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# Annual Audit Report 2015

# Betsi Cadwaladr University Local Health Board

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# Status of report

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The team who delivered the work comprised Matthew Edwards, Dave Thomas, Mandy Townsend and Mike Usher.

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# Summary report

**1.** This report summarises my findings from the audit work I have undertaken at Betsi Cadwaladr University Local Health Board (the Health Board) during 2015.

**2.** The work I have done at the Health Board allows me to discharge my responsibilities under the Public Audit (Wales) Act 2004 (the 2004 Act) in respect of the audit of accounts and the Health Board's arrangements to secure efficiency, effectiveness and economy in its use of resources.

**3.** The Health Board is the largest health organisation in Wales, providing a full range of primary, community, mental health and acute hospital services for a population of around 678,000 people across North Wales and a significant number of visitors and tourists to the area. The Health Board has a budget of around £1.3 billion, employs around 16,700 staff, and has three district general hospitals. It also provides care at 18 other acute and community hospitals and a network of over 90 health centres, clinics, community health team bases and mental health units. North Wales has 112 GP practices, 97 dentists, 74 opticians and 155 pharmacies providing NHS services.

**4.** In recent years the Health Board has faced a number of specific and well publicised challenges relating to its governance arrangements and aspects of patient care. In June 2015 the Minister for Health and Social Services placed the Health Board into special measures as a result of specific and ongoing concerns about the Health Board's governance, mental health, obstetric and GP out-of-hours services, and its ability to connect and engage with staff, stakeholders and the public.

**5.** Following the imposition of special measures in June 2015, the then Chief Executive was suspended and the Deputy Chief Executive of NHS Wales took over as interim Chief Executive. As a key initial response to special measures the interim Chief Executive and his leadership team introduced 100-day plans as a mechanism to focus attention on each of the areas of concern identified by the Minister.

**6.** In November 2015, the Deputy Minister for Health and Social Services announced that the Health Board would probably remain in special measures for at least two years, with regular milestone monitoring against an improvement plan. Specific additional support in a number of areas was also identified. It was recently confirmed that the previous Chief Executive will not be returning to his post. At the time of preparing this report, a substantive successor has been recruited and is due to take up the role in April 2016.

**7.** My audit work has focused on strategic priorities, including governance, as well as the significant financial and operational risks facing the Health Board, and which are relevant to my audit responsibilities. More detail on the specific aspects of my audit can be found in the separate reports I have issued during the year. These reports are discussed and their factual accuracy agreed with officers and presented to the Audit Committee. The reports I have issued are shown in Appendix 1.

**8.** This report has been agreed for factual accuracy with the interim Chief Executive and the Executive Director of Finance. It will be presented to the February 2016 Board meeting and a copy provided to every member of the Health Board. We strongly encourage wider publication of this report by the Health Board. Following Board consideration, the report will also be made available to the public on the Wales Audit Office's own website (www.audit.wales).

**9.** The key messages from my audit work are summarised under the following headings.

## Section 1: Audit of accounts

**10.** I have issued an unqualified opinion on the 2014-15 financial statements of the Health Board, although in doing so I have brought several issues to the attention of officers and the Audit Committee. Section 2 of this report sets out these matters in detail.

**11.** In addition, I placed a substantive report on the Health Board's financial statements alongside my audit opinion. My report explains the two new financial duties introduced on 1 April 2014 by the NHS Finance (Wales) Act 2014, the local Health Board's performance against them, and the implications for 2015-16.

**12.** I have also concluded that:

- The Health Board's accounts were properly prepared and materially accurate.
- The Health Board had an effective control environment to reduce the risk of material misstatements to the financial statements.
- The Health Board's significant financial and accounting systems were appropriately controlled and operating as intended; although there are some system weaknesses which require management action.

**13.** The Health Board did not achieve financial balance at the end of 2014-15. I set out more detail about the financial position and financial management arrangements in Section 2 of this report.

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

**14.** 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 a range of performance audit work at the Health Board over the last 12 months to help me discharge that responsibility.

**15.** My work this year had a strong governance focus. I undertook a specific focused piece of joint work with Healthcare Inspectorate Wales (HIW) in the autumn on the special measures areas of concern. I also reviewed the Health Board's arrangements for securing efficiency, effectiveness and economy in the use of its resources more widely throughout the year. This included my Structured Assessment work which examined the Health Board's financial management arrangements, the adequacy of its governance arrangements, and the progress made in relation to the improvement issues identified last year. In addition, I also undertook performance audit reviews on specific areas of service delivery. This work has led me to draw the following conclusions:

## Savings plans only address part of the financial shortfall, a significant year-end deficit is forecast and the Health Board is highly unlikely to achieve financial balance at the end of 2015-16

**16.** My work identified that the Health Board's financial management arrangements were insufficient as it failed to operate with within its 2014-15 revenue resource allocation, reporting a £26.6 million deficit.

**17.** Furthermore, the Health Board is yet to establish sound and sustainable delivery of financial targets in 2015-16 and is at significant risk of not achieving financial balance projecting a deficit of £19.7 million, increasing to a potential £89 million in 2016-17, unless the Health Board is given additional funds.

## Work is underway to improve governance, but some fundamental challenges remain and require urgent resolution

**18.** In recent years the Health Board has faced a number of specific and well publicised challenges relating to its governance arrangements and aspects of patient care. In June 2015 the Minister for Health and Social Services placed the Health Board into special measures as a result of as a result of a number of concerns which included the Health Board's governance arrangements.

**19.** Part of the initial response to special measures, the interim Chief Executive and his leadership team introduced 100-day plans as a mechanism of focusing attention on each of the areas of concern identified by the Minister. In October 2015 I wrote to the interim Chief Executive, jointly with the Chief Executive of HIW, setting out our assessment of the progress that had been made by the Health Board in addressing the concerns that led to the imposition of special measures. We concluded that despite a positive response to special measures, the Health Board still has a number of fundamental challenges to address. It remains in a precarious financial position, and needs to urgently implement a number of actions to strengthen its governance arrangements. Leadership capacity, capability and resilience are key risks and the absence of a clinical strategy and Integrated Medium Term Plan (IMTP) continue to hinder the Health Board's ability to deliver necessary changes quickly.

**20.** My structured assessment work took place throughout 2015, and both contributed to and built upon my joint work with HIW. As in previous years, my structured assessment work examined the adequacy of the Health Board's governance arrangements, and the management of key enablers that support effective use of resources. In examining these areas, I considered the progress made against improvement issues identified last year. For simplicity of reporting, I will report my findings on strategy, organisational structure, governance structures, Board effectiveness and management information, internal control and performance management in this section of my report.

**21.** Overall, my structured assessment work found that the Health Board has made some progress on governance matters, and has started to increase the pace of improvement following the imposition of special measures. In particular, I still have concerns around the absence of an agreed clinical services strategy, the incomplete reorganisation, and organisational grip and capacity in the interim structures. I also have some fundamental concerns about Board effectiveness with a lack of clarity in some Board assurance and reporting lines. However, I found a number of other areas were starting to show signs of progress, especially the new performance management arrangements and revised management information. The Board published both its vision and strategic objectives, enabling it to make progress on a revised Board Assurance Framework. Furthermore, I found continued steady progress on internal controls, and operational information governance continues to improve steadily across most areas.

## My examination of the key enablers of effective use of resources identified that capacity, capability and resilience challenges hinder the necessary pace of change

**22.** My structured assessment also included specific additional work on the key enablers of effective use of resources; including, change management, workforce, assets, engagement and technologies.

**23.** I found that change management expertise is fragmented across different functions, and there is insufficient internal expertise and capacity to support operational and clinical leaders.

**24.** My examination of workforce planning identified that progress has been made on nurse and midwifery recruitment and understanding current medical workforce needs, but resolving the long-term workforce challenges in the absence of a clear clinical strategy, and improved management of all staff groups will remain very challenging.

**25.** My work on estates and assets concluded that the Health Board has had significant governance concerns with a capital project, although it is now in a better position to pursue some longstanding estate development needs alongside its wider strategy development.

**26.** Partnership working and stakeholder engagement underpin many of the changes the Health Board is trying to make, and is one of the areas of ministerial concern under special measures. I kept an overview of developments in this area, in addition to my joint work with HIW, and found that the Health Board is in the process of rebuilding public and stakeholder confidence.

## My other performance work highlighted that variations in practice across the Health Board remain a challenge, although there are some signs of progress in recent months

**27.** I undertook a range of all-Wales mandated and local work over the last 12 months, covering a wide range of topics, and is summarised below:

- I found that acute medicines management is well led and comparatively well resourced, although organisational barriers limit engagement across the wider Health Board. There are also inequities across sites and scope to improve medicine storage, performance monitoring and a number of key medicines management processes.
- My work on follow-up outpatients found the Health Board faces growing numbers of delayed follow-up patients and does not fully understand the clinical service risk it is carrying for the delayed outpatients, but is beginning to plan to modernise its outpatient services.
- My work to support implementation of my audit recommendations helped the Health Board develop a more robust process for tracking the implementation of recommendations compared to previous years. I found some evidence of an increased pace of implementation of my recommendations over the last six months.
- My specific follow-up work on catering and patient nutrition services found reasonable progress in addressing recommendations to improve, with approximately half of my recommendations and suggestions achieved. Nevertheless, more work is needed to strengthen aspects of the nutritional screening process, to improve mealtime experiences for some patients, to further reduce the gap in income and costs for non-patient catering services, and to review planning and reporting arrangements following recent reorganisation of the service.

**28.** On behalf of my team, I gratefully acknowledge the assistance and co-operation of the Health Board's staff and members during the audit.

# Detailed report

## About this report

**29.** This Annual Audit Report to the Board members of the Health Board sets out the key findings from the audit work that I have undertaken between January and December 2015.

**30.** My work at the Health Board is undertaken in response to the requirements set out in the 2004 Act[1]. That act requires me to:

**a)** examine and certify the accounts submitted to me by the Health Board, 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 Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**31.** In relation to (c), I have drawn assurances or otherwise from the following sources of evidence:

- the results of audit work on the Health Board's financial statements;
- work undertaken as part of my latest Structured Assessment of the Health Board, which examined the arrangements for financial management, governance and accountability, and use of resources;
- performance audit examinations undertaken at the Health Board;
- the results of the work of other external review bodies, where they are relevant to my responsibilities; and
- other work, such as data-matching exercises as part of the National Fraud Initiative (NFI) and certification of claims and returns.

**32.** I have issued a number of reports to the Health Board this year. The messages contained in this Annual Audit Report represent a summary of the issues presented in these more detailed reports, a list of which is included in Appendix 1.

**33.** The findings from my work are considered under the following headings:

- Section 1: Audit of accounts
- Section 2: Arrangements for securing economy, efficiency and effectiveness in the use of resources

**34.** 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 Health Board, alongside the original fee that was set out in the 2015 Audit Plan.

**35.** Finally, Appendix 3 sets out the significant financial audit risks highlighted in my 2015 Audit Plan and how they were addressed through the audit.

[1] Public Audit (Wales) Act 2004

# Section 1: Audit of accounts

**36.** This section of the report summarises the findings from my audit of the Health Board's financial statements for 2014-15. These statements are the means by which the organisation demonstrates its financial performance and sets out its net operating costs, recognised gains and losses, and cash flows. Preparation of an organisation's financial statements is an essential element in demonstrating appropriate stewardship of public money.

**37.** In examining the Health Board's financial statements, I am required to give an opinion on:

- whether they give a true and fair view of the financial position of the Health Board and of its income and expenditure for the period in question;
- whether they are free from material misstatement – whether caused by fraud or by error;
- whether they are prepared in accordance with statutory and other requirements, and comply with all relevant requirements for accounting presentation and disclosure;
- whether that part of the Remuneration Report to be audited is properly prepared; and
- the regularity of the expenditure and income.

**38.** In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).

**39.** In undertaking this work, auditors have also examined the adequacy of the:

- Health Board's internal control environment; and
- financial systems for producing the financial statements.

## I have issued an unqualified opinion on the 2014-15 financial statements of the Health Board, although in doing so, I have brought several issues to the attention of officers and the Audit Committee and placed a narrative report alongside my audit opinion

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

**40.** The draft financial statements were produced for audit by the agreed deadline of 1 May 2015 and were of a high standard. Despite the challenging deadline, we found the information provided in the accounts to be relevant, reliable, comparable and materially complete. The significant estimates included within the financial statements relate primarily to accruals (primary care expenditure and holiday pay), and provisions (Continuing Health Care, clinical negligence, personal injury and others). We concluded that accounting policies and estimates were appropriate and financial statement disclosures unbiased, fair and clear. We encountered no significant difficulties during the audit and were not restricted in our work.

**41.** I am required by ISA 260 to report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues to the Health Board's Audit Committee on 4 June 2015. Exhibit 1 summarises the key issues set out in that report.

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

| Issue | Auditors' comments |
|---|---|
| The Health Board's financial management arrangements were undermined on a number of occasions during the year. | My follow-up on procurement issues identified some potential procedural breaches in respect of the use of single tender actions and waivers. I was satisfied that my provisional findings did not impact on my audit opinion on the 2014-15 financial statements, however I subsequently issued a separate audit report setting out my detailed findings. My findings are further detailed in paragraph 47 of this report. |
| The Health Board's stock taking procedures were not always followed. | We identified a number of instances whereby the Health Board's stock taking procedures were not followed, resulting in the inventories balance being understated by £44,000. Management accepted my recommendation for strengthening the Health Board's stock taking quality assurances processes in 2015-16, to ensure that the inventories disclosure is complete, accurate and is determined in accordance with the Health Board's stated accounting policy and procedures. |
| The accounting treatment of legacy lease arrangements transferred from predecessor bodies. | In 2012-13 and 2013-14 I reported an issue relating to the accounting treatment of a legacy lease arrangement for Fron Heulog School of Nursing at Bangor University, which was inherited from Powys Local Health Board in 2009. The Health Board agreed to review the treatment of Fron Heulog and other legacy arrangements as a matter of urgency to ensure full and appropriate disclosure in the 2014-15 financial statements. Whilst negotiations have been ongoing with NHS Wales Shared Services – Facility Services, the matter was not resolved in time to inform the preparation of the 2014-15 financial statements. On the basis of the information available to us, we concluded that the financial statements were not materially misstated. The Health Board has confirmed that the issue should be resolved in 2015-16. |

**42.** As part of my financial audit, I also undertook the following reviews:

- Whole of Government Accounts return – I concluded that the counterparty consolidation information was consistent with the financial position of the Health Board at 31 March 2015 and the return was prepared in accordance with the Treasury's instructions; and
- Summary Financial Statements and Annual Report – I concluded that the summary statements were consistent with the full statements and that the Annual Report was compliant with Welsh Government guidance.

**43.** The Health Board's draft 2014-15 charitable financial statements were prepared in May 2015. The early preparation of the draft financial statements built on the early closure arrangements established by the Health Board in previous years. I issued an unqualified opinion on the charitable financial statements on 2 October 2015.

## The Health Board had an effective control environment to reduce the risks of material misstatements to the financial statements

**44.** My work focuses primarily on the accuracy of the financial statements, reviewing the internal control environment to assess whether it provides assurance that the financial statements are free from material misstatement whether caused by error or fraud. This includes a review of the Health Board's high-level financial controls including the main accounting system and closedown processes.

**45.** My team also considered the work and role of internal audit as part of this assessment. I did not identify any material weaknesses in the Health Board's internal control environment.

## The Health Board's significant financial and accounting systems were appropriately controlled and operating as intended, although there are some system weaknesses which require management action, in particular the Health Board breached its standing financial instructions in awarding several contracts

**46.** I did not identify any material weaknesses in the Health Board's significant financial and accounting systems which would impact on my opinion. There were a number of detailed issues arising from my financial audit work and these were reported in my Audit of Financial Statements Report to the Audit Committee in June 2015. In particular, there were a range of very significant budgetary pressures and the Health Board's financial management arrangements were undermined on a number of occasions during the year with a number of procedural breaches in the use of tender actions and waivers.

**47.** My follow-up the recommendations arising from my previous audit work on procurement issues identified a number of procedural breaches in the use of single tender actions and waivers. I concluded that the Health Board breached internal controls in awarding several contracts. In particular, I found that:

- The procedure for waiving Standing Financial Instructions was not always applied appropriately.
- Health Board staff breached both Standing Financial Instructions and the Board's formal Scheme of Delegation in authorising waivers of Standing Financial Instructions.
- Health Board staff should have considered tenders through the Official Journal of the European Union (OJEU) procurement procedures in some instances; whereby three cases breached the OJEU threshold and a fourth was at risk of doing so.

- While Health Board staff explained perhaps understandable reasons for the breaches identified in most cases, there were opportunities and improve the transparency of decision making.
- Inadequacies in the Audit Committee Recommendations Tracking Tool meant that assurances on the implementation of my previous procurement recommendations were inaccurate, but the Health Board is at an advanced stage of revising its process.

**48.** The circumvention of procurement procedures undermines professional standards, good governance and creates reputational risk for the Health Board. Whilst Health Board staff explained perhaps understandable reasons for the breaches identified in most cases, I identified opportunities to strengthen governance and improve the transparency of decision making.

**49.** Internal Audit also reported some system weaknesses which require ongoing management action. Action plans have been developed to strengthen the control weaknesses identified in these reports and progress is scrutinised by the Audit Committee.

**50.** I also concluded that budgetary control and monitoring arrangements are sufficiently robust to provide us with assurance that the financial statements were free from material misstatement. However, the Health Board needs to address its significant financial challenges in 2015-16 and beyond. I set out more detail about the financial position and financial management arrangements in Section 2 of this report.

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

**51.** 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 a range of performance audit work at the Health Board over the last 12 months to help me discharge that responsibility. This work involved:

- reviewing the Health Board's financial management arrangements, including the progress being made in delivering cost saving plans and their contribution to achieving financial balance;
- assessing the effectiveness of the Health Board's governance arrangements through both my Structured Assessment work, including review of the progress made in identified improvement areas since last year, and my joint work with HIW;
- specific use of resources work on medicines management, follow-up of outpatient appointments, and local audit reviews, which include ICT capacity; and

- assessing the progress the Health Board has made in addressing the issues identified by previous audit work on catering and patient nutrition, follow-up of procurement irregularities (paragraphs 38 to 41), and reviewing the Health Board's arrangements for tracking external audit recommendations.

**52.** My main findings from this work are summarised under the following headings.

## Savings plans only address part of the financial shortfall, a significant year-end deficit being forecast and the Health Board is highly unlikely to achieve financial balance at the end of 2015-16

### Financial pressures were increasingly unsustainable in 2014-15 resulting in failure by the Health Board to achieve financial balance

**53.** The NHS in Wales has faced significant financial challenges over recent years with 'flat cash' settlements and increased demand on services. As a consequence, the NHS Finance (Wales) Act 2014 (the Act) introduced a more flexible finance regime for the NHS in Wales. It provided a new legal financial duty for local health boards to break even over a rolling three financial years rather than each and every year. It also allows local health boards to focus their service planning, workforce and financial decisions and implementation over a longer, more manageable, period and moves away from a regime which encourages short-term decision making around the financial year. The financial flexibilities are, however, contingent upon the ability of NHS bodies to prepare suitably robust IMTPs, and the formal approval of those plans by Welsh Ministers.

**54.** The Health Board should benefit from the additional flexibilities provided by the Act, but failed to meet its second financial duty to have an approved three-year IMTP in place for the period 2014-15 to 2016-17. The Welsh Government identified significant concerns with the proposed IMTP that was submitted by the Health Board in the spring of 2014, and so declined to give Ministerial approval. This was because the Plan did not meet the Welsh Government's requirements and it considered that extensive further work was required to address service, resource and performance challenges. As a consequence the Health Board was in breach of this new statutory duty.

**55.** The Health Board instead developed a 'One-Year Plan' for 2014-15, which was approved by the Board in May 2014. The one-year plan for 2014-15 highlighted the extreme financial planning and management challenges facing the Health Board. It identified a financial gap of over £75 million between its annual resource limit and its planned net expenditure for 2014-15.

**56.** Throughout 2014-15, both the Health Board and Welsh Government paid close attention to the monthly reported outturn and to the forecast year-end deficit position. Forecasts were regularly updated and, as is usual, various adjustments to the Health Board's resource limit were made by the Welsh Government to reflect specific agreed activities undertaken and their costs. The Health Board reported significant and deteriorating in-year changes to the projected 2014-15 financial forecast position.

**57.** In 2014-15, the Health Board incurred net expenditure of £1.308 billion. Its final revenue resource allocation was £1.281 billion, resulting in a reported overspend against resource allocation of £26.6 million. The Health Board did deliver savings of £41.9 million, but this was significantly below its savings target of £91.7 million for the year. The impact of the savings shortfall of £49.8 million was partly mitigated by £35 million of additional in-year resources provided by the Welsh Government, and additional net cost pressures also contributed to the Health Board's reported overspend of £26.6 million.

## The Health Board has yet to establish a sound and sustainable approach to financial management in 2015-16 and is at very significant risk of not achieving financial balance for this financial year with a significant year-end deficit being forecast

**58.** The Health Board continues to face significant financial challenges in 2015-16. Its Interim Annual Financial Plan for 2015-16 identified a savings requirement of over £42.8 million and a further financial gap of £14.7 million between its annual resource allocation and its planned net expenditure for 2015-16.

**59.** During the first four months of 2015-16, the Health Board consistently forecast a £14.2 million year-end deficit for the financial year. The Health Board acknowledged its deteriorating financial position and subsequently revised its 'most likely' year-end annual overspend to £30 million in August 2015.

**60.** My joint work with HIW in September, identified the need for a transformational approach to service planning is evidenced by the Health Board's challenging financial position, with a likely deficit of £19 million currently being predicted for the 2015-16 financial year. It is encouraging to see developments in the approach that is now being brought to the management of in-year savings by the introduction of the Programme Management Office, although current savings plans are likely to fail to bridge the deficit which is being forecast. This highlights the need for a more transformational, rather than transactional approach, as previously acknowledged by the Health Board.

**61.** At the end of December 2015, the Health Board forecast that its most likely annual overspend was £19 million, taking into account £10 million of additional Welsh Government funding provided during the winter of 2015. It acknowledged that the achievement of the revised projected deficit remains extremely challenging, especially as insufficient savings plans have been identified and delivered to date. At month nine, the Health Board had identified cash releasing savings schemes of £36.9 million, compared with its annual savings target of £42.8 million. Whilst this represents a significant proportion of the savings required, the Health Board has recognised that £12 million of the savings schemes identified may not be delivered. By the end of December 2015 the Health Board reported that it had largely delivered its planned cash releasing savings to date.

**62.** The Health Board is also behind on delivering its planned cost reductions. There remain significant financial pressures in mental health, learning disabilities and women's services, and a range of additional cost pressures, including monthly agency costs (medical and nursing) across all secondary care sites to cover vacancies or to address quality and safety issues. The Health Board also faces additional cost pressures from specialised commissioning and other healthcare contracts.

**63.** The savings plans identified, are unlikely to be sufficient to bridge the financial gap during the remainder of the financial year. It is imperative that the Health Board ensures that any short-term savings actions to mitigate its financial challenges do not compromise the financial health of the organisation in future years. It will also need to ensure that short-term savings measures do not compromise the clinical safety or access to services for those with the greatest clinical need.

**64.** Looking ahead, the Health Board continues to face unprecedented financial challenges in the medium term – its annual 2015-16 Budget Strategy projects increasing financial challenges, growing to a £89 million financial gap in 2016-17. To date, there has been only limited progress on the urgent need to develop financially and clinically sustainable service models, together with greater support service integration.

## A lot of work is underway to improve governance, but some fundamental challenges remain and require urgent resolution

**65.** This section of the report considers my findings on governance and Board assurance, presented under the following themes:

- Strategic planning
- Organisational structure
- Board effectiveness and management information
- Governance structures and risk management
- Internal controls
- Information governance
- Performance management

### In the absence of an agreed clinical services strategy, and despite some progress, it remains highly unlikely that the Health Board will be in a position to publish an IMTP in 2016

**66.** The need to identify clinically and financially sustainable plans for the future shape of health services in North Wales has been a feature of my structured assessment and joint review reports for several years, and the Health Board still does not have a clinical services strategy.

**67.** The Health Board did not produce an agreed three-year IMTP for 2015 in the required timeframe. Whilst the Health Board did produce a draft IMTP, this was not submitted to Welsh Government following initial discussions, as it did not meet all aspects of the requirements for an IMTP. The absence of a clear and approved overarching medium term plan is significantly compromising the Health Board's ability to deliver the service improvement and modernisation which is necessary. It is a concern that the Health Board is still in this position.

**68.** My joint work with HIW in September, acknowledged the work that was undertaken to develop the Health Board's vision and strategic goals. Whilst these are important steps to take, the Health Board was still far from being able to produce an IMTP for 2016-17 to 2018-19, as required by the Welsh Government's NHS Planning Framework. Clear and detailed strategies and plans were still needed across the various sectors that underpin the IMTP and for the public engagement that will be necessary to accompany it. I concluded that there will need to be an honest appraisal of whether or not the Health Board currently has the necessary skills and capabilities to take forward this work, and any gaps identified will needed to be addressed as a matter of urgency.

**69.** My work on strategic planning as part of the structured assessment found signs of progress, which should provide important foundations for the development of a future IMTP and a 2016 – 2017 operational plan. The scale of the engagement challenge is significant, meaning there is a high risk that the Health Board will not be able to make sufficient progress to achieve a signed-off plan in line with Welsh Government timescales. Welsh Government recognises the extent of the challenge, and recently informed the Health Board that it would not expect the Health Board to produce an IMTP for 2016-17 to 2018-19. Nevertheless, it is important that the Health Board produce a public operational plan, even if this does not fully articulate all of the requirements for a formal IMTP. Such an operational plan represents an important step forward. Welsh Government also expects the Health Board to produce an approvable one year plan for 2016-17.

**70.** In my view, the importance of getting the strategic planning work right, taking stakeholders and the public with the Health Board, and not rushing, cannot be overstated. Articulating and agreeing the necessary transformation will take time, and continuous engagement.

**71.** I identified that some elements of the planning framework are further progressed than others with the most significant challenge being the absence of an agreed clinical strategy. There is an acceptance that this will not be in place for the 2016-2019 plan, although the new plan will set out the approach and timeline to develop this strategy. The Health Board is more confident regarding its ability to develop clear plans for health inequalities, primary and community care services, and mental health services.

**72.** All of this is outlined in the Health Board's high-level planning timetable, which covers the extensive engagement activity as well as the development and sign-off of the plan. The scale of the tasks is significant, with little scope for slippage. The capacity of the central planning team is small, with a heavy reliance on the new secondary care and area teams to develop priorities and operational delivery plans. The implementation of new organisational structures will improve the ability of these teams to take this work forward. Recently, the Minister announced that as part of special measures, additional planning capacity and support will be introduced.

## The Health Board remains part way through the implementation of a revised organisational structure with challenges around operational capacity and the ability to grip performance and finances in the interim structures

**73.** I have previously identified a number of concerns about the Health Board's original Clinical Programme Group based organisational structure. During 2014 the previous Chief Executive consulted upon plans to implement a significantly revised organisational structure aimed at strengthening the management arrangements in respect of the three acute hospital sites. Work began to implement the new organisational structure in May 2015.

**74.** However, following the imposition of special measure and the suspension of the previous Chief Executive, the executive team identified a number of concerns around the cost benefits of the new structure and some lines of accountability within it. They instituted a 'pause' whilst further work took place to provide answers and assurances to the concerns raised.

**75.** At the time of my joint work with HIW in September, we recognised the importance of addressing the issues that had been raised but also highlighted our concern that the Health Board found itself in the invidious position of having to examine fundamental aspects of the new structure, at a time when it needed to be bedding in the new structure and empowering all of those holding new roles within it to secure the necessary pace of change.

**76.** More recently the Health Board has re-commenced the work to implement the new organisational structure and at the time of drafting my annual audit report, recruitment was underway to posts in the new structure. It is important that this work proceeds with the necessary pace to remove the uncertainty that has been associated with many senior and middle managers working in temporary roles.

**77.** The most obvious gap in the organisation's management structure is the absence of a substantial and permanent Chief Executive following the imposition of special measures in June 2015. The fundamental importance of appointing an individual with the right skill set and experience is fully recognised by both the Board and Welsh Government. At the time of drafting this report, recruitment plans to identify a new Chief Executive were well advanced.

**78.** Furthermore, it is still not clear how all posts within the new structure will be funded, presenting another cost pressure, nor where certain clinical support functions will be accountable. Other enabling functions, such as information technology, service improvement, planning, finance, workforce and governance need to be embedded consistently within the new structures. If not, their ability to influence and support change will continue to vary and may hinder the rapid progress necessary across all of these areas.

## Despite progress across a number of areas, most notably management information, further work is needed to improve Board effectiveness

**79.** The additional support that has been provided through special measures has demonstrated that the Health Board still needed help with some fundamental aspects of governance, particularly in respect of Board effectiveness.

**80.** Whilst securing the right person to fill the Chief Executive role has been vital, that post holder can only succeed if they are part of a cohesive board and executive management team that has the right skill sets and capacity. My joint work with HIW in September indicated that this remains a highly problematic area for the Health Board. Despite the various Board development activities undertaken in recent years, it was clear from our interviews and observations that more work in this area is needed. The work on identifying Board member skill sets will be vital in this regard. This must be a necessarily honest appraisal and used to get to the root of issues that continue to affect Board cohesiveness and effective decision making.

**81.** The 100-day plans were completed over the summer, and further Board development took place in the autumn of 2015. It is too early to judge the effectiveness of all of this very recent work on Board effectiveness, and I will continue to keep this under review in 2016.

**82.** As part of my structured assessment work, I examined the management information received by the Board in more detail, and in particular that contained in the integrated performance report. Positively, I observed improvement in both coverage of key performance areas, and in presentation and clarity of integrated reporting compared to previous years. Moreover, the style, format and content of integrated performance reporting at the Health Board is substantially improved, and now compares favourably with the rest of Wales.

**83.** Nevertheless, there remains scope to improve both coverage of key service areas, and some other aspects of integrated reporting. Specific challenges exist in relation to coverage of performance forecasting, and ensuring that the Board receives sufficient information on the performance of important service areas, such as primary care and mental health services, where it is holding specific risks, and where previous deficiencies in performance reporting are likely to have contributed to the Board being unsighted of deteriorating performance.

There is still work to do to implement and embed sound governance structures and risk management arrangements, most notably in relation to the design and implementation of a Board Assurance Framework, revisiting the structure of the Board's sub-committees and ensuring that those sub-committees are operating effectively

**84.** The Health Board has had a substantial amount of external advice and support in revising its governance structures and risk management arrangements.

**85.** In September, I identified that work was also underway in other areas relating to Board governance, including a redevelopment of the Board assurance framework and the corporate risk register. Given the fundamental importance of these aspects of Board governance, progress to embed these redevelopments needs to be swift. The work on the Board assurance framework needs to reflect changes arising from the 2016 revision of the Board's committee structure.

**86.** My structured assessment work involved ongoing observations at committee meetings and I am aware that work has been progressed within the Health Board to draw up a draft Board Assurance Framework. The Board approved a revised Risk Management Strategy in July 2015 and work is continuing to map risk throughout the governance structures. Much of the redevelopment is work-in-progress at the time of drafting this report, and it would therefore be premature to offer formal audit commentary at this stage.

Internal controls are generally effective in meeting current assurance requirements, but despite the presence of internal controls they are not always applied consistently

**87.** The Health Board has established the broad range of internal controls that are typically required as part of a sound set of governance arrangements. In the main these controls are effective, with positive areas of strength, including Internal Audit, Counter Fraud and policies and procedures based on evidence.

**88.** Standing Financial Instructions (SFIs) and Standing Orders (SOs) are in place, but my follow-up of procurement irregularities demonstrates that the existence of internal controls does not always guarantee that Health Board staff will follow due processes. Internal Audit reviews of operational governance compliance also raise concerns that SFIs and SOs are not always fully adhered to by management. This issue does raise wider potential concerns, and as part of the implementation of the new organisational structures, the Health Board will need to assure itself that all staff in post apply internal controls as required by its SFIs and SOs.

## Operational information governance continues to steadily improve across most areas, but a lack of clarity in Board assurance and reporting lines must be resolved quickly

**89.** At an operational level the Health Board has clear information governance arrangements, with appropriate accountabilities and reporting lines. However, the Board Committee restructuring removed the Information Governance Committee. Information Governance and informatics more widely is now split across three subcommittees of the Integrated Governance Committee. This means that most, but not all, information governance issues now sit with the Quality, Safety and Experience sub-committee, with its acknowledged workload challenges. The lack of clarity about where information governance and informatics papers, reports and scrutiny now sit may be resolved with experience as the new committee structure becomes more established. I will keep this under review in 2016.

## New more rigorous performance management arrangements have started to take effect in 2015, but capacity remains a key barrier to sustainable improvement, and performance on key indicators remains variable

**90.** The Health Board introduced a new performance management strategy from April 2015. The new performance management arrangements are based on successful models used elsewhere in the UK, and rely on regular accountability meetings to tighten grip on operational issues. The accountability meetings held every month, (except in the months with quarterly reviews) are led by the Chief Operating Officer, Executive Director of Finance and Clinical Executives. These accountability meetings are reinforced through Quality Assurance Executive oversight on key quality and safety areas, and weekly Corporate Directors Group meetings. A Programme Management Office (PMO) approach underpins and reinforces the Health Board's revitalised performance management arrangements.

**91.** The development of the PMO approach to supplement routine performance management is a positive step, and it is providing the Health Board with much needed extra capacity and expertise in programme and project management. However, the organisation does not yet have similar internal capacity or expertise focusing on the larger-scale (and longer-term) transformation projects. There are risks with this model, not least the capability and capacity of service areas to deliver change in addition to their routine workload.

**92.** An examination of delivery against key performance targets shows that improved performance is visible in some areas, although the overall picture is still extremely variable. The impetus provided by special measures, the 100-day plans, and the Interim Chief Executive continues to have a positive impact in a number of key areas:

- infection control – C.difficile rates have fallen again in 2015, although rates are still high compared to the rest of Wales;
- prevention indicators, such as vaccination rates show steady and sustained improvement over 2015, although in many cases they are not reaching Welsh Government target levels;
- stroke performance is now upper quartile for the UK as a whole;
- cancer performance is the best in Wales; and
- some quality and safety metrics, such as fundamentals of care demonstrated improvement in early 2015 as new nurses took up post.

**93.** Performance against many other key Welsh Government targets remains static. For example waiting times for diagnostics, referral to treatment (26 weeks and 52 weeks), and the follow-up outpatient backlog remain below Welsh Government and internal targets. These measures have fluctuated throughout 2015, improving some months and deteriorating in others.

**94.** Deterioration in a wide range of performance indicators was evident in the first quarter of 2015, but this general trend is no longer apparent. Whilst across the whole Health Board performance is no longer in general deteriorating, the improvement in some places masks deterioration in others. For example, Accident and Emergency waits (both four and 12 hours) show variation month to month and between the three sites. The Health Board will need to understand the reasons behind this difference in performance, and ensure that learning from improving sites is rapidly transferred across North Wales.

## My examination of the key enablers of effective use of resources identified that capacity, capability and resilience challenges hinder the necessary pace of change

**95.** My Structured Assessment work has reviewed how a number of key enablers of efficient, effective and economical use of resources are managed. This work has indicated that the Health Board is making progress on a number of areas relating to the management of resources that I highlighted in previous years' Structured Assessments, particularly around understanding its workforce and estate challenges. Nevertheless, it is in the process of rebuilding public and stakeholder confidence, and is yet to build sufficient change management capacity and its use of technology is hampered by lower investment than the rest of Wales. Key findings are summarised in Exhibit 2.

Exhibit 2: Structured Assessment – key enablers of effective use of resources

| Issue | Summary of findings |
|---|---|
| Change management capacity | I found that change management expertise remains fragmented across different functions, and there is insufficient internal expertise and capacity to support operational and clinical leaders.<br>The Health Board recognises at all levels that it needs to change and special measures reinforce this point, and bring with them new opportunities, both in terms of recognition from outside that change needs to happen, and support to deliver the necessary changes.<br>The executive team brings expertise in turnaround and more widely of different clinical and operational working practices. Nevertheless, to achieve transformation in terms of both efficiency and effectiveness of services, these leaders need clinical buy-in and the capacity to lead change.<br>The Health Board recognises it needs to transform services, and has some fragmented capacity to support this change. It has brought in a limited amount of external expertise, but it needs to decide how to ensure that it has sufficient expertise and capacity to support and embed change to deliver its vision to improve health and provide excellent care. |
| Workforce planning | I noted progress has been made on nurse and midwifery recruitment and understanding current medical workforce needs, but resolving the long-term workforce challenges in the absence of a clear clinical strategy, and improved management of all staff groups will remain very challenging.<br>The Health Board now has a reasonable diagnosis of the major workforce issues facing it over the medium term, particularly on medical and nursing elements of the workforce. However, it does not yet know what the solutions are for some of its recruitment issues, and as the wider UK supply of these key staffing groups tightens, it will continue to struggle to recruit enough staff to safely continue with the current service models. This further emphasises the need to think radically about both its medium-term plans and invest in change management expertise to make the most of its current workforce.<br>Appraisal rates have significantly improved for medical staff, and revalidation appears to be driving this increase. Rates are disappointing for non-medical staff groups, which raises questions about whether the Health Board will be ready for nursing revalidation starting in 2016. |

| Issue | Summary of findings |
| --- | --- |
| Estates and assets | The Health Board has had governance concerns with a capital project, although it is now in a better position to pursue some longstanding estate development needs alongside its wider strategy development.<br>There have been longstanding issues with the NHS estate in North Wales, not least the necessity to remove asbestos and resolve fire regulation issues in Ysbyty Glan Clwyd. There have been problems with capital projects, which are under investigation, but action has been taken to address the causes, which have resulted in a new more robust capital process, supported by a new capital manual.<br>The absence of an estates strategy is a hindrance but is understandable in the absence of an agreed integrated or clinical services strategy. Once the Health Board agrees its primary and community strategy and mental health strategy, progress can be made on deciding on many of the future investment requirements for estates. |
| Partnership working and Stakeholder engagement | The Health Board is in the process of rebuilding public and stakeholder confidence.<br>In placing the Health Board into special measures, the Minister for Health and Social Services identified the need to reconnect to the public and stakeholders. The findings of my joint work with HIW in September acknowledged the increased visibility and engagement of the senior team with both internal and external stakeholders, with encouraging evidence that the Health Board is actively listening to the views and concerns of its staff, its partners and the public. We did not underestimate the challenges this presents in terms of re-energising an organisation that has been the subject of significant external criticism whilst trying to regain public confidence and having to take difficult decisions about the future shape of health services in North Wales. It will of course be necessary to demonstrate that, having listened, the Health Board is taking the appropriate action to respond to issues raised and to embed sustainable approaches to future internal and external engagement.<br>Over the summer of 2015, the Health Board implemented a new engagement strategy with a focus on listening. The 100-day plan for communication and engagement helped focus attention and demonstrate delivery of tangible actions. This work continued into the autumn, with formal publication of the strategic goals and vision. |

| Issue | Summary of findings |
| --- | --- |
| Use of technology | In comparison with other health boards in Wales, the current level of investment in ICT at the Health Board is the lowest in Wales, nevertheless, the Informatics team continues to deliver operationally and have well-developed plans.<br>Operationally, and a local level, the Health Board continues to make steady progress on delivering a stable technical service, and delivers on modest investment plans.<br>My ICT capacity review highlighted that in comparison with other health boards in Wales, the current level of investment in ICT at the Health Board is the lowest in Wales. The total level of spend on ICT is lower than the recommended two per cent of total revenue expenditure at 0.61 per cent, or £7.5 million in 2013-14, and is the lowest in Wales. I also found that staffing levels for ICT are generally around the average for Wales, and that the Health Board's commitment to ICT is generally positive, but information systems are not well integrated and doctors' perception of IT facilities is one of the most negative in Wales. |

## My other performance work highlighted that variations in practice across the Health Board remain a challenge, although there are some signs of progress in recent months

**96.** I undertook a number of mandated all-Wales performance reviews this year, which focused on key risks identified across NHS Wales. I included local reviews on recommendations follow-up arrangements, with some specific local work to test the implementation of recommendations. My conclusions from this work are summarised below.

Medicines management is well led and well-resourced although organisational barriers limit engagement across the wider Health Board. There are also inequities across sites and scope to improve medicine storage, performance monitoring and a number of key medicines management processes.

**97.** My work on inpatient medicines management took place in early 2015, before the organisational restructure started. My study followed on from previous local audit work I did on primary care prescribing. It focused on aspects of medicines management that directly impact on inpatients at acute hospitals. It covered medication information provided by GPs to support admissions, medication reviews that patients receive during their stay, the support patients are given to take their medicines and the arrangements to ensure good medicines management after discharge. I excluded procurement and largely exclude the supply of medicines. My conclusions on the efficiency, effectiveness and economy of acute pharmacy services follow.

**98.** I found that the leadership of medicines management is good but the absence of a formal strategy and organisational barriers limit engagement from the wider Health Board. Because:

- The Clinical Programme Group has good leadership and clinical engagement but the future arrangements are undecided and pharmacy is not represented on the boards of other Clinical Programme Groups.
- The Health Board has a clear direction for medicines management but there is not yet a formal strategy.
- In common with other health boards, the pharmacy team has limited formal engagement involvement in senior decision-making forums.
- There is regular scrutiny of financial information but savings plans were ambitious and are limited to primary care. The Health Board appears to be managing individual patient funding requests in a different way to the rest of Wales, but a high percentage of applications do receive the requested funding without the need for a full Individual Patient Funding Request panel.

**99.** My work included some benchmarking of pharmacy and in comparison to many health boards, pharmacy is well resourced. The service is respected by colleagues with a strong commitment to nurse training, but there are differing arrangements across sites and some training needs to be improved. In particular I found that:

- pharmacy services appear comparatively well resourced although the overall staffing profile and the perceptions of high workload are similar to the rest of Wales;
- there is a strong commitment to nurse training within the Health Board, however, junior doctor and pharmacy staff training at Ysbyty Glan Clwyd and Wrexham Maelor could be improved;
- there are good relationships on the wards although the model of clinical services varies across sites; and

- pharmacy services are generally accessible and responsive but there needs to be a strategic decision about the approach to extended pharmacy opening hours and extended working of other Health Board services.

**100.** I found the Health Board's pharmacy facilities comply with the vast majority of key requirements but there are weaknesses in the Ysbyty Glan Clwyd aseptic unit and issues remain with ward storage of medicines. Specifically:

- pharmacy facilities comply with the vast majority of key requirements but the location of the Ysbyty Glan Clwyd pharmacy is not ideal;
- the aseptic unit at Ysbyty Glan Clwyd was given a high risk rating by external inspectors and in common with the rest of Wales the preparation of injectable medicines on the wards is not routinely audited; and
- the Health Board has more automated vending machines than average although issues remain in relation to the storage of controlled drugs on the wards.

**101.** Furthermore, I found a number of strengths in medicines management processes although there were issues associated with transfer of information, variations across sites, supporting patients' compliance needs and discharge processes. More specifically:

- There are safety risks and inefficiencies associated with poor information transfer between primary and secondary care.
- The timeliness of medicines reconciliation was good at Ysbyty Glan Clwyd and the rate of comprehensive medication reviews is higher than the Welsh average. All patients sampled at the Health Board had standard drug charts and had their allergy status recorded.
- The Health Board's formulary processes are generally in line with the rest of Wales although more needs to be done to make prescribing guidance available to non-medical prescribers and make the British National Formulary available electronically to doctors.
- In common with the rest of Wales, electronic prescribing is not in place on the Health Board's wards.
- The Health Board has invested in non-medical prescribers and has the required policies in place but it now needs to ensure the people with these skills are used in the right places to meet demand.
- The Health Board has taken direct action in response to Trusted to Care and we found there were comparatively few occurrences where it was not clear if a dose had been omitted or not.
- The Health Board needs to do more to assess patients' compliance needs, support patients to take their medicines properly and understand the reasons for the variation in utilisation across its helplines.
- Electronic discharge summaries, estimated date of discharge and discharge medication reviews are used less in the Health Board than average.

- Improvements have been made to the way the Health Board uses antimicrobial medicines although few wards are complying with the antimicrobial stewardship guidelines.

**102.** Finally, I looked at performance management of the pharmacy service. There is scope to strengthen performance reporting through benchmarking and more detailed reporting to the Board. I found the recorded rate of medication-related admissions was higher than the Wales average and the rate of pharmacy team safety interventions was the highest of all health boards. I concluded that clinical engagement with the local Safer Medicines Groups needs to improve and there is mixed evidence about the effectiveness of learning processes.

## The Health Board faces growing numbers of delayed follow-up patients and does not fully know its clinical service risk, but is beginning to plan to modernise its outpatient services

**103.** Outpatient services are complex and multi-faceted and perform a critical role in patient pathways. The performance of outpatient services has a major impact on the public's perception of the overall quality, responsiveness and efficiency of health boards. They form a critical first impression for many patients, and their successful operation is crucial in the delivery of services to patients. Outpatient departments see more patients each year than any other hospital department with approximately 3.1 million patient attendances a year, in multiple locations across Wales.

**104.** A follow-up appointment is an attendance to an outpatient department following an initial or first attendance. The Welsh Information Standards Board has recently clarified the definition of follow-up attendances as those 'initiated by the consultant or independent nurse in charge of the clinic under the following conditions. Over the last 20 years, follow-up outpatient appointments have made up approximately three-quarters of all outpatient activity across Wales. Follow-up outpatients are the largest part of all outpatient activity and have the potential to increase further with an ageing population which may present with increased chronic conditions and comorbidities.

**105.** Follow-up outpatient waiting lists have been an issue for some time. I first identified this as an issue in August 2009 in North West Wales NHS Trust, prior to formation of the Health Board, and have since reported on follow-up outpatient issues to the Health Board in 2011 and 2014 as part of our local audit work programmes. Given the scale of the problem across Wales and the previous I issues raised around the lack of consistent and reliable information, I carried out a review of follow-up outpatient appointments.

**106.** I concluded that the pace of change is particularly disappointing, as the Health Board has known about this challenge since my previous local work in 2009, 2011 and follow-up in 2014. Nevertheless, my work found that:

- the Health Board is clearer about the volume of outpatient follow-up demand, but it needs to better understand clinical risks and variations in clinical practice across sites;
- while follow-up waiting lists are more accurate, too many patients are delayed, the trend is worsening, and scrutiny and assurance arrangements need strengthening; and
- the Health Board is developing a plan to improve the administration of follow-ups and modernise its outpatient services, but the pace of change is slow.

**107.** As a result of concerns brought to my attention during the course of this review, my team are in the final stages of further work on urology outpatients. I will report this in 2016, and follow-up any specific recommendations I make over the course of 2016.

## The Health Board now has a more robust process for tracking the implementation of recommendations compared to previous years, with some evidence of an increased pace of implementation over the last six months

**108.** As part of my commitment to help secure and demonstrate improvement through my audit work, I have reviewed the effectiveness of the Health Board's arrangements to manage and respond to recommendations made as part of my nationally mandated and local programme of audit work during 2015. My team supported the Health Board by providing commentary and advice on revised tracking arrangements for external audit recommendations. This work resulted in a more comprehensive and updated tracking tool. Executives now regularly review the tracking tool, and it provides a sound record of recommendations to monitor progress going forward, alongside a revised process for recording recommendations as completed. This new more robust mechanism will enable both the Health Board and my staff to understand and monitor progress with more confidence. In 2016, my team will test this new process by following up another cross-section of my recommendations.

**109.** The increased focus provided by 100-day plans for special measures areas of concern, and the revised performance management arrangements have filtered through to an increased implementation pace for external audit recommendations. Management closed many recommendations on the tracking log towards the latter end of 2015, as executives reported them complete. My follow-up work in 2016 will test whether the desired outcomes have also been achieved.

**110.** I also undertook more detailed follow-up audit work to assess the progress that the Health Board has made in addressing concerns and recommendations arising from previous audit work in specific areas of service delivery. The findings from this follow-up work are summarised in Exhibit 3.

Exhibit 3: Progress in implementing audit recommendations

| Area of follow-up work | Conclusions and key audit findings |
|---|---|
| Hospital catering | The Health Board has made further progress in addressing recommendations to improve catering and patient nutrition services. However, more work is needed to strengthen aspects of the nutritional screening process, to improve mealtime experiences for some patients, to further reduce the gap in income and costs for non-patient catering services, and to review planning and reporting arrangements following recent reorganisation. In particular I found:<br>• arrangements for meeting patients' dietary and nutritional needs continue to improve but the screening process and provision of beverages and patient information are inconsistent;<br>• patient mealtime experiences continue to improve;<br>• the cost of patient catering services has risen and, although non-patient catering services still run at a loss, the gap between income and cost is reducing;<br>• reporting on catering and nutrition issues and capturing patient feedback has improved, but some oversight arrangements remain complex; and<br>• the Health Board fully achieved 25 out of 56 recommendations and suggestions previously set out in our national and local reports. |
| Procurement follow-up | I took a slightly different approach to following up the recommendations from my 2013 audit of procurement irregularities, and tested 20 contracts awarded between 2014 and 2015. (I have already outlined my high-level conclusions from this work paragraphs 47 to 50.) In particular one finding has relevance here:<br>Inadequacies in the Audit Committee Recommendations Tracking Tool meant that assurances on the implementation of our previous procurement recommendations were inaccurate, but the Health Board is at an advanced stage of revising its process. When I tested the contracts, I found that whilst two of five recommendations had been fully implemented, the other three had only been partly implemented. |

| Area of follow-up work | Conclusions and key audit findings |
| --- | --- |
| Follow-up of key indicators identified in my previous work. | My staff have kept the implementation of a number of my recommendations from previous years under review:<br>**Operating theatres**: Operational Management are targeting many key efficiency measures, such as use of theatre time, but there is still a way to go before targets are achieved and resources utilised effectively.<br>**Patient experience:** There has been a significant reduction in the backlog of complaints but this has been at the expense of dealing with new complaints in a timely manner. Performance against the Putting Things Right 30-day target needs focused action by corporate and operational teams working closely together.<br>**Locum doctors**: locum expenditure remains high at £22.9 million in the first eight months of the financial year. Nevertheless, the Health Board now tracks, reports and understands the reasons behind this expenditure. There are still outstanding recommendations from my previous work on locum doctors although these relate in the main to the need to agree a clinical services strategy. This is a key area of focus to deliver safe and sustainable services over the medium term. |

# Appendix 1

## Reports issued since my last Annual Audit Report

| Report | Date |
|---|---|
| **Financial audit reports** | |
| Audit Deliverables Document | February 2015 |
| Audit of Financial Statements Report | June 2015 |
| Opinion on the Financial Statements | June 2015 |
| Opinion on the Whole of Government Accounts Return | June 2015 |
| Opinion on the Summary Financial Statements | September 2015 |
| Audit of Financial Statements Report – Charity | October 2015 |
| Opinion on the Financial Statements – Charity | October 2015 |
| **Performance audit reports** | |
| Review of Medicines Management | May 2015 |
| Review of Follow-up Outpatient Appointments | October 2015 |
| Joint HIW, Wales Audit Office High-level Follow-up of Governance Arrangements | October 2015 |
| Diagnostic Review of ICT Capacity and Resources | November 2015 |
| Follow-up of Procurement Irregularities | November 2015 |
| Follow-up Review of Hospital Catering and Patient Nutrition | December 2015 |
| Structured Assessment 2015 | December 2015 |
| **Other reports** | |
| 2015 Audit Plan | February 2015 |

There are also a number of performance audits that are still underway at the Health Board. These are shown below, with estimated dates for completion of the work.

| Report | Estimated completion date |
|---|---|
| Medical Equipment | March 2016 |
| Follow-up Review of Consultant Contract | July 2016 |
| Review of Radiology Services | September 2016 |

# Appendix 2

## Audit fee

The 2015 Audit Plan set out the proposed audit fee of £465,573 (excluding VAT). My latest estimate of the actual fee, on the basis that some work remains in progress, is in accordance with the fee set out in the outline.

Included within the fee set out above is the audit work undertaken in respect of the shared services provided to the Health Board by the Shared Services Partnership.

# Appendix 3

## Significant audit risks

My 2015 Audit Plan set out the significant financial audit risks for 2014-15. The table below lists these risks and sets out how they were addressed as part of my 2014-15 audit.

| Significant audit risk | Proposed audit response | Work done and outcome |
|---|---|---|
| The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33]. | My audit team will:<br>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;<br>• review accounting estimates for biases; and<br>• evaluate the rationale for any significant transactions outside the normal course of business. | I completed focused audit testing as planned on the relevant areas of the financial statements. No evidence found of biased judgements or estimates. |
| There is an inherent risk of material misstatement due to fraud in revenue recognition and as such this is treated as a significant risk [ISA 240.26-27]. | My audit team will consider the completeness of miscellaneous income. | I completed audit work as planned and no evidence was found of material misstatement due to fraud in revenue recognition. |
| There may be a significant risk that the Health Board will fail to meet its statutory financial duties. However it is unclear at this stage what those statutory financial duties will be, guidance is due to be issued by Welsh Government shortly.<br>The month 10 position showed a year-to-date deficit of £29.4 million and forecast a year-end deficit of £27.5 million. I may choose to place a substantive report on the financial statements explaining the failure and the circumstances under which it arose.<br>The current financial pressures on the Health Board increase the risk that management judgements and estimates could be biased in an effort to achieve any financial duties set. | My audit team will consider their testing focus once financial duties are clarified. | I reviewed the Health Board's financial management arrangements, significant financial standing issues and areas of the financial statements which could contain financial balance. Whilst the Health Board will not be measured against the requirements of NHS finance (Wales) Act 2014 until 2016-17 it was expected to manage its finances to ensure it does not overspend against its annual revenue and capital allocations. The Health Board reported an overspend against resource allocation of £26.6 million. |

| Significant audit risk | Proposed audit response | Work done and outcome |
|---|---|---|
| There is a significant risk that the Health Board will face severe pressures on its cash position at year-end. The month 10 monitoring report identified a projected cash shortfall/balance at year-end of £26 million.<br>A shortfall of cash is likely to increase creditor payment times and impact adversely on Public Sector Payment Policy (PSPP) performance. | My audit team will audit the PSPP performance bearing in mind the cash pressures on the Health Board. | I completed focused audit testing on PSPP performance, and whilst the Health Board failed its target of paying the number of non-NHS creditors within 30 days of delivery, I concluded that in all material respects, its performance was correctly stated. |
| There is a risk that the Health Board will not have implemented my recommendations arising from my 2013 joint investigation with Internal Audit into potential procurement irregularities. | My audit team will assess progress in implementing the recommendations arising from the investigation to inform my regularity opinion. | I undertook a follow-up on procurement issues and identified procedural breaches in respect of the use of single tender actions and waivers. Whilst I was satisfied that they did not adversely impact on regularity opinion on the 2014-15 financial statements, the circumvention of procurement procedures undermines professional standards, good governance and creates reputational risk for the Health Board. |

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