WALES AUDIT OFFICE
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Annual Audit Report 2013

Powys teaching Health Board

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Status of report

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The team who developed this report comprised Dave Thomas, Anthony Veale, John Dwight and Andrew Doughton

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Summary report

1. This report summarises my findings from the audit work I have undertaken at Powys teaching Health Board (the Health Board) during 2013.

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. My audit work has focused on strategic priorities 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 and in some instances the Board and Quality and Safety Committee. The reports I have issued are shown in Appendix 1.

4. This report has been agreed for factual accuracy with the Chief Executive and the Director of Finance. It was presented to the Audit Committee on 21 January 2014. It will then be presented to a subsequent 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.wao.gov.uk).

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

Section 1: Audit of accounts

6. I have issued an unqualified opinion on the 2012-13 financial statements of the Health Board, although in doing so I have brought several issues to the attention of officers, the Audit Committee and the Board.

7. In addition, I placed a substantive report on the Health Board's financial statements alongside my audit opinion. My report draws attention to the additional funding received by the Health Board primarily to enable it to meet its financial resource limit target.

8. 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 risks of material misstatements to the financial statements; and
- the Health Board's significant financial and accounting systems were appropriately controlled and operating as intended, although improvements can still be made.

9. The Health Board achieved financial balance for the year ended 31 March 2013 by securing resource brokerage of £4.21 million, which was agreed in June 2013. This resource brokerage is repayable in 2013-14.

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

10. I have reviewed the Health Board's arrangements for securing efficiency, effectiveness and economy in the use of its resources through:

- Structured Assessment work, which has examined the robustness of the Health Board's financial management arrangements and the adequacy of its governance arrangements, including quality governance and arrangements for measuring and improving patient/user experience; and
- performance audit reviews, undertaken on specific areas of service delivery.

11. This work has led me to draw the following conclusions:

The current financial position of the Health Board is unsustainable, given its current configuration and the commissioning model

12. Last year I identified that the Health Board was unlikely to achieve a break-even position at the end of 2012-13 and that plans to achieve longer term financial sustainability are still being developed.

13. The key findings from my review of the Health Board's financial management arrangements during 2012-13 are as follows:

- Although the Health Board has a clear strategic vision, its revised three year plan is not financially sustainable and there is increasing clarity that current and anticipated revenue is no longer sufficient to meet demand for health care services. The revised three year plan is currently indicating a £57.13 million cumulative deficit against its predicted revenue allocation.
- The Health Board is at significant risk of failing to meet its statutory duty to breakeven in 2013-14. As at month seven, the Health Board is forecasting a £20 million overspend against its resource limit. There is also an increasing risk that it will not have sufficient cash available to meet liabilities towards the end of the year.
- The Health Board did not fully deliver the savings it identified for 2012-13 (£9.71 million achieved against a £14.85 million savings plan). This is partly because arrangements for commissioning services from a range of different providers make delivery of challenging savings more difficult.

14. The Welsh Government requires all Health Boards and Trusts in Wales to deliver a financially sustainable medium term financial plan for 2014-15 onwards. However, irrespective of the action the Health Board is taking, and the additional savings identified that could be achieved without significant impact on access to or quality of care, the overall revenue is no longer sufficient to meet current and expected future demand for healthcare services.

16. The Health Board needs to make every effort to develop a plan which is sustainable over the medium term. It is likely that it needs to make a number of difficult decisions relating to the overall configuration of the Health Board, care pathways, staffing, estate and access to care services. As part of this development, the full Board will need to appraise a range of strategic options that ensures that the Health Board can deliver and commission services within its financial resources in future. It is imperative that the option appraisals clearly identify risk, impact and benefits assessments.

The Health Board's governance arrangements have improved, but as financial pressures increase, so do risks to services, which makes it more important that governance arrangements are strengthened further

17. My review of the Health Board's overall governance arrangements shows some progress has been made, although the pace of progress has been limited, in part, by shortfalls in capacity. In particular:

- overall board assurance arrangements are in place but the Board has not yet adopted a formalised Board Assurance Framework; an issue we have identified in previous years;
- the overall culture of the Health Board, demonstrated by independent members and executive is conscientious, honestly challenging and keen to improve;
- risk management arrangements have improved over the year, although there are a number of high risks particularly relating to estates (buildings) that will need to be addressed;
- a number of formal policies and procedures still need to be reviewed and updated; and
- performance information reported to the full Board is improving with clearer links to corporate objects and clear lines of accountability, but better information relating to the financial consequences of new plans and strategies is required.

18. The Health Board's quality governance arrangements are continuing to improve. Further developments are needed however, particularly around the flow of assurances into the quality and safety committee, and from this committee to the full Board. Our observations of board and quality and safety committee meetings also indicate a good, open culture exhibited by members, which helps ensure that aspects relating to quality are discussed.

19. The Health Board also has reasonable arrangements to capture and learn from information on user experience, incidents, complaints and staff concerns, and these help to mitigate the more significant risks. However, more could be done to coordinate and make the patient experience data collection approaches more consistent across sites. This would assist corporate-wide analysis both to support management decision making as well as providing a source of assurance.

My performance audit work has identified good overall performance and opportunities to improve in a number of key areas

20. Local service performance generally compares favourably against the Welsh average, but despite this, the Health Board is struggling to maintain overall performance for both locally provided and commissioned services, and it runs the risk of deteriorating performance because of financial pressures.

21. The Health Board has made good progress with primary care prescribing, where savings targets are being exceeded. It now needs to clarify the strategic direction and staffing structures for medicines management, in order to continue to deliver savings and address the opportunities that exist to improve the safety, quality and economy of local prescribing.

22. The Health Board's approach for training, teaching and learning is reactive and focuses mainly on current training needs, which weaken its ability to develop its workforce for the future. The Workforce and Organisation Development Department are being proactive in response to the issues we have identified, and the initial plan in response to our work is promising.

23. The last 12 months has presented some significant challenges for the Health Board particularly in respect of its financial position. Whilst I have recognised areas of progress in this report in relation to performance and governance, the financial position remains the key issue which the Health Board needs to address within the three year plan.

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

Detailed report

About this report

25. 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 December 2012 and November 2013.

26. My work at the Health Board is undertaken in response to the requirements set out in the 2004 Act. 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.

27. 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;
- the Health Board's self-assessment against the Governance and Accountability module of the Standards for Health Services in Wales;
- performance audit examinations undertaken at the Health Board;
- the results of the work of other external review bodies, where they are relevant to my responsibilities; and
- other work, such as data matching exercises and certification of claims and returns.

28. 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.

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

- audit of accounts; and
- arrangements for securing economy, efficiency and effectiveness in the use of resources.

30. 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 Annual Audit Outline.

Section 1: Audit of accounts

31. This section of the report summarises the findings from my audit of the Health Board's financial statements for 2012-13. 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.

32. 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 applicable requirements, and comply with all relevant requirements for accounting presentation and disclosure;
- whether that part of the Remuneration Report to be audited is properly prepared; and
- the regularity of the expenditure and income.

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

34. 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 Health Board's 2012-13 financial statements, although in doing so, I placed a substantive report alongside my audit opinion and have brought several issues to the attention of officers, the Audit Committee and the Board

The Health Board's financial statements were properly prepared and materially accurate

35. The Health Board's draft financial statements were prepared in time for submission at the beginning of May. During May the Health Board was in discussion with Welsh Government about the potential for additional brokerage and, as a result submission of the final audited financial statements was, in agreement with Welsh Government, delayed until 11 June 2013.

36. Although there were a number of relatively minor adjustments to the financial statements during that period, the audit team received information in a timely and helpful manner and were not restricted in their work. The deadlines for submission are increasingly challenging and the Health Board's finance team are to be commended for the timing and quality of their work.

37. 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 2013. 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
Substantive report	Although my 'true and fair' and 'regularity' opinions in respect of the 2012-13 financial statements were unqualified, I issued an additional substantive report alongside my audit certificate, which highlighted the additional financial support provided to the Health Board. This resulted in £4.21 million of resource brokerage received in June 2013, enabling the Health Board to achieve its statutory revenue resource limit.
Significant estimates	There are a number of significant estimates included in the financial statements. Whilst I am satisfied with the arrangements for determining these estimates, there remain issues that will need to be addressed during 2013-14: • there were a number of service level or long-term agreements that were unsigned for 2012-13 (as in previous years); and • the Heath Board continues to receive retrospective claims for continuing health care costs, which will need to be managed and assessed for future years.
Annual Governance Statement (AGS)	Although the final AGS met the requirements outlined in the NHS Manual for Accounts, there were a number of comments in my report relating to completion of the AGS: • the Health Board must finalise its Board Assurance Framework in 2013-14, to ensure that it puts in place a more evidenced approach during the year to gaining assurance on the achievement of corporate objectives; and • delays in completion of Internal Audit work and preparation of a final Head of Internal Audit Annual Report meant that the final AGS was not ready for review until the end of the audit process.

38. 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 2013 and the return was prepared in accordance with the Treasury's instructions;
- Summary Financial Statements and Annual Report – I concluded that the summary statements were consistent with the full financial statements and that the Annual Report was largely compliant with Welsh Government guidance. However, the Health Board needs to improve its arrangements for the production of the Annual Report next year. There was insufficient time given to the process this year to ensure that the Annual Report was given an appropriate level of review by relevant committees and officers.
- My independent examination of the Charitable Funds for 2012-13 (which I intend to certify in January 2014) did not identify any matters that need to be reported.

The Health Board had an effective control environment to reduce the risks of material misstatements to the financial statements although there are some areas for improvement

39. My work focuses primarily on the accuracy of the financial statements, reviewing the control environment to assess whether it provides assurance that the financial statements are free from material misstatement. In assessing this, I have considered:

- overall corporate governance arrangements;
- financial management;
- risk management; and
- internal audit.

40. My detailed assessments of the first three areas are included in section 2 of this report. That work highlights where the Health Board has made improvements during the year, but also identified where further work is required.

41. In terms of the impact of this on the accuracy of the financial statements, I consider that:

- Corporate governance arrangements clarify responsibilities for financial control and reporting.
- Financial management arrangements ensure accurate assessments of the in-year financial position.
- Risk management improvements ensure that financial risks are being monitored. However, the Health Board still needs to ensure its policies and procedures are all up-to-date and remain diligent to the increasing risks relating to the condition of the Health Board's estates (buildings), which will have a financial consequence.

42. Following my review of the Audit and Assurance Service provided by the NHS Wales Shared Services Partnership (NWSSP), I concluded that the Audit and Assurance Service met the *2009 Internal Audit Standards for the NHS in Wales.* However, there are areas where improvements are required to achieve further consistency. The Internal Audit Charter, adopted by the Health Board in February 2013 and other planned developments are already underway which will further improve the service provided to health bodies in Wales. This includes the preparation of an Internal Audit Quality Manual, on an all-Wales basis.

43. My *Audit of the Financial Statements report* presented to the Audit Committee and Board in June 2013 referred to the fact that the final Internal Audit Annual Report was not received until the end of May 2013. This Internal Audit Annual Report contained reference to a number of reports with a 'limited assurance' rating that had not been finalised with management. The Health Board and Internal Audit have now established arrangements to ensure that Internal Audit reports that may have an impact on the internal control assessment are included in the AGS are completed on a timely basis. This will enable the Health Board to fully assess these reports when it finalises the AGS.

44. It should be noted that the work that I have undertaken on Internal Audit supports the external auditor's opinion on the financial statements. This does not constitute an assessment of internal audit under the new Public Sector Internal Audit Standards (PSIAS). Under PSIAS (which came into effect on 1 April 2013) organisations are required, every five years, to conduct an external assessment of internal audit. This goes beyond the work that external audit undertake to place reliance upon, or take assurance from, the work of internal audit.

The Health Board's significant financial and accounting systems were appropriately controlled and operating as intended, although improvements can still be made

45. I did not identify any material weaknesses in the Health Board's significant financial and accounting systems that would impact on my audit work. Internal Audit work has also confirmed that audits of the Health Board managed financial systems confirmed a generally sound system of internal financial control, providing a reasonable assurance assessment. For those financial systems operated by the NWSSP (primary care contractor services, payroll and accounts payable), internal audit also provided a reasonable assurance assessment.

46. There are, however, two specific areas where further improvements are required, highlighted in Exhibit 2.

Exhibit 2: Financial systems improvement areas

Financial systems	Improvement areas
Computer systems access and reporting controls	Our information technology (IT) audit work this year has highlighted the need for the Health Board to consider: • strengthening password control (expiry dates, password 'strength'); • using audit security reports more effectively; and • testing the IT systems for any 'internal security vulnerabilities'.
Retrospective CHC project	The Health Board manages a project on behalf of Welsh Government aimed at clearing retrospective continuing health care claims (received within defined timetable parameters) for all local health boards. This is managed through the use of a database of recorded claims and supporting details. Our review of the database identified errors in the accuracy of the data, because the database was only being updated when a claim is finalised as opposed to during the investigation process stage. As a result, data used by other health boards in assessing their potential liabilities may be inaccurate. In many instances, however, other local health boards were using their own records to determine the level of the liability disclosed in their financial statements. We will work with officers, and through our contact with all health board audit teams to clarify the position (and to take forward recent guidance from Welsh Government relating to 'proof of payment' concerns raised by the Public Services Ombudsman for Wales).

The Health Board achieved financial balance at the end of 2012-13 by securing resource brokerage of £4.21 million which was agreed in June 2013. The resource brokerage is repayable in 2013-14 by reducing the funding allocated to next year by an equal amount

47. The Health Board's 2012-13 revenue resource limit was originally set at £230.7 million, which resulted in a 'funding gap' at the start of the year of £19.1 million. Plans were put in place to reduce this gap by £11 million, leaving an estimated shortfall of £8.1 million.

48. An additional £4 million was made available in November 2012 as part of an all-Wales additional resource funding by Welsh Government. At the end of the year, the Health Board requested (and received) additional resource brokerage of £4.21 million in order to cover its overspend against the 2012-13 resource limit. The additional resources were made available in June 2013 and need to be repaid in 2013-14. Further commentary on the Health Board's financial management arrangements is provided within Section 2 of this report.

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

49. 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 has 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 my Structured Assessment work, with a particular emphasis on quality governance and the robustness of arrangements for assessing patient/user experience; and
- specific use of resources work on primary care prescribing, performance against key service targets for service efficiency, quality and access, and a review of training, teaching and learning.

50. The main findings from this work are summarised under the following headings.

The current financial position of the Health Board is unsustainable, given its current configuration and the commissioning model

Although the Health Board has a clear strategic vision, its revised three year plan is not financially sustainable and given its current configuration and the commissioning model, its financial revenue is not sufficient to meet current and expected future demand for healthcare services

51. In April 2013, the Health Board agreed its 2013-14 to 2015-16 three-year plan. This plan was an improvement over the previous annual approach to planning, and helped to articulate what the Health Board plans to do, and approaches for delivering the plan. From a financial perspective, the most significant issue in the plan was that it failed to identify how the Health Board could breakeven over a three year period, and because of this, placed the Health Board in a financially unsustainable position. This first version of the three-year plan, which was approved in April 2013, identified a three year cumulative estimated deficit of £51.225 million.

52. Over the spring and summer of 2013, a firm of external financial advisors was commissioned and has delivered a report on the overall savings potential in the Health Board. This work identified a number of additional savings which related to workforce efficiency and referral and care pathway modernisation. The savings identified by the financial advisors, were over a five year period and equate to £5.8 million above those already identified by the Health Board. In many instances, plans to deliver these savings require a lead in time, and potentially some initial investment to achieve.

53. The Welsh Government requested that all Health Boards revised their three-year plans, and these were required by the end of September 2013. The Health Board's revised version of the plan has taken consideration of additional financial risks and assumptions relating to change in expected overall expenditure, but the revised plan identifies that the estimated three-year cumulative deficit has grown to £57.138 million.

54. It is now increasingly clear that the overall revenue received by the Health Board is no longer sufficient to meet current and expected future demand for health services. This view is based on the forecast cumulative deficit of £57.138 million (approximately £19 million per year) alongside the additional information presented by the external financial advisors, which identifies total savings potential.

55. The Health Board recognises that approaches to securing savings still need to be strengthened, to help ensure the savings schemes that it does commit to are delivered. However, even if it achieves the scale of savings identified, it is not currently in a position to address the growing financial gap, without a significant impact on access to or quality and safety of services. To address this gap a plan will need to be developed which will consider some or all of the following:

- configuration of the Health Board including its community sites, service models, collaborative service models, workforce numbers and pay levels;
- improving and changing referral patterns and volumes;
- assessment of clinical safety and health outcomes for proposed plans to ensure that patients experience no detriment in the quality of care; and
- an assessment that revises the revenue resource needs to meet the demand for rural health care where most of the complex and more expensive acute care is provided by out of county commissioned providers.

56. As part of the planning process, the full Board will need to appraise a range of strategic options that ensures that the Health Board can deliver and commission services within its financial resources in future. It is imperative that the option appraisals clearly identify risk, impact and benefits assessments.

The Health Board is at significant risk of failing to meet its statutory duty to breakeven in 2013-14 and there is an increasing risk that it will not have sufficient cash available to meet its liabilities towards the end of the year

57. The latest monitoring return (month seven – October 2013) reports a risk that the Health Board will miss some of its financial targets, such as:

- revenue resource limit;
- cash expenditure maintained with the cash limit; and
- the prompt payment target for payment of non-NHS invoices.

58. The monitoring report predicts savings for the year to be £4.6 million, against a savings plan of £9.6 million and identifies a potential £20 million deficit against the current revenue resource limit.

59. The Health Board was concerned about its ability to make payments towards the end of 2012-13, when it was predicting an £8 million deficit at the same stage. This is likely to be repeated (and exacerbated) towards the end of 2013-14.

The Health Board did not fully deliver the savings it identified for 2012-13

60. The Health Board has experienced a growing financial challenge over recent years. To achieve its revenue resource limit obligations, it has relied upon a range of savings and cost reductions schemes, additional financial support from Welsh Government and brokerage against the following year's funding.

61. In 2012/13, the Health Board developed a challenging savings plan that required £14.85 million savings (6.6 per cent of total revenue). This plan included a number of saving schemes, covering internally provided services, corporate services, and external commissioning based savings.

62. While the Health Board failed to deliver against the totality of savings requirements, the actual savings delivered in 2012/13 were £9.61 million (4.25 per cent of total revenue).

63. Key factors that assisted the delivery of savings in 2012/13 included*:

- emerging programme and project management approaches;
- in-year identification of additional savings schemes to address slippage or cost growth; and
- stronger processes for negotiating and contract challenge of the English NHS Trusts.

*Note: some of these areas of savings and approaches taken will not yield recurring cost savings.

64. Although achieving some degree of success, there were a number of barriers that emerged during the year, including:

- some saving schemes were unrealistic;
- the lead-in time, staff time and resources required to deliver on some of the more complex savings initiatives; and
- the lack of a clear commissioning framework with Welsh providers to help enable modernisation of services, reduction in demand for out of county care, and more consistent costing approaches.

65. The current commissioning approaches are not effective because:

- They do not help the Health Board plan its commissioning savings.
- The current commissioning approach does not easily enable the Health Board to reduce the volume of out of county treatment, which is where much of the savings would lie.
- There is an unhealthy tension between Boards that resulted in arbitration over the costs of commissioned services earlier in the year.
- Approaches do not easily allow the Health Board to 'un-bundle' care packages in Wales. This reduces the financial benefits of repatriating patients, and therefore undermines a significant element of the vision and strategy.
- We have been informed that there is an inherent variability in unit costs depending on which Health Board or Trust is providing services to Powys.
- Detailed information on commissioned services in Wales is not always of sufficient depth and quality to enable Health Boards to quantify detailed activity, costs, service performance measures and outcomes.
- There are no consistent standards within the commissioning approach that allow the Health Board to hold providers to account and challenge the quality of services that Powys residents receive.

66. I have formally reported in more detail on the Health Board's arrangements for financial planning and delivery of financial savings schemes and more information can be found at the following link:

http://www.wao.gov.uk/reportsandpublications/localhealthboards_724.asp

The Health Board's governance arrangements have improved, but as financial pressures increase, so do risks to services, which makes it more important that governance arrangements are strengthened further

The Health Board has made some progress with its overall approach to governance, although the pace of progress has been limited, in part, by shortfalls in capacity

67. The Health Board has had a challenging year in terms of overall finances and although this has been a key area of focus for management and the full Board, both independent members and senior management have made it clear that the financial situation should not compromise the quality of, or access to, care.

68. Against this backdrop, the Health Board has made progress with some aspects of its overall governance arrangements, while other areas such as the Board Assurance framework and policies requiring development remain incomplete. The Health Board's central corporate capacity is stretched, and this results in a number of areas such as 'Putting Things Right' and aspects of health and safety where policy and procedures are not up to date or not in place.

69. Our findings, showing areas that have improved and where further development is required are included in Exhibit 3.

Exhibit 3 – Summary of governance arrangements at Powys teaching Health Board

Aspect of governance	Key findings
Board assurance	• The Health Board has formalised committee and sub-committee structures with associated terms of reference. • Board agendas are well constructed and administered. Board Members openly discuss key issues and concerns. • AGS is improved over the previous year's version. Areas for further development: • A formalised and documented Board Assurance Framework is not yet developed, agreed or adopted. • Approaches to provide the Board with committee assurances are in place but these require strengthening by identifying the specific level of assurance provided to the Board and an assessment of whether there are any gaps in the assurance provided.

Aspect of governance	Key findings
Management of risk	• Overall risk management arrangements have improved and Committees are now escalating issues and risks. This indicates that committees are appropriately responding to information presented to them. Areas for further development: • There are a number of risks that have previously been identified by the Health Board that are now becoming operational issues, in particular relating to the quality of estates and fire safety. Enhanced oversight may be needed to ensure actions to mitigate the risks are completed within an appropriate timeframe. • The risk to the achievement of corporate priorities is not an area which is assessed well and not yet effectively linked into the annual governance and quality statement processes.
Management information	• The use of management information to support governance, scrutiny and decision making is improving. The Health Board is making good progress in obtaining and interpreting information from out of county providers, and it is positive to note that information reporting now features in the new service level agreements. Areas for further development: • The Health Board needs better information relating to financial consequences of plans and strategies that are agreed at Board level. Although these are in place in some areas, it is important that the Board has a better understanding of financial implications when committing to new initiatives, plans and strategies. • The Health Board has identified objectives as part of its three year planning process, but would benefit with clearer Information to track progress against these strategic aims and outcomes.
Policies and procedures	• It has previously been identified that there are a number of formal policies which are out of date. There has been a little progress to address this issue, with insufficient assurance that all key policies are in place in all risk areas. Areas for further development: • The Health Board should ensure that all key policies and procedures are in place and up to date.

Aspect of governance	Key findings
Strategic planning	• The Health Board has moved to a three year plan and this plan is an improvement on the previous annual planning cycle and helps set a longer term approach for delivering the vision for the future of health services in Powys. Areas for further development: • The Health Board must make every attempt to produce a financially sustainable three year plan. • The Health Board will need to ensure that it improves the rigour and depth of planning, so as to enable the Board to: – have confidence in effectiveness of the approaches to deliver change and improvements; and – provide a baseline upon which progress can be monitored.
Organisational structure	• The locality structure is growing in maturity and effectiveness. Last year I identified issues relating to confusing lines of accountability between geographical localities and county-wide directorates. These issues, although not significant, emerged again this year, an example being the ownership and location of the Child and Adolescent Mental Health Service. Areas for further development: • The Health Board may want to consider structure, working and planning arrangements between the directorates' and localities. This approach could strengthen the role of localities and effectiveness of health services by enhancing a locality based commissioner model (both externally and internally provided services).
Performance management	• The integrated performance report now links more closely with the overall objectives of the Health Board, there is clear senior management accountability for each performance domain, an approach for reporting trend in performance, and in some areas clearly identified improvement actions. The Health Board is also becoming better at reporting performance information for services provided out of county. Areas for further development: • A particular challenge for the Health Board will be to ensure that the data and information from commissioned service providers is of sufficient quality (accessible, accurate and timely).

The Health Board's quality governance arrangements are continuing to improve, although further developments are needed, particularly around the flow of assurances into the quality and safety committee, and from this committee to the full Board

70. The full Board openly discusses issues of quality and safety both relating to services provided locally as well as services provided out of county, or those managed by out of county providers such as Mental Health services. The detailed scrutiny of quality and safety issues is undertaken by the Quality and Safety Committee. Although the full Board receives regular reports from this committee, there is a need to strengthen this reporting in order to provide clarity on the strength of, or any gaps in, assurance. To help achieve this the Quality and Safety Committee will in turn need a more structured approach for:

- planning and receiving its assurances from sub-committees, groups, management, and external/independent quality assurance providers;
- categorising levels of assurance provided in reports received by the committee; and
- including evaluative conclusions in management summaries, so that strengths and weaknesses are clearly identified.

71. The findings from my Structured Assessment work on the work of the Quality and Safety Committee and the quality governance of commissioned services are summarised further in Exhibit 4.

Exhibit 4 - Quality and safety Committee and Commissioned Services

Quality and safety governance areas	Key findings
Quality and Safety Committee	• The Quality and Safety Committee is well administered, well attended and there is an open and frank discussion on the risks and issues which are presented. • The committee has undertaken development sessions and now has a risk based work programme. • The Committee is now a public meeting which is helping to provide transparency on the quality and safety of services. • The Quality and Safety committee receives a range of reports, but currently many of these are not written in a way which is helpful in determining the overall level of assurance. Areas for further development: • The agenda of the Quality and Safety Committee does not include a quality performance report. This approach is used in other health boards, and can help members understand key aspects of quality and overall trends. • The Quality and Safety Committee would benefit with having more clearly defined sources of assurance including internal management reports or reports from Board of Directors sub-committee groups, as well as external assurance providers. • The Quality and safety committee does not have an approach for recommendations tracking and would benefit by implementing an approach to oversee actions and recommendations which are presented in reports from management and assurance providers.
Commissioned services	• The Health Board is improving information relating to the quality and safety of services for patients treated out of county. This is an area which is developing, but it demonstrates that the Health Board is becoming better as a commissioner of services at understanding the quality of services for the patients whom it has commissioned. Areas for further development: • The Health Board needs to ensure that it has appropriate assurances, and access to required quality data from all commissioned service partners.

72. The Health Board met its requirement to produce and publish its Annual Quality Statement (AQS) by 30 September 2013. The AQS has been made available on the website, and this is written in a relatively clear and accessible format. It is positive to note that the North Locality has produced a locality based AQS, and this is an example of embedded quality assurance approach which helps set the ambition and expectation in the north locality relating to the quality of services. This has set a good precedent for other business units in the Health Board.

The Health Board has reasonable arrangements to capture and learn from information on user experience, incidents, complaints and staff concerns, however the central team is under significant pressure, policies and procedures are not yet formalised, and the sharing of lessons learnt could be improved further

73. As a commissioner of acute services, the Health Board needs to ensure that it has appropriate arrangements to get feedback on the quality of services that are commissioned. Alongside this, the Health Board has a responsibility to establish mechanisms for capturing feedback on the service it provides, and acting on issues which arise. My structured assessment work this year has examined the Health Board's arrangements for capturing and learning from user experience, incidents, complaints and staff concerns.

74. The Health Board has a range of approaches for gathering patient feedback. For example, the board member walk-rounds and patient stories at each Board meeting are helping members to gain an important practical understanding, and are able to support and challenge, the quality of locally provided services. As part of the structured assessment, my staff met with a range of different health service teams. These staff clearly took the quality and safety of services seriously, and identified a number of approaches to gaining user feedback, which differed by team and locality. My overall view of the teams we met was that there was a good staff culture for providing quality and safe services, and toward reporting incidents and some risks, using the Datix system.

75. If the Health Board could be more consistent in its patient experience collection approaches, then this would enable a useful source of comparative intelligence, which would as a by-product also enable a source of assurance for the Improving Patient Involvement and Experience group (IPIE) to provide to the Quality and Safety committee.

76. The Health Board appears open to receiving and dealing with complaints and has a range of approaches to receive this type of patient feedback. In general, the Health Board has a low number of complaints, and there are processes in place to capture and respond to complaints and concerns, although these are not yet formalised into approved policy and procedure. There aren't sufficient dedicated resources to always ensure lessons are learnt from complaints.

77. The Quality and Safety Unit are a central team which facilitates processing of complaints, incidents and concerns and provides expert advice to localities and directorates to ensure that 'Putting Things Right' regulations are followed. It is also responsible for facilitating and coordinating approaches for corporate health and safety, risk management, patient experience and supporting quality governance requirements. There is a risk relating to the capacity of the quality and safety unit to both undertake proactive prevention work as well as responsive remediation processes. It is clear that management have high standards and expectations relating to quality and safety, but currently the team are stretched and this could in future present some risk to the Health Board. There is a risk that:

- timeliness in response to complaints and concerns deteriorates or that requirements under Regulation 26 relating to interim responses is not improved;
- important policies and procedures including 'Putting Things Right' requirements are not fully developed or embedded across the services; and
- proactive approaches to improve service quality in localities and directorates is omitted in lieu of more urgent 'high risk' complaints response requirements.

78. Management are aware of the issues, and in the process of delivering on a plan to improve the clarity of the quality and safety unit's structure and responsibilities, and to help ensure that there is sufficient capacity of staff with required professional expertise.

79. The Health Board meets its main requirements under 'Putting Things Right', but lessons aren't always shared across all sites. Our work indicated that local incidents and concerns are managed in the locality and that the management teams discuss, resolve and share learning across the locality area, but not always between localities. However, there are times that the Health Board has appropriately responded to issues, but has not communicated the action it has taken. The Health Board would benefit by giving clearer feedback and promoting action that it has taken to remedy any risks. This approach would not only ensure that those who provided feedback are provided confirmation that the Health Board has taken action, but would also provide others with confidence that if they provided feedback through a formal or informal route, that they would be listened to, and any issues they had would be resolved.

80. As part of effective quality processes, it is also important that staff can raise concerns if required. In the Health Board, staff concerns tend to be managed through the line management structure. My work indicates that staff know who to go to, to raise a concern if required and had little fear in doing so. Staff were also aware of alternate arrangements to raise concerns if this is needed. Overall arrangements for implementing whistleblowing policy and arrangements were still in the process of being implemented, but the Health Board will need to ensure that these arrangements are effectively implemented and promoted.

My performance audit work has identified good overall performance and opportunities to improve in a number of key areas

Local service performance generally compares favourably against the Welsh average, but despite this the Health Board is struggling to maintain overall performance for both locally provided and commissioned services, and it runs the risk of deteriorating performance because of financial pressures

81. This year's Structured Assessment has included an analysis of centrally available performance data on key service targets. This data has been used to help assess the extent to which the Health Board is delivering good-quality, economical and accessible services for patients.

82. Overall the Health Board is meeting local access requirements, but there is increasing pressure on timeliness of out of county care as demand and supply in other Health Board and Trust providers becomes stretched:

- referral to treatment targets are met locally, but there is increasing slippage in waiting time for Powys residents who are treated out of county;
- unscheduled care ambulance response times continue to be a pressure area, and as at October figures indicate that Powys patients tend to wait longer for emergency ambulance services, than in most other counties in Wales (the geography in Powys County and available ambulance service resource availability are likely to be core factors); and
- minor injury unit performance within Powys meets required targets, but emergency departments out of county, while improving, are continuing to have difficulty delivering against four hours treatment targets.

83. As part of this year's work, I have assessed the quality and safety processes as well as available quality performance information. Safety of services in Powys appears good, but are less clear for out of county services and patient outcomes:

- hospital acquired infections are comparatively low, but there has been an increasing trend in C-difficile at Powys Hospitals, and the Health Board will need to maintain focus on this;
- complaints and incidents for locally provided services also appear comparatively low, but acuity of treatment is lower than in other health boards, and so it is hard to compare; and
- the Health Board would benefit by having a clearer understanding of patient outcomes to indicate whether healthcare intervention has made a difference.

The Health Board is making effective use of the National Fraud Initiative to detect fraud

84. The National Fraud Initiative (NFI) is a biennial data-matching exercise that helps detect fraud and overpayments. It matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. The Auditor General conducts data matching exercises in Wales under statutory powers contained in Part 3A of the Public Audit (Wales) Act 2004. The NFI is a highly effective tool in detecting and preventing fraud and overpayments, and helping organisations to strengthen their anti-fraud and corruption arrangements.

85. Participating bodies submitted data to the current NFI exercise in October 2012. The data was matched and the outcomes were released to participating bodies in January 2013.

86. The Health Board continues to engage in NFI and is making good progress in a number of different areas.

The Health Board has made some good progress with primary care prescribing, where savings targets are being exceeded, but it does need to clarify the strategic direction and staffing structures for medicines management in order to continue to deliver savings and address the opportunities that exist to improve the safety, quality and economy of local prescribing.

87. The Health Board has made progress with primary care prescribing, and has successfully taken action to reduce unit costs by encouraging prescribing of generic or branded drugs whichever costs are lower where it is safe and maintains clinical efficacy.

88. The Health Board is consistently achieving its savings targets for prescribing. The target set for savings from prescribing was £0.8 million in 2012-13 which was exceeded at year end by £1.0 million giving total savings of £1.8 million. At the local level the prescribing team monitors expenditure by GPs as part of a local enhanced service scheme where a network of community pharmacists are assigned to GP practices in order to support effective and quality prescribing.

89. At a corporate level, medicines management has a low profile as the Health Board is already achieving the lowest cost per prescribing unit in Wales and exceeds its savings targets. While this is positive, the Board needs to be sure that it is not missing further opportunities to improve the quality of prescribing, particularly given that my review identified a number of areas where improvements still need to be made.

90. It is therefore important that the Health Board has an agreed future prescribing strategy to continue to deliver improvements in the overall cost and quality of prescribing. Although there is a draft prescribing strategy:

- it was not informed by robust or comprehensive analysis of the Health Board's specific demographic and public health needs or patient and stakeholder engagement;
- it refers to the risks and costs of new expensive drugs but contains no financial information or analysis on how these will affect existing care pathways; and
- it does not contain SMART objectives or targeting of resources to deliver the greatest impact, although the high level financial and performance targets are monitored by the board.

91. While executive responsibility for medicines management is clear, the staffing and prescribing committee structures need clarification, and significant challenges remain across the interface of primary and secondary care. For example, prescribing support to primary care includes a range of innovative projects but at the time of the review, these were reactive and not linked to a strategy risking duplication of effort and missing higher priority objectives.

92. Support to primary care via the community pharmacists using the locally enhanced services scheme is delivering benefits although contracting arrangements and support to these pharmacists needed to be strengthened.

93. In relation to the interface working between primary and secondary care, the Health Board has produced shared care agreements in key areas but significant challenges remain regarding physician compliance with the agreements, medicine reconciliation arrangements, and discharge information.

The Health Board's approach for training, teaching and learning is fragmented and reactive and focuses mainly on current training needs, which weaken its ability to develop its workforce for the future

94. A Workforce and Organisational Development Framework was published by the Welsh Government in May 2012 called *Working Differently – Working Together*. In responding to the requirements of the framework, the Health Board faces some specific local additional challenges such as a proportionately smaller workforce with more part-time workers than other health boards in Wales. In addition, staff are located across a large geographic areas and often teams are small and have adapted locally through multiskilling.

95. My review of training, learning and teaching concluded that the Health Board continues to make investments in training, but has a fragmented and reactive approach that mainly focuses upon the current training requirements of its localities, directorates and departments. At the time of the review, there was no overall corporate strategy for training and development and the emerging Learning and Development Framework was not yet embedded in the organisation.

96. There are some initial positive steps that have already been taken to improve the balance and emphasis of training, development and learning at the Health Board, but more needs to be done:

- The Health Board has organisational processes and approaches that help deliver training, development and learning. It provides core skills and abilities training to its staff, but it will need to consider changes to the current approach to improve effectiveness. Staff and management value training and development opportunities provided by the Health Board but they would welcome improvements to the organisational processes and mechanisms supporting training, development and learning.
- The approach to induction training appears to be comprehensive. Feedback on this from staff was very positive, although concerns were raised during my review about the levels of non-attendance and the difficulty with ensuring that all new staff had been appropriately inducted. Staff also raised concerns regarding the difficulty of identifying time to attend training and the Health Board may need to review and assess if there are opportunities to make the induction training more accessible to new staff.

- My work also identified that the Health Board is not currently effectively monitoring, at an organisational level, the delivery and success of the training, teaching and learning that is occurring across Powys. The current processes and mechanisms for managing the delivery of the numerous annual training plans that exist across the organisation are not subject to on-going monitoring of take-up and attendance. The absence of regular monitoring reports may partly be explained by the fragmented approach that currently exists.

Appendix 1

Reports issued since my last Annual Audit Report

Report	Date
Financial audit reports	
Audit of Financial Statements Report	June 2013
Opinion on the Financial Statements	June 2013
Opinion on the Whole of Government Accounts return	July 2013
Opinion on the Summary Financial Statements	September 2013
Performance audit reports	
Review of Organisational Training, Teaching and Learning	June 2013
Primary Care prescribing	August 2013
Financial planning and delivery of financial saving schemes	August 2013
Overview of the arrangements for data backup	October 2013
Structured Assessment Year 4	December 2013
Other reports	
Outline of Audit Work 2013	March 2013

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
Review of Clinical Coding	January 2014
Review of Orthopaedic Services	March 2014

Appendix 2

Audit fee

The Outline of Audit Work for 2013 set out the proposed audit fee of £256,162 (excluding VAT). On the basis that some work remains in progress, my latest estimate is in accordance with the 2013 outline.

Audit area	2010 (£)	2011 (£)	2012 (£)	2013 (£)
Financial accounts	155,199	146,998	143,013	143,013
Performance audit	118,860	117,224	113,149	113,149
Total	274,059	264,222	256,162	256,162

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