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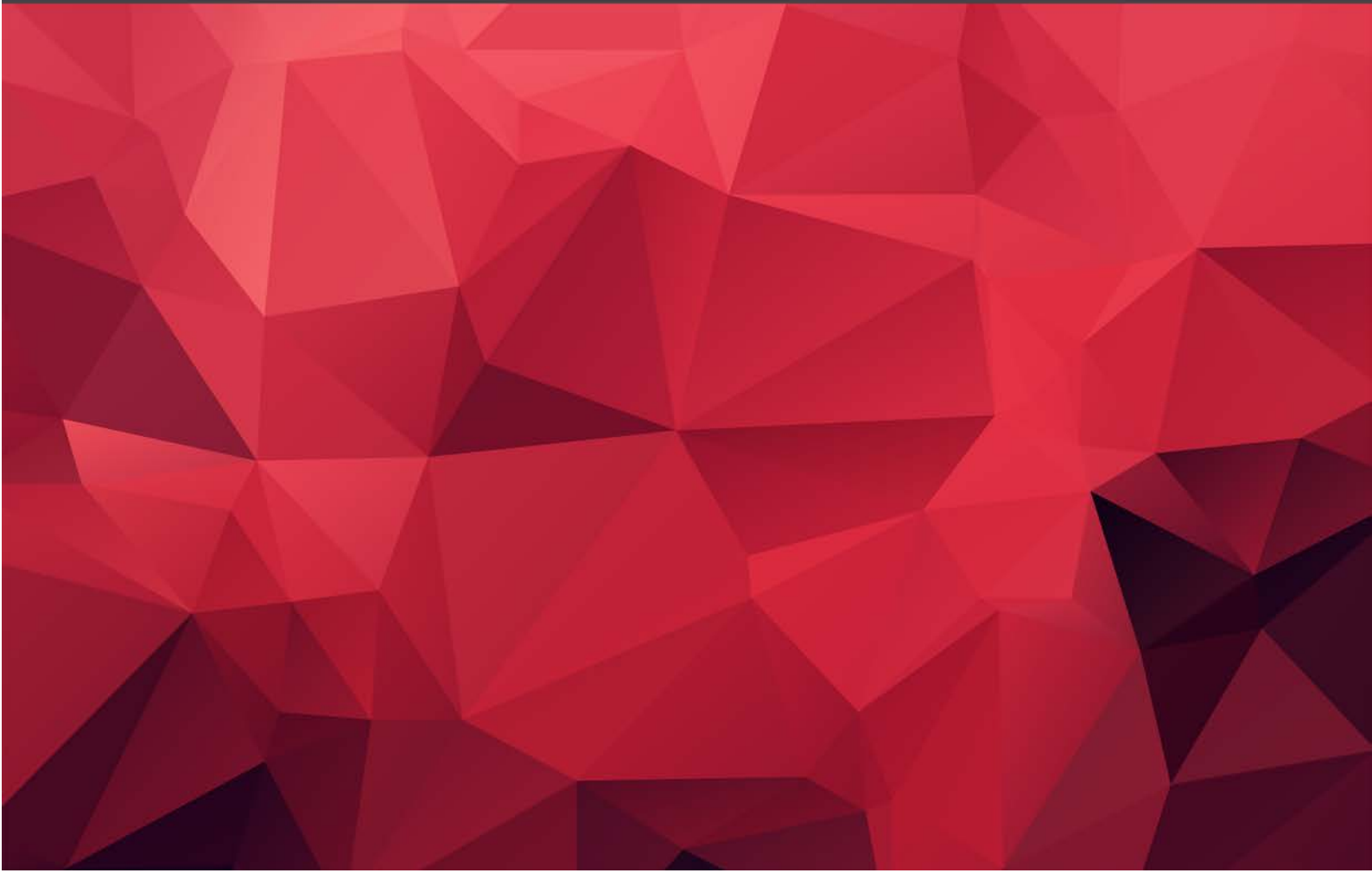
Archwilydd Cyffredinol Cymru
Auditor General for Wales

Annual Audit Report 2018 – **Public Health Wales NHS Trust**

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This report was prepared for the Auditor General by Gabrielle Smith, Anthony Ford, Anthony Veale and Dave Thomas.

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Summary report

About this report

- 1 This report summarises the findings from the audit work I have undertaken at Public Health Wales NHS Trust (the Trust) during 2018. I did that work to carry out my responsibilities under the Public Audit (Wales) Act 2004. That Act requires me to:
 - a) examine and certify the accounts submitted to me by the Trust, and to lay them before the National Assembly;
 - b) satisfy myself that the expenditure and income to which the accounts relate have been applied to the purposes intended and in accordance with the authorities which govern it; and
 - c) satisfy myself that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2 I have reported my findings under the following headings:
 - Key messages
 - Audit of accounts
 - Arrangements for securing economy, efficiency and effectiveness in the use of resources
- 3 I have issued several reports to the Trust this year. This annual audit report is a summary of the issues presented in these more detailed reports, a list of which is included in [Appendix 1](#).
- 4 [Appendix 2](#) presents the latest estimate on the audit fee that I will need to charge to cover the actual costs of undertaking my work at the Trust, alongside the original fee that was set out in the 2018 Audit Plan.
- 5 The Chief Executive and the Director of Finance have agreed this report is factually accurate. We presented it to the Audit Committee on January 23, 2019. The Board will receive the report at a later Board meeting and every member will receive a copy. We strongly encourage the Trust to arrange wider publication of this report. We will make the report available to the public on the [Wales Audit Office website after the Board have considered it](#).
- 6 I would like to thank the Trust's staff and members for their help and co-operation during the audit work my team has undertaken over the last 12 months.

Key messages

Audit of accounts

- 7 I have concluded that the Trust's accounts were properly prepared and materially accurate, and my work did not identify any material weaknesses in the Trust's internal controls relevant to my audit of the accounts. I have therefore issued an unqualified opinion on their preparation.
- 8 The Trust had no material financial transactions within its 2017-18 accounts that were not in accordance with authorities and so I have issued an unqualified opinion on the regularity of the financial transactions within its 2017-18 accounts.
- 9 The Trust achieved financial balance for the three-year period ending 31 March 2018. It has an approved three-year plan in place. As there were no issues which warranted highlighting, no substantive report was placed on the Trust's accounts.

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

- 10 My 2018 structured assessment work at the Trust has found that:
 - The Trust is generally well led and well governed but could improve the breadth of information presented to the Board;
 - There is a cohesive and well aligned planning framework with changes to performance reporting underway to better assess progress against strategic priorities and the value and impact delivered; and
 - The Trust generally manages its workforce, finance and physical assets well day to day with good support available to managers and budget holders, but it could improve aspects of procurement, financial reporting and workforce performance.
- 11 The Trust is participating in the National Fraud Initiative and was slow to make use of the data matches released in 2017.
- 12 These findings are considered further in the following sections.

Detailed report

Audit of accounts

- 13 This section of the report summarises the findings from my audit of the Trust's financial statements for 2017-18. These statements are how the organisation shows its financial performance and sets out its net operating costs, recognised gains and losses, and cash flows. Preparing the statements is an essential element in demonstrating appropriate stewardship of public money.
- 14 In examining the Trust's financial statements, I must give an opinion on:
- whether they give a true and fair view of the financial position of the Trust and of its income and expenditure for the period in question;
 - whether they are prepared in accordance with statutory and other requirements, and meet the relevant requirements for accounting presentation and disclosure;
 - whether that part of the remuneration report to be audited is properly prepared;
 - whether the other information provided with the financial statements (usually the annual report) is consistent with them; and
 - the regularity of the expenditure and income in the financial statements.
- 15 In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).

I have issued an unqualified opinion on the accuracy and proper preparation of the 2017-18 financial statements of the Trust

I have concluded that the Trust's accounts were properly prepared and materially accurate, and my work did not identify any material weaknesses in the Trust's internal controls relevant to my audit of the accounts

- 16 I received information in a timely and helpful manner and was not restricted in my work. I found the information provided by the Trust to be relevant, reliable, comparable, material and easy to understand. I concluded that accounting policies and estimates were appropriate and financial statement disclosures unbiased, fair and clear.
- 17 I reviewed those internal controls that I considered to be relevant to the audit to help me identify, assess and respond to the risks of material misstatement in the accounts. I did not consider them for the purposes of expressing an opinion on the operating effectiveness of internal control. My review did not identify any significant deficiencies in the Trust's internal controls.

18 I must report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues to the Trust's Audit and Corporate Governance Committee on May 30, 2018. **Exhibit 1** summarises the key issues set out in that report.

Exhibit 1: issues identified in the Audit of Financial Statements Report

The following table summarises and provides comments on the key issues identified.

Issue	Auditors' comments
Uncorrected misstatements	There were no misstatements identified in the financial statements, which remained uncorrected.
Corrected misstatements	There were several minor misstatements that were corrected by management. These misstatements related to disclosure amendments including some additional disclosures. None of these amendments impacted on the retained surplus reported by the Trust.
Other significant issues	There were no significant issues.

I have issued an unqualified audit opinion on the regularity of the financial transactions within the financial statements of the Trust

The Trust had no material financial transactions within its 2017-18 accounts that were not in accordance with authorities and so I have issued an unqualified opinion on the regularity of the financial transactions within its 2017-18 accounts

19 The Trust's financial transactions must be in accordance with authorities that govern them. It must have the powers to receive the income and incur the expenditure that it has. Our work reviews these powers and tests that there are no material elements of income or expenditure which the Trust does not have the powers to receive or incur.

The Trust achieved financial balance for the three-year period ending 31 March 2018 and has an approved three-year plan in place. As there were no issues which warranted highlighting, no substantive report was placed on the Trust's accounts

20 I have the power to place a substantive report on the Trust's accounts alongside my opinions where I want to highlight issues. I did not issue a substantive report on accounts because the Trust met both of its financial duties and there were no other issues warranting report.

21 The Trust achieved financial balance in 2017-18 and retained a small surplus (£28,000). The Trust met financial duties to break even over a rolling three-year

period (2015-16 and 2017-18) and to have an approved integrated medium-term plan (IMTP) for the period 2017-18 to 2019-20.

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

- 22 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. I have undertaken performance audit work at the Trust over the last 12 months to help me discharge that responsibility. This work has involved:
- assessing the effectiveness of the Trust's governance and assurance arrangements;
 - reviewing the Trust's approach to strategic planning;
 - examining the arrangements in place for managing the Trust's workforce, finances, procurement and assets;
 - reviewing the Trust's arrangements for tracking progress against external audit recommendations; and
 - assessing the progress in the application of data-matching as part of the National Fraud Initiative (NFI).
- 23 My conclusions based on this work are set out below.

The Trust is generally well led and well governed but could improve the breadth of information presented to the Board

- 24 My structured assessment work examined the Trust's governance arrangements, the way in which the Board and its sub-committees conduct their business and assures itself that risks to achieving strategic priorities are well managed. It also assessed the extent to which organisational structures are supporting good governance and clear accountabilities. I also looked at the information that the Board and its committees receive to help them oversee and challenge performance and monitor the achievement of organisational objectives. I found the following.

The Board continues to operate effectively, although there are on-going challenges with the recruitment of non-executive directors

- 25 My work found that there is a good approach to the cycle of Board and committee business, with annual workplans developed in consultation with the Trust Chair, Chief Executive, Committee Chairs and the relevant lead executive directors. The administration of board and committee meetings is good. Meetings run to time and allow appropriate discussion and challenge. There are good flows of assurance and risks from committees to the Board and sufficient time is available at board

meetings for committee chairs to present matters arising. Where appropriate, the Board delegates oversight and scrutiny to its committees.

- 26 In May 2018, the Board approved a decision-making framework, which board members developed collaboratively. The framework acts as a guide to those developing proposals for which a board decision is needed and the criteria that board members should consider when reaching a decision to approve proposals. The Trust's Research Division is currently evaluating the decision-making framework by reviewing previous board decisions to assess how well decisions marry to the criteria for reaching a decision.
- 27 Since my 2017 report, the Trust has improved documentation of governance processes as part of a planned programme of work, starting with revisions to its Standing Orders, which the Board approved in January 2018. The Trust plans to revise its Standing Financial Instructions (SFIs) in-line with ongoing national work. Policies and procedures for declarations of interest, gifts and hospitality have also been revised and relevant signatories targeted to ensure they are aware of their responsibilities and to declare any interests. The Trust is developing an easy read version of the Declarations of Interests, Gifts, Hospitality and Sponsorship Policy as part of work to revamp its intranet governance pages.
- 28 In 2017, I found that the need to fill vacant non-executive posts was becoming pressing. Two non-executive directors joined the Board on a job share basis in April 2018, but vacancies remain, and recruitment is still difficult. Arrangements are in place to increase capacity in the short-term. The Board reviewed and revised all committee terms of reference to ensure consistency in the number of committee members and quoracy and support better workload management.
- 29 The Board and committees remain committed to reviewing their effectiveness and a cycle of regular self-assessments is included in annual workplans. However, limited capacity within the board secretariat during summer 2018 appears to have affected the frequency of reporting against action plans to address the improvements identified. Plans for the People and Organisational Development Committee to review its effectiveness in early 2018 did not materialise and is now planned for the autumn when a new Committee Chair takes over. The Board identified the need to increase its visibility amongst staff and is making reasonable progress to do so.
- 30 The committee specific induction and knowledge development is being addressed as part of a wider board development programme, which the Trust's People and Organisational Development team is organising. In addition, the Trust has commissioned specialist expertise to support committee chairs enhance their skills in providing assurance to the Board and to provide independent strategic advice to board members, for example in financial management.

The Trust has a well-developed board assurance framework (BAF) supported by an effective risk management system

- 31 The Trust's board assurance framework (BAF) – the key document setting out the key strategic objectives, risks, controls and assurances to the board - is well established. The BAF format was revised in 2018 in consultation with board members and the Board worked collectively to identify the strategic risks. The Board agreed the risk appetite for each strategic priority, and collectively the individual risk appetites form the annual statement of risk, which is set out in the Trust's annual operational plan. All board members responding to my survey reported that they understand the risks to achieving strategic objectives and how these risks are managed, while information presented to the Board allows them to effectively scrutinise actions taken to mitigate risks. Last year I was critical that little time appeared to be allocated on committee agendas for scrutiny of the BAF and a review of meeting agendas and observation of committee meetings indicates that more time is now allocated and used to review the BAF.
- 32 The Trust has a well-established risk management system. Work to develop a risk maturity matrix based on the requirements of the international risk management standard ISO31000 is complete. In summer 2018, the Trust self-assessed its risk management system and found that overall it was 'developing', that is, it generally met the requirements of ISO31000 standard.

The Trust's system of assurance is generally robust nevertheless there is still scope to improve the information reported to the Board on the breadth of the Trust's business

- 33 My work found that the Trust's system for updating organisation-wide policies and procedures continues to work well. Currently, 61% of organisation-wide policies and procedures are in date, and the Trust aims to increase this proportion to 75% before the end of March 2019.
- 34 The Trust continues to strengthen and improve arrangements for information governance and information security. Its annual self-assessment using the Caldicott Principles into Practice (C-PIP)¹ toolkit shows continued improvement while compliance with information governance training has also improved and now stands at 89%. The Trust's Information Asset Register is now a live and dynamic tool with information assets added and removed as required.
- 35 In early 2018, an external review of information governance and information security was undertaken at the Trust as part of a broader programme of work across NHS Wales. The reviewers identified areas for improvement, which the Trust is addressing and progress is regularly monitored by the two executive directors responsible for informatics and information governance and information

¹ NHS organisations must annually assess compliance with the Caldicott Principles for ensuring that patient identifiable information is protected and only used when it is appropriate to do so, as well as implementing a plan of action for improvement.

security. My review of Board and committee papers indicates that neither the Board nor its Quality, Safety and Improvement Committee had considered the external review findings except for GDPR readiness. Notwithstanding the good progress made by the Trust and the oversight provided by the executive directors, the external assessors' recommendations were not considered by the Board or its committees in the same way as those arising from other external or peer reviews.

- 36 For the first time in 2018, the Board identified cyber security as a strategic risk and recorded it on the BAF. The Trust is acting to ensure that the appropriate controls are in place to mitigate the risk alongside ongoing work to address the improvements identified by the external reviewers. Information security risks continue to be managed within the overall Risk Management Policy. The Trust is also strengthening its capacity and capability in cyber security and has appointed a specialist.
- 37 I was critical in 2017 that the Trust's IMTP Delivery Framework did not include performance measures for important elements of the Trust's business. I recommended that realistic measures be developed to ensure the same level of board scrutiny across all business activities. The arrangements for monitoring and reporting against the Trust's IMTP Delivery Framework remain largely the same and the Delivery Framework has not been expanded to include measures covering the full breadth of the Trust's business.
- 38 In 2017, the Board concluded that the information it received was acceptable but there was potential for improvement. My survey of board members found that all board members were generally confident in the quality and accuracy of the information received and that it was sufficient to inform decision making and to support effective scrutiny. However, not all board members were confident that the information received by the Board covered the breadth of the organisation's business or strategic issues.
- 39 Over the last couple of years, the Trust has implemented several streams of work to demonstrate the quality and impact of its work as part of its broader quality governance arrangements. The Trust established the 'value and impact measurement project' to define what values-based healthcare means for the organisation with work largely focused on resource use to achieve value and impact. In the meantime, work to develop quality and impact indicators concluded earlier this year. Quality and impact indicators (focused on safety, effectiveness, feedback, leadership and culture) were developed in partnership with divisional and directorate staff and approved by the Board in May 2018. The quality and impact indicators are now part of the quality section within the integrated performance report. The Trust plans to review and refine the quality and impact indicators on an annual basis with the first review planned for the end of March 2019.

The Audit and Corporate Governance Committee's approach for tracking progress against internal and external audit recommendations continues to work well

- 40 The Audit and Corporate Governance Committee has a well-established approach for tracking progress against internal and external audit recommendations. Progress is considered at every meeting and the pace of progress regularly challenged. Trust officers continue to attend committee meetings as part of this challenge, particularly when action is taking longer than anticipated and where audit reports provide limited assurance. Where an issue under scrutiny is significant, the Committee will receive progress reports more frequently because of the elapsed time between meetings.

Organisation and committee structures are changing to further improve oversight and scrutiny of statutory functions and delivery of strategic priorities

- 41 My work found that the appointment of a new Chair in September 2018 and the development of the long-term strategy provided the impetus for the Board to critically appraise committee arrangements and organisational design. It identified a need to establish a Knowledge, Research and Information Committee to provide advice and assurance on the quality and impact of the Trust's knowledge, health intelligence and research activities. The new committee will take on responsibility for research governance, data quality and information governance that currently sits with the Quality, Safety and Improvement Committee. An Official Statistics Group has been established to ensure that the Trust fulfils its role as a producer of official statistics and complies with the 2018 Code of Practice for Statistics.
- 42 The Trust's organisational structure is largely unchanged since 2015. At the time of our audit, the Trust was consulting with staff on proposals to the way in which some functions and teams are organised. The most notable proposal is to bring together the evidence, health intelligence and research functions into a new Knowledge Directorate, which will address recommendations from the external peer review of its health intelligence function, as well as strengthen board-level oversight of these functions.
- 43 The Trust is establishing a new governance division within the Quality, Nursing and Allied Health Professionals Directorate. This Directorate will bring together the corporate governance function that currently sits with the Board Secretariat with the quality and clinical governance, information governance and risk management arrangements that already sit within the directorate. Responsibility for research governance will sit with the new Knowledge Directorate. The Board Secretariat will become the Board Business Unit, which will provide advice and support to the Board to enable it to discharge its responsibilities.

There is a cohesive and well aligned planning framework with changes to performance reporting underway to better assess progress against strategic priorities and the value and impact delivered

- 44 My work examined how the Board engages partners and sets the strategic direction for the organisation. I also assessed how well the Trust plans the delivery of its objectives and how it monitors progress in delivering the plans. My findings are set out below.

There is a cohesive approach to strategic planning and the Trust is working to align workforce plans more effectively

- 45 In July 2018, the Board approved the Trust's long-term strategy for 2018-30, which was the culmination of extensive engagement with staff, stakeholders and the public during 2017. The integrated medium-term plan (IMTP), approved by the Cabinet Secretary for Health and Social Services in June 2018, sets out the strategic objectives underpinning the long-term strategy. The Trust's annual operational plan describes the key actions and associated milestones to be achieved or delivered month by month in year one of the IMTP.
- 46 The Trust continues to adopt an inclusive bottom-up approach to developing the IMTP. Its planning and performance team facilitated a series of regular planning events to enable cross-organisational planning and improve awareness of directorates' collective contribution to achieving strategic objectives and to prevent directorates planning in silos.
- 47 The IMTP is underpinned by a balanced financial plan. To achieve financial balance in 2018-19, the Trust must deliver savings totalling £2.19 million. Although the Trust has a good track record in delivering savings, this year it built into financial planning assumptions an element for underachievement to ensure contingency for any slippage, particularly for savings categorised as high risk. Of the total savings identified, £400,000 of planned savings is linked to organisational efficiency workstreams to create additional in year investment, although these savings are not expected to materialise until part way through the year.
- 48 The IMTP is not yet underpinned by an organisation wide workforce plan. Instead the IMTP provides a snapshot of the workforce profile and highlights several workforce challenges identified in workforce plans at a directorate and divisional level. An organisation-wide workforce plan is expected to be in place by the end of 2018 to inform the 2019-22 IMTP.
- 49 Last year, I reported that the Trust had an ambitious programme of informatics developments planned to support delivery of its IMTP, but the digital strategy and programme management arrangements had yet to be approved and implemented. The digital strategy is still to be formally agreed and the Trust plans to update its digital approach in line with the long-term strategy. Other than the arrangements

for scoring bids for discretionary capital, no formal arrangements are in place to prioritise digital developments. Proposed changes to organisational and committee structures should support prioritisation and ensure appropriate oversight and scrutiny of the pace of delivery of the digital strategy.

Arrangements for monitoring and reporting on the annual plan are largely unchanged, and progress is now reported more frequently

- 50 The Board retains overall responsibility for the oversight and scrutiny of the annual plan while operational responsibility for delivery remains with divisional directors and other senior managers accountable to the executive team. At the time of my audit, the Trust was developing a new accountability framework for the delivery of individual strategic priorities set out in the IMTP and the annual plan. The Trust's intention is to improve both leadership and cross-organisational working for delivering on its strategic priorities, but it is too early to form a view on the effectiveness of these new arrangements.
- 51 In 2017, I was critical that reporting against the annual plan was infrequent given the Trust's intention to report quarterly. This year, I found that the Board now receives quarterly reports on progress. Progress is summarised in the integrated performance report presented to the Board. The Trust uses the RAG (red, amber, green) system to highlight the number of actions set out in the plan that are on-track or completed within agreed milestones or behind schedule. Reasons for delays are set out in a detailed exception report where delivery against strategic priority milestones is behind schedule or will not be completed in agreed timescales.
- 52 The Trust's IMTP sets out its ambition to design and implement a new performance management framework to demonstrate more effectively progress against the strategic priorities, as well as the value and impact delivered. However, my work indicates that it is likely to take longer if the Trust needs to develop and agree outcome and impact measures related to its strategic priorities.
- 53 My work found that in future Board agendas will be organised to allow detailed consideration of one strategic priority at each meeting, apart from strategic priority 7 (building and mobilising knowledge and skills to improve health and well-being across Wales). Priority 7 will be largely delivered by parts of the Trust's business not currently monitored and reported as part of the Delivery Framework or captured in the integrated performance report. As such, this may be a lost opportunity for assurance unless the new Board committee provides the oversight and scrutiny and board assurance.

The Trust generally manages its workforce, finance and physical assets well day to day with good support available to managers and budget holders, but it could improve aspects of procurement, financial reporting and workforce performance

54 My work examined the Trust's arrangements for managing its workforce, its finances and other physical assets to support the efficient, effective and economical use of resources. I also considered the arrangements for procuring goods and services, and the action being taken to maximise efficiency and productivity. My findings are set out below.

The Trust's arrangements and support for managing and developing the workforce continue to improve with improvements reflected in some key performance measures

55 The Trust performs better on sickness absence compared with the Wales average but the current 12-month rolling average is above the 3.25% target. There were 1,846 periods of sickness absences recorded during 2017-18 and of these, 72% lasted seven days or less and resulted in 3,547 lost work days. All episodes of sickness absence cost the Trust £2.1 million in salary costs alone during 2017-18.

56 The Trust has introduced a range of initiatives to understand and tackle sickness absence, but the impact of these initiatives on the 12-month rolling average sickness absence rate is not yet evident. 'Anxiety/stress/depression/other psychiatric illnesses' remains the most frequently cited reason for sickness absence. The Trust developed a stress prevention and mental wellbeing policy and implemented initiatives to support stress and anxiety management and to improve mental wellbeing in the workplace. It is perhaps too early to assess the impact of these initiatives on sickness absence, but the proportion of absences attributed to this reason is reducing, from 31.9% at July 2017 to 25.5% at August 2018.

57 Although the Trust's turnover rate (10.3%) is higher than the Wales average (6.9%), it is reducing and better than the rate I reported last year (11.9%). The Trust is reintroducing exit interviews alongside the exit questionnaire currently in use, increasing flexible working and undertaking more work to look at the use of fixed-term contracts given this is one of the frequently cited reasons for leaving. Although turnover is relatively high, the number of advertised vacancies in any one month is very small and the time taken to recruit² continues to improve. At July 2018, recruitment took 41.4 days.

58 Compliance with annual appraisals and performance reviews for non-medical and non-dental staff is improving and at September 57% of staff had been appraised in the previous 12 months. The Trust is confident that actual compliance is higher

² Time to recruit is measured from the time the advert is placed until all pre-employment checks are complete and since April 2016, the measures also includes the issue of an unconditional offer letter.

because not all appraisal information is routinely captured on the Electronic Staff Record. This assertion is supported by the 2018 NHS Wales staff survey findings in which 80% of Trust staff reported having had an appraisal and performance review in the last 12 months compared with 71% in 2016. Meanwhile, compliance with medical/dental appraisal and revalidation is 100%. Overall compliance with statutory and mandatory training (ie the core skills training framework) is 89%, exceeding the NHS Wales target (85%) and the Trust continues to work towards its own target of 95% compliance.

- 59 The Trust's expenditure on agency staff was £2.1 million in 2017-18, more than double the previous year. Agency expenditure as a proportion of the total pay bill was 2.8% compared with 3.7% across Wales (ranging from 0.3% to 6.5%). The Trust anticipates that overall agency expenditure will be the same this year given its ongoing reliance for locum and agency cover within the Microbiology Division where recruitment of consultant medical microbiologists and biomedical scientists is proving challenging.
- 60 However, the biggest proportion of agency expenditure is on administrative and clerical staff. As part of organisational efficiency savings this year, the Trust is looking to deliver savings totalling £200,000 by reducing the use of administrative and clerical agency staff. All future requests for administrative and clerical agency staff are now submitted to the Trust's Establishment Control Panel for approval. For each request turned down, the budget will be removed from the respective cost centre and held centrally. At the end of October, the Trust's financial return to the Welsh Government shows that it had yet to deliver any of the planned efficiency savings.
- 61 In 2017, the Trust introduced a workforce planning toolkit advocated in the NHS Wales Planning Framework and provided training for directorate and divisional managers responsible for workforce planning. Although managers were generally able to articulate their vision for the workforce, the depth and breadth of understanding of factors affecting workforce planning varied. The Trust also identified the need to involve its Heads of Professions in strategic workforce planning to identify cross-organisational issues for different professional groups. The Trust used the directorate and division level workforce plans to identify recurrent themes around learning and development, such as managing change and the needs to align individual development needs with the skills the Trust needs to deliver the long-term strategy.

The Trust's arrangements for financial management continue to work well with good support for budget holders but there is scope to improve aspects of financial reporting and compliance with procurement processes

- 62 My work found that the Trust's arrangements for the management and scrutiny of financial performance, including savings plans, are largely robust. The finance business partner model provides effective support to budget holders to scrutinise the financial position relative to budgets and agree the actions needed to manage

risks and recover overspends. The executive team continue to scrutinise the overall financial position on a quarterly basis, including the performance of individual savings schemes.

- 63 The content and format of the finance reports to Board remains largely the same. Last year, I recommended that the Trust includes information on the performance of re-investment plans funded through planned efficiency savings. The Trust intended to include information from month six onwards as it made investments. However, the latest board report (November 2018) did not include information on any re-investments.
- 64 The Trust continues to forecast a break even for the year ended 31 March 2019 and at the end of October its financial monitoring return to the Welsh Government showed a small surplus (£55,000). The Trust's integrated performance report to the Board is consistent with the Welsh Government financial monitoring return. However, we noted a difference between the financial monitoring return and the integrated performance report in relation to the volume of savings achieved.
- 65 The Welsh Government financial monitoring return shows that the Trust had delivered £1.14 million (52%) of its planned savings (£2.198 million) at the end of October. Based on our discussions with officers, the financial monitoring return is based on the assumption that savings are planned and delivered in more or less equal twelfths. However, directorate and divisional budgets were reduced at the start of the financial year to secure the level of savings required. Therefore, full year savings totalling £2.11 million (96%), largely attributable to pay, had already been achieved at the end of October, and reported to the Board through the integrated performance report. The financial monitoring return for month seven, however, shows that the Trust has yet to deliver any organisational efficiency savings (£400,000), which it expected to materialise part way through the year. The Trust reports that its break-even forecast is no longer reliant on delivery of these organisational efficiency savings.
- 66 There is no overall Trust procurement plan with procurement activity largely driven by capital plans linked to asset replacement. The Trust is strengthening procurement arrangements to ensure compliance with policies and procedures. It is also developing a system to capture planned procurement activity, which in turn will inform a procurement workplan. The system should also ensure that timely advice and guidance is available.
- 67 Procurement capacity is limited with procurement activity largely devolved to NHS Shared Services-Procurement Services (Procurement Services) through a Service Level Agreement. The Trust has a dedicated Head of Procurement, who is working to upskill the finance team to better support procurement activity. The Trust is establishing a procurement business partner model to reinforce roles and responsibilities of its staff and a procurement champions group is in place to reinforce day-to-day procedural compliance and ensure operational oversight of the procurement schedule.

- 68 The Trust's Business Leads Group, which includes the Head of Procurement, monitors procurement activity at an operational level. The Audit and Corporate Governance Committee regularly receives a procurement report providing information on single quotation action (SQA) and single tender actions (STA) and contract extensions as required by the Trust's SFIs. The SFIs set out the requirement to seek competitive quotations when procuring goods and services over a certain value. SQAs and STAs should be an exception and only used when a single firm or contractor or a propriety item of service is required.
- 69 My review of the information presented to the Committee found that the number of STAs and SQAs appears to have increased from 40 to 59 between September 2016 and August 2018. The format of the procurement reports changed between years and now includes information on STAs and SQAs where a file note has been placed as a record of decisions or authorisation of variations from normal practice. The change in reporting format may account for the apparent increase in STAs and SQAs. Based on the narrative presented in the procurement reports after September 2017, only 28 of the 59 STAs and SQAs were endorsed, that is followed procurement procedures. The remaining 31 were 'not endorsed'. Nonetheless procurement proceeded indicating that controls do not operate as effectively as they could. The procurement reports and Committee discussions indicate that the Trust is taking action to ensure compliance with procurement procedures.
- 70 The Trust's capital funding totals £1.61 million for 2018-19. A total of £1.13 million of the discretionary capital was allocated to a range of schemes with a small sum (£163,000) unallocated and held for contingency. Strategic capital funding (£322,000) is allocated for the development of a new information system for Cervical Screening Wales service. At the end of October 2018, unallocated discretionary capital increased by £100,000 because not all the strategic capital allocation for the cervical screening service information system would be spent by the end of March 2019. However, expenditure on discretionary capital schemes is behind profile and at the end of October less than 8% of the funding had been spent.
- 71 The Trust's asset base is relatively small and although there is no overarching asset management plan, it has a comprehensive asset register for its freehold estate and equipment. The asset register is maintained by a designated individual within the finance team while corporate and local policies and procedures set out roles and responsibilities for the management and disposal of assets. The asset register identifies the scale and cost of replacements, while information on the Trust's capital replacement programme for the next five years was set out in the board integrated performance report in July 2018.

Appendix 1

Reports issued since my last annual audit report

Exhibit 2: reports issued since my last annual audit report

The following table lists the reports issued to the Trust in 2018.

Report	Date
Financial audit reports	
Audit of Financial Statements Report	May 2018
Opinion on the Financial Statements	June 2018
Letter – Matters arising from our 2017-18 audit	September 2018
Performance audit reports	
Structured Assessment 2018	November 2018
Other reports	
2018 Audit Plan	March 2018

Appendix 2

Audit fee

The 2018 Audit Plan set out the proposed audit fee of £151,155 (excluding VAT). My latest estimate of the actual fee, on the basis that some work remains in progress, is in keeping with the fee set out in the outline.

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