive Agency to be known as Health Commission Wales (Specialist Services). This will provide a strengthened function to commission tertiary and other highly specialised acute services throughout Wales.

3.4 In my report on the Finances of NHS Wales 2002, I noted the progress made by the NHS Wales Department and the NHS bodies in Wales preparing for restructuring. During 2002-03, together with the Audit Commission and the appointed auditors, I have worked with these bodies to help them identify and address some of the key risks associated with significant organisational change.

Other Audit Reviews

3.5 During 2001-02 the Welsh Assembly Government asked District Audit (Now part of the Audit Commission in Wales) to undertake an external review of Local Health Groups. The review covered 21 out of the 22 Local Health Groups in Wales (the exception being Carmarthenshire Local Health Group). The work was designed to support the establishment and development of Local Health Boards.

3.6 The review concluded that the Local Health Groups faced major challenges in the transition to Local Health Boards. Areas of concern included;

- ▶ Corporate governance and financial management arrangements;
- ▶ Commissioning, partnership working and performance management;
- ▶ Clinical governance; and
- ▶ Primary care, particularly drugs expenditure costs.

The key findings of each review were reported to individual Local Health Groups and included in a summary report published by District Audit in December 2002.

3.7 The Audit Commission told me that the appointed auditors have continued to monitor the risks associated with restructuring in 2002-03, and to tailor their audit approach accordingly. A key risk has been the need for out going health authorities to

maintain delivery of service whilst providing the lead input to the development of the new LHBs and the transfer of functions to them. Other risk factors have included the loss of key staff, and a need to track the assets and liabilities transferred from the health authorities to the LHBs. The Audit Commission told me that they will be reporting on the abolition of the health authorities in summer 2003.

Restructuring Costs

3.8 In their report on the Finances of NHS Wales 2002, the Audit Committee noted that the Director of NHS Wales would be providing the Assembly Minister for Health and Social Services with the estimated costs of restructuring. They also said that they would welcome regular updates on the actual costs of the new structure in future years.

3.9 In May 2002, the Director of NHS Wales asked me to review the transitional and running cost budgets of the new NHS structures that will come into effect on 1 April 2003. The results of my review were debated by the Health and Social Services Committee on 18 December.

3.10 The Minister for Health and Social Services has stated that the running costs of the new structure will not exceed those of the existing structure. She has further stated that the costs of the transition, which will be additional to the ongoing running costs, are likely to be between £12.5 million and £15.5 million.

3.11 The terms of reference for my review were to comment on the assumption that the running costs of the new structure would not exceed the running costs of the existing structure. The review did not involve a detailed examination of the costs but focused instead on whether the estimates used by the NHS Wales Department were robust and could be adequately supported.

3.12 In reporting the results of my review to the Assembly in December 2002, I concluded that

- ▶ The basis on which the NHS Wales Department had calculated the existing running costs figure of £71.1 million was sound, although it may need to be adjusted for some additional public health costs.

- ▶ the planning budget for the running costs of the new structure was £79.6 million, which meant that savings of £8.5 million would be needed in order for the new structure to achieve cost neutrality. The NHS Wales Department and Health Commission Wales had identified the necessary savings to their budgets but additional operational planning work was needed for the other parts of the structure (The National Public Health Service, Local Health Boards and the Business Services Centre), which would all be expected to deliver savings of around 10.3%.

- ▶ The NHS Wales Department had estimated that transitional costs would be between £12.5 million and £15.5 million, mainly for redundancy and the infrastructure costs associated with accommodation moves. However there were major uncertainties with many of these costs, and the estimates would need to be revisited as staffing structures and accommodation requirements became clearer. It would also be good practice to include a contingency budget to allow for unforeseen events.

3.13 In my report, I made six recommendations to the NHS Wales Department about the costs of restructuring as follows;

- ▶ there was a need to review the level of accommodation and IT costs for the new structure in the light of emerging information on staff requirements;
- ▶ the operational planning work should be completed as quickly as possible in order to ensure that savings of £8.5 million could be achieved without jeopardising the delivery of the planned functions;
- ▶ there was a need for a more detailed review of how the Business Services Centre and the National Public Health Service would operate in practice, within their revised budgets and without jeopardising service delivery;
- ▶ transitional staff costs should be revisited as the main determinants of those costs became clearer;
- ▶ the NHS Wales Department should consider the need for tightly controlled contingency provisions; and

- ▶ the NHS Wales Department should develop procedures for monitoring running costs in the new structure so that the financial impact of the Structural Change programme could be fully assessed.

3.14 The Director of NHS Wales has accepted all of these recommendations. I will continue to monitor the transitional and actual costs of the new structure as part of my on going audit of the NHS accounts.

Early Retirement Costs

3.15 Last year my report highlighted the requirement for more formal and explicit guidance from the NHS Wales Department in terms of redundancy and early retirement packages. This was considered to be of particular importance given the proposed restructuring of the NHS, which includes an estimate for such transitional costs at £5.6 million to £6.4 million.

3.16 During 2001-2002 there were 286 early retirements across NHS trusts in Wales resulting in additional pension costs of £11,828,000. The average cost per person amounted to nearly £42,000. This compares with 298 early retirements in 2000-2001 costing a total of £10,689,000, and an average of £36,000 per person. In addition, there were 14 early retirements from the health authorities in Wales agreed on the grounds of ill health. The estimated additional pension costs resulting from these retirements will be £2,318,692. In 2000-2001 there were two early retirements from health authorities costing £141,216.

3.17 In April 2002, the Director of NHS Wales issued guidance to the Chief Executives of health authorities and trusts on severance terms for staff. This guidance required chief executives to review their procedures for the early termination of fixed term rolling contracts and for the calculation and scrutiny of proposed termination payments. It also emphasized that compensation for loss of office and early retirement packages should be cost effective, reasonable and publicly defensible. The NHS (Wales) Department have told us that they will be continuing to monitor early retirement payments in the light of this revised guidance.

Progress in tackling NHS fraud

3.18 In my last report I noted that the Assembly had taken a number of steps to establish an effective structure to counter fraud in Wales. These steps had included the setting up of a NHS Counter Fraud Service Operational Service within Wales in May 2001 and the appointment of 19 Local Counter Fraud Specialists based in NHS Trusts and Health Authorities. The Assembly's aims are to reduce fraud to, and hold it at, the absolute minimum permanently, thereby freeing up resources for the improved delivery of patient care.

3.19 In October 2002, the Minister for Health and Social Services announced that comprehensive fraud measurement processes were taking place in each area of NHS primary care. The Minister also announced that the first study to estimate statistically the level of pharmaceutical patient fraud in Wales had been undertaken by the NHS Counter Fraud Service. The purpose of such measurement studies is to enable comparisons to be made in subsequent years and with levels in the rest of the United Kingdom. The results of the study estimated the loss of income resulting from pharmaceutical patient fraud in Wales at £8 million for 2001-02.

3.20 In my report "Maximising Income from Prescription Charges", which was published in November 2000, I estimated that some £15 million per annum might be lost as a result of exemptions from prescription charges being provided to individuals who did not meet the necessary criteria for exemption. The reduction of £7m for 2001-02 (around 47%) identified by the NHS Counter Fraud Service is significant, and consistent with the improving position in England, where estimated prescription fraud reduced by 41% in 2000-01 from £117m to £69m. These are real financial savings that can be used to improve patient care.

3.21 The NHS Counter Fraud Service have told me that they are currently carrying out a similar exercise to identify the level of Optical Patient and Contractor Fraud in Wales. This study is due to be completed in Summer 2003. The NHS Counter Fraud Service also told me that they have commenced discussions with the Dental Practice Board with a view to carrying out work on the level of Dental Patient and Contractor Fraud in Wales.

3.22 During 2002-2003, the NHS Counter Fraud Service established the Post Payment Verification Unit at Velindre NHS Trust. The role of this Unit, which comprises a team of five staff is to verify patient prescription payment exemptions claimed. The NHS Wales Department told me that the Unit has established links for checking exemptions claimed with the Department for Work and Pensions, via the Prescription Pricing Authority and with all the health authorities in Wales. They are still negotiating with the Inland Revenue to facilitate the cross-checking of exemptions

3.23 In September 2002, the NHS Wales Department issued directions to health authorities, making the Unit formally responsible for the investigation of claims for exemption from relevant charges and to pursue the recovery of such charges as appropriate. In addition, the directions give the Unit powers to levy penalty charges and other surcharges in accordance with the NHS (Penalty Charges) (Wales) Regulations 2001, and to take enforcement action to recover the charges, penalties and surcharges as civil debts. Between October 2002 and January 2003, the Unit have checked around 48,000 scripts. This work has resulted in income from recoveries of just over £2,000. The first penalty charges are likely to be levied over the coming months.

The Impact of the NHS Counter Fraud Service (Wales)

3.24 The NHS Counter Fraud Service (Wales) continues to make a key contribution in identifying and countering fraud. During 2001-2002 it has introduced a number of measures to underpin the strategic framework set out in the Assembly Government's publication in September 2001 "Countering Fraud in the NHS in Wales". Important developments include:

- ▶ the introduction of a Memorandum of Understanding between the NHS Counter Fraud Service and the Association of Chief Police Officers of Wales in October 2002; and
- ▶ the introduction of a Quality Assurance Programme of NHS Counter Fraud work undertaken in Wales.

The aim of the Quality Assurances Programme is to ensure that all counter fraud work within Wales is carried out to the highest possible standards and

that these standards are maintained across Wales. The Service told me that, in the last year, they have undertaken Quality Assurance Programme reviews at North Wales Health Authority and Gwent Healthcare NHS Trust. Their report on North Wales Health Authority, published in August 2002, revealed a strong commitment to counter fraud work within the Authority. However the report noted that additional work could be done to ensure that fraud awareness filtered down to all levels of the organisation. The results of the Quality Assurance review of Gwent Healthcare NHS Trust are due to be published in Spring 2003.

3.25 Several NHS Counter Fraud Service Operational Service (Wales) and Local Counter Fraud Specialist cases have led to successful prosecutions. **Figure 5** provides further information on three of these cases:

Figure 5

Case Studies

Information Technology Manager

An Information Technology Manager employed at an NHS Trust with high-level access to the creditor system changed bank payment details and subsequently transferred funds valued at approximately £10,000 to his own bank account.

The Manager pleaded guilty at Swansea Magistrates Court on 1st May 2002 to offences of false accounting, obtaining a money transfer by deception and theft. The case was referred to Swansea Crown Court for sentencing and on 24th May 2002, the Manager was sentenced to six months imprisonment. The Manager repaid the relevant funds and was dismissed from his employment.

Dental Practice Manager

A Dental Practice Manager was charged with six counts of false accounting following an investigation into allegations that a Dentist had been treating NHS patients prior to receiving a contract from the Health Authority and then postdating claim forms to disguise the practice.

The Manager pleaded guilty to the offences at Haverfordwest Magistrates Court on 5th June 2002 and was fined £6000. The Court also ordered that the Dental Manager pay compensation of £516 and investigation costs of £1521.46.

Doctor issuing false prescriptions

A Doctor addicted to dihydrocodeine, stole a pad of prescriptions from the Accident & Emergency Department of his local hospital and issued forged prescriptions for the drug, which the Doctor later presented at a local pharmacist. The pharmacist was suspicious and referred the case to the relevant health body. Enquiries confirmed that the Doctor had committed offences of theft and forgery.

The Doctor appeared at Cardiff Crown Court on 15th Nov 2002 and pleaded guilty to twelve offences of theft. The Doctor was sentenced to eight months imprisonment suspended for two years and the case has been referred to the General Medical Council.

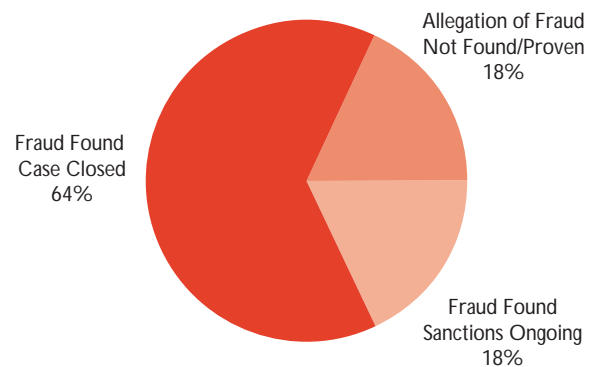
3.26 The NHS Counter Fraud Service Operational Service (Wales) told me that since becoming operational in May 2001, they had received a total of twenty-four cases of alleged fraud. **Figure 6** provides an analysis of these cases.

3.27 At 31st December 2002, the team had concluded eleven investigations, resulting in recovery of funds totalling £203,271. **Figure 7** illustrates the results of these investigations. The remaining thirteen cases, which are still under investigation, involve funds of around £467,000. The NHS Counter Fraud Service Operational Service (Wales) have told me that the number of cases under investigation should increase significantly as the role of the Local Counter Fraud Specialists develops.

3.28 Local Counter Fraud Specialists generally investigate cases where the potential estimated loss is less than £15,000. In the fifteen month period to 31 December 2002, the Local Counter Fraud Specialists have had 80 case referrals, eight of which are complete. Four of these completed cases have successfully identified that fraudulent activity has arisen. These have resulted in funds totalling £40,856 being recovered, two guilty pleas in court, a suspended prison sentence and one resignation. Examples of typical fraud cases include:

Figure 7

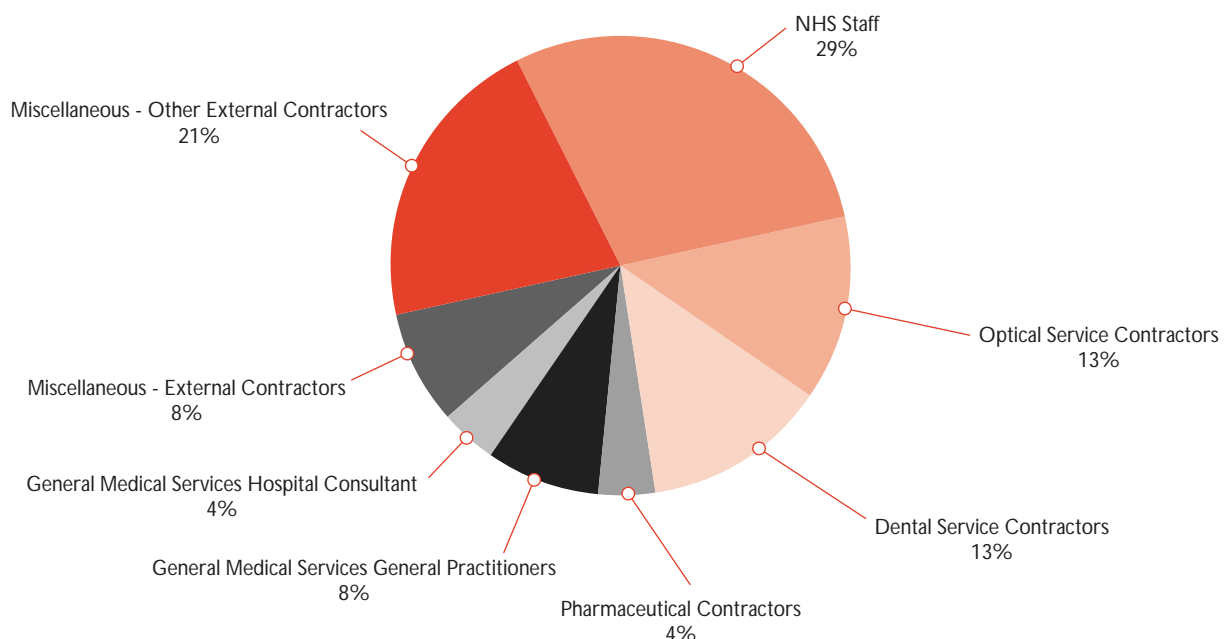
Analysis of Investigations completed by NHS Counter Fraud Service Operational Service (Wales)



- Optical frauds - cases of suspected fraudulent, inflated or duplicate claims submitted by optical contractors to relevant health authorities;

Figure 6

Analysis of the Nature of Cases referred to the NHS Counter Fraud Service Operational Service (Wales)



- ▶ NHS employees - cases of working for other agencies while claiming sick leave from NHS Wales, submitting false or inflated worksheets, falsely claiming work related expenses; and
- ▶ External Contractors - submitting inflated, bogus or duplicate invoices to NHS trusts.

3.29 A total of **£244,127** has been recovered to date as a result of NHS Counter Fraud Service Operational Service (Wales) and Local Counter Fraud Specialist investigations.

The Role of the Audit Commission in Countering Fraud

3.30 The Audit Commission told me that they had continued to work with the Counter Fraud Service during 2001-02, building on the memorandum of understanding which was agreed between the two

organisations in 2000-01. As well as examining the overall arrangements for detecting and countering fraud in NHS bodies in Wales, their appointed auditors had carried out specific work in areas such as procurement, hospitality, interest declaration and medical equipment maintenance. In conjunction with the police they had also continued to assist each of the five health authorities in combating ophthalmic fraud. This work had involved the checking of records held by several opticians to ensure that amounts claimed were in accordance with regulations. Audit identified over claims of around £600,000, some £44,000 of which has been recovered. The health authorities are taking civil action to recover the remainder. I provide further information on this matter at **Figure 8**.

3.31 The Public Interest Disclosure Act provides statutory protection to public sector employees, including NHS staff, who 'blow the whistle' on fraud and corruption taking place in their employing bodies. Over recent years, the Audit Commission,

Figure 8

Case Study - Ophthalmic fraud

Background

During 2001/2002, each of the health authorities conducted statistical analysis of the claiming patterns of NHS opticians. This led to a number of opticians being referred to the appointed auditors for investigation.

Audit Findings

The reviews undertaken by the appointed auditors revealed various abuses of the regulations. These included claiming for:

- ▶ services not provided
- ▶ spare glasses/contact lenses
- ▶ bifocal glasses but providing single vision glasses
- ▶ 2 pairs of glasses but providing 1 pair
- ▶ complete replacement of glasses when glasses were only repaired
- ▶ tints, when tinted glasses not provided
- ▶ replacement of disposable contact lenses
- ▶ ineligible patients
- ▶ non-prescription sunglasses and swimming goggles where not clinically needed
- ▶ fancy dress contact lenses
- ▶ claiming for the same service from both the health authority and the hospital eye service
- ▶ glasses with higher prescription strengths than those provided
- ▶ specially manufactured small frames when not provided.
- ▶ Sight tests routinely undertaken more frequently than required

Outcome

Three cases have been referred to the Police or CFOS to determine whether criminal charges should be brought. One optician has recently been charged with conspiracy to obtain money by deception. The other two opticians are still being investigated. The health authorities have recovered over claimed monies from a number of other opticians.

In addition, there are plans in place to identify the key findings of the optical fraud work in an Audit Commission in Wales briefing paper in 2003. This paper will also review the financial benefits to the NHS arising from the work.

Sources: Audit Commission

as a 'prescribed person' under the Act, has received a number of Public Interest Disclosures relating to public bodies in Wales.

3.32 In last year's report I noted that there were three Public Interest Disclosure cases under investigation. These investigations have now been completed and in all three issues raised by the complainants were in part upheld. No new investigations arose during 2001-02.

Corporate Governance

Welsh Risk Standards

3.33 In my previous annual reports on the finances of NHS Wales, I have noted that the NHS has for several years been at the forefront of developments in corporate governance arrangements within the UK public sector. Within NHS Wales, the Welsh Risk Pool has taken the lead in producing a set of 'risk management standards' and in disseminating these to all health authorities and NHS trusts.

3.34 The current body of standards covers both clinical and non-clinical risks, pulling together existing regulations and guidance into a structured framework for the identification and assessment of those risks. They serve to assist health service managers and clinical staff in making judgements on the effective targeting of resources to address key risk areas. For 2002-03, some 38 individual risk management standards were extant across the NHS in Wales, as shown in **Table 1**, although not all are of relevance to each individual body.

3.35 For each relevant standard, each NHS body is required to conduct an annual 'self-assessment' review, using criteria and guidance (including relative weightings for individual control risks) provided by the Assembly NHS Directorate. The results of these reviews are used for benchmarking, and to facilitate the production of action plans by management to address weaknesses and build on existing strengths. The self-assessment scorings are also subject to independent verification by the appointed external auditors of each body.

Table 1

Extant Welsh Risk Management Standards, 2002-03

Number	Standard
1	Risk management policy and strategy
2	Risk profile
3	Incident and hazard reporting
4	Complaints
5	Claims management
6	Policies and procedures
7	Records management
8	Communications
9	Consent to treatment
10	Clinical audit
11	Supervision of staff
12	Assessing competence
13	Occupational health and safety
14	Infection control
15	Maternity
16	Operating theatres
17	Accident and emergencies
18	Mental health
19	Community
20	Ambulance
21	Learning disability
22	Buildings, land, plant and other non-medical equipment
23	Nutrition and catering
24	Contractors and contractor control
25	Emergency preparedness
26	Environmental management
27	Fire safety
28	Human resources
29	Information management and technology
30	Medical equipment and devices
31	Medicines management
32	Professional and product liability
33	Security management
34	Transport
35	Waste management
36	Decontamination of reusable medical devices
37	Governance
38	Financial management

Source: NHS Wales

Statement on internal control

3.36 For the first time in 2001-2002, all NHS bodies were required to include a Statement on Internal Control as part of their annual financial statements. This replaces the Statement of Internal Financial Control which organisations had been required to prepare in previous years. The Statement on Internal Control provides an assessment of the effectiveness of all the internal controls (financial and other) within an organisation, and comments on the identification and management of key business risks facing the organisation. It is signed by the Accountable Officer on behalf of the Board of each NHS Body.

3.37 The new Statement on Internal Control is underpinned by compliance with the Welsh Risk Pool Standards and within these Standards the following are deemed to be core to the management of risk:

- ▶ Risk Management Policy and Strategy
- ▶ Risk Profile
- ▶ Adverse Incident and Hazard Reporting

3.38 Health bodies are deemed to be compliant if they have achieved 75% in each of these core standards. For 2001-02, it is recognised that not all organisations will have their risk management and review processes in place. Chief Executives will have to sign a statement providing a comprehensive summary of the actual processes in place in their organisations, including a description of how current initiatives are being taken forward. Health Bodies are required to be fully compliant for 2002-03.

3.39 The Statement on Internal Control is subject to review as part of the external audit of the annual financial statements. For those reporting partial compliance, NHS bodies reported they were on target to meet the requirements in 2002-2003. The results are summarised, in **Table 2** as follows:-

Table 2

Compliance with Statement on Internal Control

	Full compliance	Partial compliance
Health Authority	1	4
NHS trusts	4	11

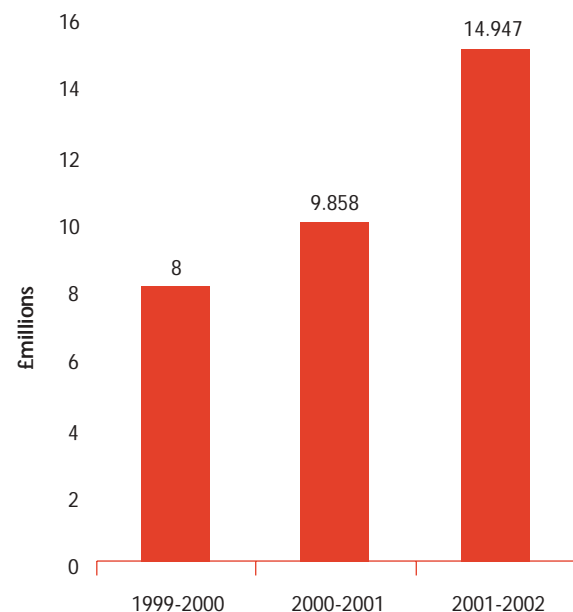
Issues from the Underlying Accounts

Costs of Agency Nurses

3.40 In their report on the Finances of NHS Wales 2002, the Assembly's Audit Committee expressed concerns about the costs of engaging nursing agency staff and the effects over reliance on temporary staff might have on patient care. During 2001-02, NHS Trusts in Wales spent £15 million on agency nursing staff (2.5% of total nursing costs). This represents a 50% increase from expenditure of £10 million in 2000-01 (1.8% of total nursing costs). This increasing trend is highlighted in **Figure 9** below.

Figure 9

Trends in Agency Nursing Costs



3.41 In September 2001, the Audit Commission published Brief Encounters, Getting the Best from Temporary Nursing Staff, which detailed the findings of a comprehensive survey of the use of bank and agency nursing staff in NHS trusts in England and Wales. The report highlighted the increased use of Bank and Agency staff within the health service, and the associated escalating cost of providing temporary staffing cover.

3.42 The results showed that all NHS trusts in Wales operate their own nurse bank system. Of those trusts in Wales who use Agency staff, most do not have formal contracting arrangements. The Audit Commission advised that trusts could reduce costs by working with one agency, or perhaps a small number of agencies, under formal contract arrangements, enabling the potential for lower hourly rates and lower commission charges. The Commission recommended that contracts be established through a co-operative contracting process between NHS trusts and nursing agencies.

3.43 Within Wales, in response to the Audit Commission recommendations, the Welsh Assembly Government has established the Emergency Staffing Project within the Nursing and Human Resource Division. The aim of this project is to considerably reduce the cost of agency nurse staffing and to co-ordinate a Nurse Bank system in Wales to enable comparable terms and conditions of employment. It is envisaged that this will facilitate Bank Nurses working between NHS Trusts and provide staffing levels to meet the fluctuating demands of the service and emergency staffing requirements.

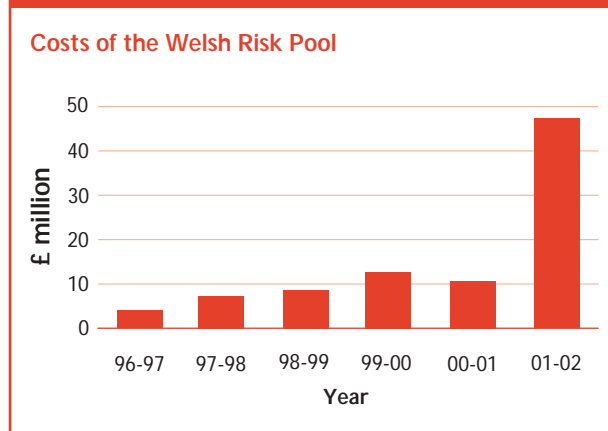
Clinical Negligence

3.44 At 31 March 2002, liabilities for clinical negligence claims included on the balance sheets of NHS bodies amounted to £118 million. Excluded from these provisions is an estimated £254 million of disputed claims for alleged employer or medical negligence, where the likelihood of payment is "possible" rather than "probable". The potential realisation of these claims could impose further financial constraints on the NHS in Wales.

The Welsh Risk Pool

3.45 During 2001-02, the Welsh Risk Pool reimbursed health authorities and NHS trusts for payments for clinical negligence and personal injury amounting to some £46.3 million in respect of 136 cases a rise of £35.9 million from the £10.4 million paid out in 2000-01. Total annual expenditure on the settlement of clinical negligence and personal injury claims by NHS Wales including the Welsh Risk Pool's own running costs are shown in **Figure 10** below.

Figure 10



3.46 The sharp rise in claims reimbursement payments made during 2001-02 was not fully anticipated by the Welsh Risk Pool when it set the premium levels payable by NHS bodies for that financial year. As a consequence, the Pool had to collect a further £20 million of premium contributions at a late stage in the year in order to fund the totality of its reimbursement payments.

3.47 Following the emergence of these largely unforeseen financial problems in November 2001, a number of actions were taken to strengthen the financial management arrangements for the Welsh Risk Pool. In addition, the Accounting Officer for NHS Wales commissioned an external review of the Welsh Risk Pool to identify what further measures should be taken to strengthen and ensure the cost-effectiveness of management arrangements for clinical negligence and other claims funded by the Pool.

3.48 The review was led by the Director of NHS Wales, who chaired a steering group which included representatives of the Audit Commission and the National Audit Office Wales, as well as senior NHS and Assembly officials. The team concluded its work in February 2002, and its final report and recommendations were submitted to Ministers for consideration in April 2003.

Prescription pricing

3.49 In last years report on the Finances of NHS Wales, I referred to the advance monthly payments which pharmacists had received from health authorities during 1999-2000 for the dispensing of prescriptions. I noted that these payments had been necessary due to a shortage in the supply of generic drugs during that year and the subsequent

delays experienced by Health Solutions Wales in the pricing of prescriptions. I also noted that, by August 2002, the NHS Wales Department intended to have recovered overpayments resulting from the exercise, which they estimated at between £5 million and £6 million.

3.50 In their report on the Finances of NHS Wales 2002, the Audit Committee expressed particular concerns that the prescription pricing backlog was impacting on the improvement of financial forecasting and making it more difficult to control the cost of general practitioners prescribing drugs. The NHS Wales Department told me that, by January 2003, all overpayments had been recovered and the pricing backlog had been cleared.

3.51 The Prescribing Services Unit, which had been set up to deal with the overpayments, is now pricing prescriptions in accordance with agreed timescales, subject to some three days' contingency. The production of Management Information to the Service is also exceeding Service Level Agreement targets. The Welsh Assembly Government is monitoring the performance of the Unit on a monthly basis with a full report and discussion at Board level taking place quarterly.

The Private Finance Initiative in NHS Wales

3.52 The use of Private Finance Initiative (PFI) remains a high profile and potentially high risk issue for a number of NHS bodies. It is a form of public/private partnership (PPP) in which the private sector works with the public sector to deliver public services. The accounting treatment is complex and appointed auditors seek to assist bodies in the interpretation of Treasury guidance on matters such as procurement, value for money and affordability. In previous years,

appointed auditors have reported particular problems in relation to the preparation of business cases, the construction of public sector comparators and affordability. In 2001-2002, the auditors specifically reported problems relating to affordability. However significant improvements were made with regard to accounting for residual assets as a result of PFI contracts.

3.53 The NHS Capital Investment Manual directs any NHS organisation when considering new capital projects to explore the possibility of financing the investment by the PFI route. The summarised accounts of NHS trusts in Wales for 2001-2002 included six trusts where private finance transactions were disclosed. There were two additions during the financial year: Baglan Hospital and St Davids Hospital. The schemes recorded an estimated capital value of £113 million covering 12 separate PFI transactions: one scheme on balance sheet £2.5 million and eleven off balance sheet £110.5 million. The associated operating expenditure for 2001-2002 on these schemes was £5.3 million (2000-2001: £3.2 million). The NHS trusts are committed to pay £16.1 million (2000-2001: £13.1 million) in annual payments over the life of the schemes. The three schemes with the largest capital value have been listed in **Table 3** below:

Future Reporting Issues

Financial ledger implementation

3.54 Twelve NHS trusts have entered into individual eight year contracts with an Application Service Provider for the Oracle Financial system. This system has been implemented as a single database containing data relating to all twelve trusts. A project board was formed for managing decisions that needed to be agreed by all trusts.

Table 3

PFI - Summary of Largest Capital Schemes

NHS Trust	Estimated capital value of scheme	Estimated annual revenue cost	Contract period	Scheme description
Bro Morgannwg NHS Trust	£66 million	£10 million	30 years	Baglan Hospital
Cardiff and Vale NHS Trust	£14 million	£2.4 million	30 years	St. Davids Hospital
Gwent Healthcare Trust	£10 million	£1.7 million	25 years	Chepstow Community Hospital

- 3.55 The Audit Commission undertook an initial implementation review, which highlighted significant control weaknesses. Particular concerns included an increased risk of fraud resulting from inadequate application user controls, and the fact that the system does not meet contractual response times.
- 3.56 Further audit work by the Audit Commission on the controls in place for the Oracle Financials system is planned for 2002-2003 involving a review of the implementation of plans to address all outstanding issues and an assessment of the level of reliance that can be placed on the controls over the trusts' Oracle Financials systems.

APPENDIX

A: Analysis of financial performance by health economy area

This appendix analyses the financial health of each of the five health authorities in Wales and the NHS Trusts that lie within each health authority's operating area. The Welsh Ambulance Services NHS Trust and the Dental Practice Board are considered separately.

Note: All references to forecast information for 2002-2003 are based on health authority and NHS trust financial returns for December 2002, the most recent figures available at the publication date.

A1. Bro Taf

A2. Dyfed Powys

A3. Gwent

A4. Iechyd Morgannwg

A5. North Wales

A6. Welsh Ambulance Service

A7. Dental Practice Board

APPENDIX A1

Bro Taf health economy area

- A1.1 The health bodies within the Bro Taf health economy area reported an overall deficit of £2.66 million for 2001-2002. The accumulated net deficit at 31 March 2002 was £10.60 million. The Health Authority accumulated deficit has increased from £9.44 million to £12.01 million at 31 March 2002 after allowing for the in year deficit of £2.57 million and deferred income of £7.33 million.
- A1.2 The NHS Wales Department advises that a deficit of between £10.31 million and £12.41 million is forecast for the Bro Taf health economy area for 2002-03. The Department approved a Service and Financial Framework for the health economy area for 2002-03 which made provision for a maximum deficit of £9.50 million. The forecast variance from the Framework is due primarily to unplanned additional costs of primary care prescribing.
- A1.3 The Cardiff and Vale Trust achieved its recovery plan target to break even in 2001-02 after receipt of £1.425million strategic assistance funding from the Welsh Assembly Government, although this was only achieved through the use of non-recurrent measures. The Trust's approved recovery plan provided for underlying financial balance to be achieved in 2002-03, but this will not be achieved and the Trust is forecasting a deficit of £3.45 million. The Trust is currently preparing a five year Service and Financial Plan to restore financial balance.

Table 4

Bro Taf health economy area 2001-2002 financial results, and the forecast for 2002-2003

	Surplus/(deficit) for 2001-02 £ million	Accumulated surplus/ (deficit) at 31 March 2002 £ million	Forecast surplus/ (deficit) for 2002-03 £ million	
			Lower	Upper
Bro Taf Health Authority	(2.57)	(12.01)	(10.31)	(12.41)
Cardiff and Vale NHS Trust	0.02	0.06	(3.45)	(3.45)
North Glamorgan NHS Trust	(0.14)	(2.05)	(0.35)	(0.35)
Pontypridd and Rhondda NHS Trust	0.06	0.90	(0.40)	(0.40)
Velindre NHS Trust	(0.03)	2.50	(0.14)	(0.14)
Bro Taf health economy area total	(2.66)	(10.60)	(14.65)	(16.75)

Source: Audited accounts for 2001-2002 and NHS Wales Department. National Assembly for Wales forecast

APPENDIX A2

Dyfed Powys health economy area

A2.1 The health bodies within the Dyfed Powys health economy area reported an overall net deficit of £3.26 million for 2001-02. The accumulated net deficit at 31st March 2002 was £32.88 million. The health authority accumulated deficit has increased from £24.31 million to £28.12 million at 31st March 2002 after allowing for the in year deficit of £3.81 million and deferred income of £5.76 million.

A2.2 The NHS Wales Department advises that a deficit of between £15.14 million and £15.33 million is forecast for the Dyfed Powys health economy area for 2002-03. The Department approved a Service and Financial Framework for the health economy area for 2002-03 which identified a maximum deficit of £14.46 million, which will be financed by a loan to the health economy from the Assembly. The forecast variance from the Framework is due primarily to unplanned additional costs of primary care prescribing and continuing care. The Minister for Health and Social Services requested the National Audit Office to review the deficit that emerged in the Dyfed Powys health economy during the preparation of the 2002-03 Service and Financial Framework.

A2.3 The following trusts were given brokerage in the form of strategic assistance funding:

- ▶ Carmarthenshire NHS Trust - £3.56 million
- ▶ Ceredigion & Mid Wales NHS Trust - £0.52 million
- ▶ Pembrokeshire & Derwen NHS Trust - £2.08 million

The above included a contribution of £1.69million from Dyfed Powys health authority. Pembrokeshire & Derwen NHS Trust received exceptional income of £2.21 million during the year, thus enabling it to meet its breakeven duty. In addition, Ceredigion NHS Trust received £0.80 million for the same purpose.

A2.4 The NHS Wales Department has told me that Dyfed Powys trusts expect to meet their planned targets for 2002-03 through the use of non-recurrent measures.

Table 5

Dyfed Powys health economy area 2001-2002 financial results, and the forecast for 2002-2003

	Surplus/(deficit) for 2001-02 £ million	Accumulated surplus/ (deficit) at 31 March 2002 £ million	Forecast surplus/ (deficit) for 2002-03 £ million	
			Lower	Upper
Dyfed Powys Health Authority	(3.81)	(28.12)	(5.25)	(5.44)
Carmarthenshire NHS Trust	(1.60)	(4.51)	(6.00)	(6.00)
Ceredigion and Mid Wales NHS Trust	0.59	(0.32)	(0.76)	(0.76)
Pembrokeshire and Derwen NHS Trust	1.96	(0.49)	(2.44)	(2.44)
Powys Healthcare NHS Trust	(0.40)	0.56	(0.69)	(0.69)
Dyfed Powys health economy area total	(3.26)	(32.88)	(15.14)	(15.33)

Source: Audited accounts for 2001-2002 and NHS Wales Department, National Assembly for Wales forecast

APPENDIX A3

Gwent health economy area

- A3.1 The health bodies within the Gwent health economy area reported an overall net deficit of £1.31 million for 2001-02. The accumulated net deficit at 31st March 2002 was £10.37 million. The Health Authority deficit has increased from £9.14 million to £10.46 million at 31st March 2002 after allowing for the in year deficit of £1.32 million and deferred income of £11.42 million.
- A3.2 The NHS Wales Department advises that a deficit of between £4.79 million and £5.98 million is forecast for the Gwent health economy area for 2002-03. The Department approved a Service and Financial Framework for the health economy area for 2002-03 which made provision for a maximum deficit of £5 million. The forecast variance from the Framework is due primarily to unplanned additional costs of primary care prescribing.
- A3.3 The Gwent health economy recovery plan obtained ministerial approval in August 2002. The plan provides for the health economy to achieve underlying financial balance by 2003-04, with all deficit financing to be fully repaid by 2005-06. The Welsh Assembly Government provided £3 million strategic assistance funding in 2001-02 which will be offset against future income growth for the health economy anticipated following the implementation of the Townsend resource allocation formula.

Table 6

Gwent health economy area 2001-2002 financial results, and the forecast for 2002-2003

	Surplus/(deficit) for 2001-02 £ million	Accumulated surplus/ (deficit) at 31 March 2002 £ million	Forecast surplus/ (deficit) for 2002-03 £ million	
			Lower	Upper
Gwent Health Authority	(1.32)	(10.46)	(4.73)	(5.92)
Gwent Healthcare NHS Trust	0.01	0.09	(0.06)	(0.06)
Gwent health economy area total	(1.31)	(10.37)	(4.79)	(5.98)

Source: Audited accounts for 2001-2002 and NHS Wales Department,, National Assembly for Wales forecast

APPENDIX A4

Iechyd Morgannwg health economy area

A4.1 The health bodies within the Iechyd Morgannwg health economy area reported an overall net deficit of £0.72 million for 2001-02. The accumulated net surplus at 31st March 2002 was £4.01 million. The Health Authority surplus has decreased from £1.52 million to £0.79 million at 31st March 2002 after allowing for the in year deficit of £0.73 million and deferred income of £4.15 million.

A4.2 The NHS Wales Department advises that a deficit of £2.21 million is forecast for the Iechyd Morgannwg health economy area for 2002-03. The Department approved a Service and Financial Framework for the health economy area for 2002-03 which made provision for a maximum deficit of £3.13 million.

Table 7

Iechyd Morgannwg health economy area 2001-2002 financial results, and the forecast for 2002-2003

	Surplus/(deficit) for 2001-02 £ million	Accumulated surplus/ (deficit) at 31 March 2002 £ million	Forecast surplus/ (deficit) for 2002-03 £ million	
			Lower	Upper
Iechyd Morgannwg Health Authority	(0.73)	0.79	(2.21)	(2.21)
Bro Morgannwg NHS Trust	0	0.05	0	0
Swansea NHS Trust	0.01	3.17	0	0
Iechyd Morgannwg health economy area total	(0.72)	4.01	(2.21)	(2.21)

Source: Audited accounts for 2001-2002 and NHS Wales Department, National Assembly for Wales forecast

APPENDIX A5

North Wales health economy area

- A5.1 The health bodies within the North Wales health economy area reported an overall net deficit of £5.06 million for 2001-02. The accumulated net deficit at 31st March 2002 was £2.98 million. The accumulated Health Authority surplus has decreased from £2.04 million to a deficit of £1.91 million at 31st March 2002 after allowing for the in year deficit of £3.95 million and deferred income of £5.05 million.
- A5.2 The NHS Wales Department advises that a deficit of between £3.77 million and £4.77 million is forecast for the North Wales health economy area for 2002-03. The Department approved a Service and Financial Framework for the health economy area for 2002-03 which made provision for a maximum deficit of £3.50 million, and includes strategic assistance from the Health Authority to North East Wales NHS Trust of £0.70 million and Conwy & Denbighshire NHS Trust of £0.50 million. The forecast variance from the Framework is due primarily to unplanned additional locum and primary care prescribing costs. The economy is working on strategies to deliver to the financial target set out in the service and financial framework.
- A5.3 The North East Wales NHS Trust recovery plan was approved by the Minister in March 2002. The plan provides for the Trust to achieve underlying financial balance by 31 March 2004. The Trust achieved its recovery plan target in 2001-02 and received the following strategic assistance - £0.27 million from the Welsh Assembly Government and £1.09 million from North Wales Health Authority. The NHS Wales Department told me that they do not expect the Trust to meet its overall recovery target, but will meet individual savings targets in 2002-03.

Table 8

North Wales health economy area 2001-2002 financial results, and the forecast for 2002-2003

	Surplus/(deficit) for 2001-02 £ million	Accumulated surplus/ (deficit) at 31 March 2002 £ million	Forecast surplus/ (deficit) for 2002-03 £ million	
			Lower	Upper
North Wales Health Authority	(3.95)	(1.91)	(3.10)	(4.10)
Conwy & Denbighshire NHS Trust	(0.59)	(0.48)	Break-even	Break-even
North East Wales NHS Trust	(0.45)	(0.65)	(0.67)	(0.67)
North West Wales NHS Trust	(0.07)	0.06	Break- even	Break-even
North Wales health economy area total	(5.06)	(2.98)	(3.77)	(4.77)

NOTE

The accounts of the Welsh Risk Pool are included within those of the Conwy and Denbighshire NHS Trust

Source: Audited accounts for 2001-2002 and NHS Wales Department, National Assembly for Wales forecast

APPENDIX A6

Welsh Ambulance Services NHS Trust

A6.1 The Trust met its recovery plan targets in 2001-2002 and was therefore provided with £0.45 million cash assistance. The NHS Directorate has told me that they expect the Welsh Ambulance Services NHS Trust to meet its planned targets for 2002-2003.

Table 9

Welsh Ambulance Services NHS Trust 2001-2002 financial results, and the forecast for 2002-2003

	Surplus/(deficit) for 2001-02 £ million	Accumulated surplus/ (deficit) at 31 March 2002 £ million	Forecast surplus/ (deficit) for 2002-03 £ million	
			Lower	Upper
Welsh Ambulance Services NHS Trust	(2.20)	(4.32)	0.95	0.95

Source: Audited accounts for 2001-2002 and NHS Wales Department, National Assembly for Wales forecast

APPENDIX A7

Dental Practice Board: General Dental Services in Wales

A7.1 From the 2000-2001 financial year, the account of the Dental Practice Board's General Dental Services in Wales is consolidated into the summarised account of health authorities in Wales.

Table 10

Dental Practice Board: General Dental Services in Wales 2001-2002 financial results, and the forecast for 2002-2003

	Surplus/(deficit) for 2001-02 £ million	Accumulated surplus/ (deficit) at 31 March 2002 £ million	Forecast surplus/ (deficit) for 2002-03 £ million	
			Lower	Upper
Dental Practice Board: General Dental Services in Wales	(0.76)	(11.8)	0	0

Source: Audited accounts for 2001-2002 and NHS Wales Department, National Assembly for Wales forecast