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Annual Audit Report 2016 – **Betsi Cadwaladr University Local Health Board**

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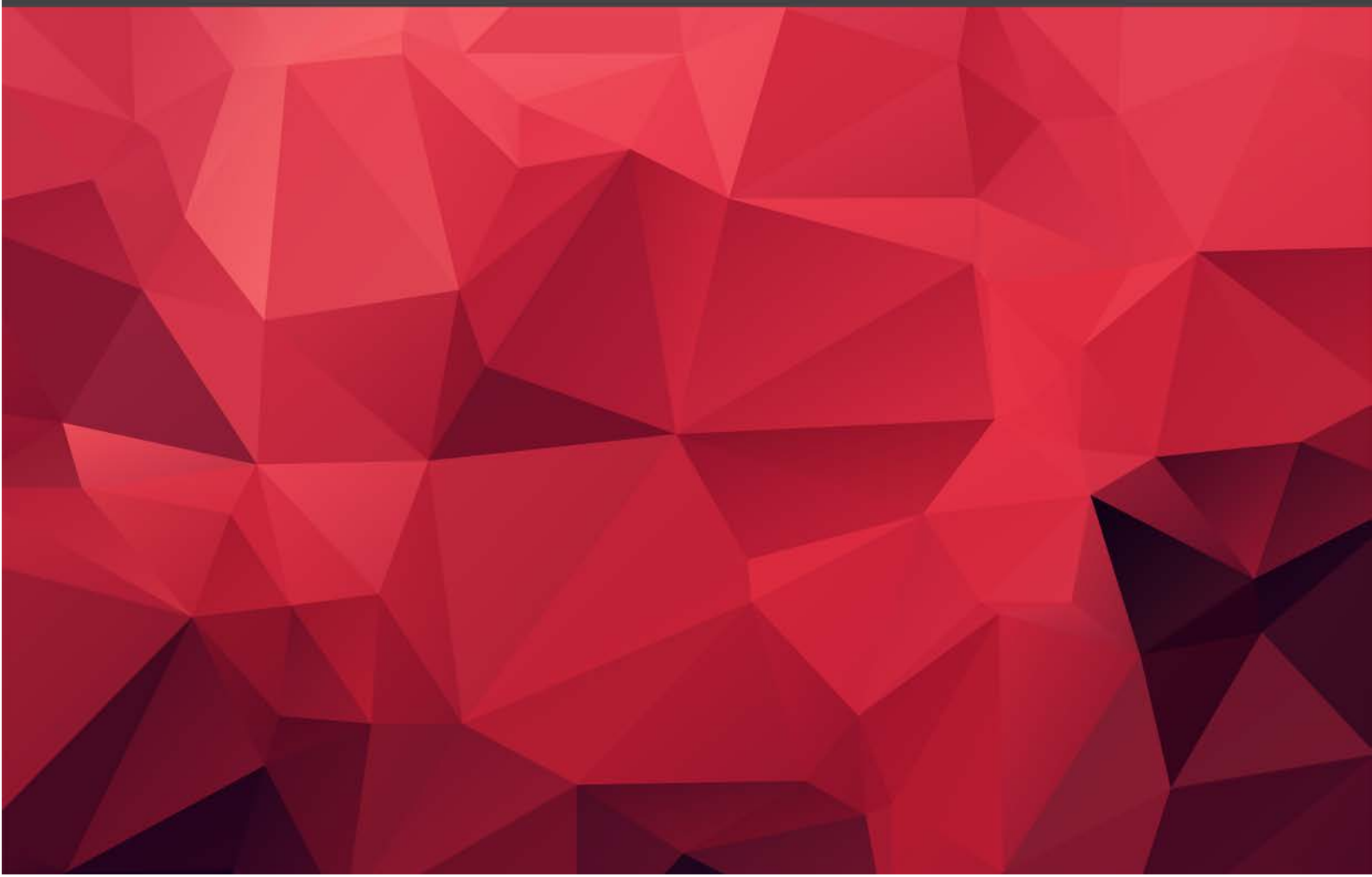

The team who helped me prepare this report comprised Mandy Townsend, Andrew Doughton, Matthew Edwards, Dave Thomas, and Mike Usher

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Summary report

Summary

1 This report summarises my findings from the audit work I have undertaken at Betsi Cadwaladr University Health Board (the Health Board) during 2016.

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. 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 will be presented to the February 2017 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 website.

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

Section 1: audit of accounts

6 I issued an unqualified opinion on the 2015-16 financial statements of the Health Board, although in doing so I have brought several issues to the attention of officers and the Audit Committee as set out in Exhibit 1 of this report. In addition, I placed a substantive report on the Health Board's financial statements alongside my audit opinion. My report explains the two financial duties introduced on 1 April 2014 by the NHS Finance (Wales) Act 2014, the Health Board's performance against them, and the implications for 2016-17.

7 I have also concluded that the Health Board's accounts were properly prepared and materially accurate. My work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts.

8 The Health Board did not achieve financial balance at the end of 2015-16. 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

9 I have reviewed the Health Board's arrangements for securing efficiency, effectiveness and economy in the use of its resources. This includes my structured assessment work, which has examined the Health Board's financial management arrangements, its governance and assurance arrangements, and the progress made in relation to the improvement issues identified last year. Performance audit reviews have also been undertaken on specific areas of service delivery including medical equipment and follow-up of my previous reports on the consultant contract. This work has led me to draw the following conclusions:

In reviewing the Health Board's financial planning and management arrangements I found that it continues to monitor and report performance against its budgets and savings plans effectively, although it is highly unlikely to achieve financial balance at the end of 2016-17

10 I found that the Health Board has adequate financial planning arrangements, but budgets reflect the current service model, and are not shaped by a clear long-term clinical strategy or an integrated medium term plan (IMTP). For 2016-17, the Health Board agreed a planned deficit of £30 million. Year-end forecasts currently remain in line with plans, with some additional in-year financial funding from the Welsh Government. As a consequence, financial plans do not demonstrate a sustainable position. In the continued absence of strategic direction and associated clinical service and workforce plans, the Health Board is yet to establish a sound and sustainable approach to financial management in 2016-17 and is highly unlikely to achieve financial balance for this financial year with a significant year-end deficit being forecast.

11 My report on the 2015-16 financial statements did not identify any material weaknesses in the Health Board's financial controls. I concluded that the Health Board's in-year financial controls operate effectively to ensure appropriate stewardship, and the recent introduction of the new Financial Assurance Framework should provide stronger and more systematic assurance to the Audit Committee.

12 I reported that appropriate financial information is presented to the Board to inform decision-making and that financial reporting to the Board provides valuable insight and is well structured. The timeliness of finance reports submitted to the Board could, however, be improved although this is currently determined by the cycle of business appropriately requiring scrutiny of the reports by the Finance and Performance Committee ahead of consideration by the Board.

The Health Board is laying some sound foundations to secure its future and the pace of change is increasing, although it has considerable further work to do in important areas

13 The Health Board has refreshed its strategy and planning arrangements, actively engaging the Board and adopting approaches including a co-production, evidence-based scenario planning, a strong focus on engagement, and aspects of benefits realisation. To support division level planning, the Health Board's central planning team also provides facilitation and quality assurance on the development of division level plans.

14 There is a clear, agreed and shared plan to develop a whole organisation strategy, and supporting strategies, underpinned by communications plans. A parallel set of work streams are underway to develop and expand on the concept of 'what services will look like'. The Health Board has learnt from its experiences around maternity services in 2015, and is adopting a more open and transparent style led by the Chief Executive to reinvigorate its approach to engagement with staff and clinical groups such as the Health Professions Forum, as well as external stakeholders.

15 The new framework for strategy and planning is promising, although it has yet to deliver the coherent set of plans that are needed to support the organisation's strategic aims and identify clinically and financially sustainable models of service delivery. The Health Board is working towards an annual plan for 2017-18, with the intention of delivering an approvable IMTP in early 2018 for the 2018-2021 period.

16 Board and Committee effectiveness is improving, although more work is needed to refine its board assurance framework. The Health Board has been developing its system of assurance and its understanding of what this means over the past few years. The Health Board has approved its board assurance arrangements and developed a combined Corporate Risk and Assurance Framework (CRAF) as a pragmatic interim solution in the absence of an agreed IMTP to enable a clearer approach for assurance mapping. Both my ongoing observations and the board member survey demonstrate a growing maturity and confidence in the board and committee arrangements.

My performance audit work has identified opportunities to secure better use of resources in key areas

17 My work programme has included a review of medical equipment management and a follow-up of my previous consultant contract reviews. My conclusions are as follows:

- Day-to-day maintenance of medical equipment is reasonably well managed and there are effective, risk-based systems for prioritising capital spend. However, arrangements for low-cost equipment are less clear and the Health Board lacks a definitive medical equipment inventory.

- The Health Board has made some progress with job planning, but none of my previous national and local recommendations have been implemented fully.

18 I gratefully acknowledge the assistance and co-operation of the Health Board's staff and members during the audit.

Detailed report

About this report

19 This Annual Audit Report 2016 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 2016.

20 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.

21 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 assurance;
- performance audit examinations undertaken at the Health Board; and
- the results of the work of other external review bodies, where they are relevant to my responsibilities.

22 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.

23 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

24 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 2016 Audit Plan.

25 Finally, Appendix 3 sets out the significant financial audit risks highlighted in my 2016 Audit Plan and how they were addressed through the audit.

[1] Public Audit (Wales) Act 2004

Section 1: audit of accounts

26 This section of the report summarises the findings from my audit of the Health Board's financial statements for 2015-16. 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.

27 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.

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

I issued an unqualified opinion on the 2015-16 financial statements of the Health Board, although in doing so, I brought several issues to the attention of officers and the Audit Committee and placed a substantive report alongside my audit opinion

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

29 The draft financial statements were produced for audit by the agreed deadline of 29 April 2016 and were of a high standard. Despite the challenging deadline, I found the information provided in the accounts to be relevant, reliable and materially complete. My substantive report explains the two statutory financial duties applicable from 2014-15, the performance of the Health Board against them for 2015-16, and the implications for 2016-17.

30 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 31 May 2016.

31 Exhibit 1 summarises the key issues set out in that report.

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

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

Issue	Auditors' comments
The Health Board's failed to meet the Welsh Government Public Sector Performance Policy (PSPP) target for paying 95 per cent of non-NHS creditors within 30 days of delivery.	My review of the processes for reporting performance against the PSPP target identified opportunities to further strengthen Welsh Government guidance and the Health Board's arrangements for calculating its payment performance, including: • clarifying the basis for determining the payment date; • resolving minor inaccuracies in the report generated to calculate performance; and • addressing the misclassification of 'NHS Supply Chain' payments as 'non NHS' in the month 12 performance report generated by the accounts payable system. I concluded that despite the issues reported, the risk that the Health Board's reported performance is materially misstated is very low.
The Health Board's stocktaking procedures were not always followed.	I identified two instances whereby the Health Board's stocktaking procedures were not followed. Management accepted my recommendation for strengthening its stocktaking quality-assurance processes in 2016-17, to ensure that the inventories disclosure 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.	Between 2012-13 and 2014-15 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. Some progress has been made in resolving the matter, but it is yet to be fully addressed. On the basis of the information available to us, I concluded that the financial statements were not materially misstated. The Health Board has confirmed that the issue is due to be resolved in 2016-17.

32 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 2016 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.

33 The Health Board's draft 2015-16 charitable financial statements were prepared in September 2016. I issued an unqualified opinion on the charitable financial statements on 13 December 2016.

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

34 I reviewed the Health Board's internal controls that I considered to be relevant to the audit to help me identify, assess and respond to the risks of material misstatement in the accounts. I did not, however, consider them for the purposes of expressing an opinion on their operating effectiveness of internal control. My review did not identify any significant deficiencies in the Health Board's internal controls.

35 My follow-up of the 2015 report on the Health Board's procurement arrangements concluded that my previous recommendations on the use and reporting of single tender waivers had been addressed and that arrangements continue to evolve. I identified opportunities to further strengthen arrangements by ensuring Single Tender Waiver forms are fully completed and are only accepted following proper authorisation. I also recommended developing how the use of Single Tender Waivers is reported in the Health Board's Financial Conformance Report.

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

36 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 and assurance arrangements through my structured assessment work, including review of the progress made in addressing structured assessment recommendations made last year;
- specific local audit review on medical equipment; and
- assessing the progress the Health Board has made in addressing the issues identified by previous audit work on the consultant contract.

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

The Health Board continues to monitor and report performance against its budgets and savings plans effectively, although it is highly unlikely to achieve financial balance at the end of 2016-17

38 My structured assessment work in 2016 has considered the action that the Health Board is taking to achieve financial balance and create longer-term financial sustainability. I have assessed the financial position of the organisation, the approach to financial planning, financial controls and stewardship, and the arrangements for financial monitoring and reporting. My key findings are summarised below.

The Health Board has adequate annual financial planning arrangements, but budgets reflect the current service model, are not shaped by a clear long-term strategy and financial plans do not demonstrate a sustainable position

39 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. 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.

40 The Health Board should be in a position to 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. Consequently, the Health Board was in breach of this new statutory duty and has been unable to take full advantage of the financial flexibilities available under the Act.

41 In the absence of an approved IMTP, budgets are not shaped by a clear long-term Strategy. To date, there has been limited progress on the development of financially and clinically sustainable service models, together with greater support service integration. The Health Board instead produced an Interim 2016-17 Financial Plan that included the financial implications of continuing the current service model together with any inflationary and expected growth levels alongside

the transactional savings proposed. I reported that the annual financial plan for 2017-18 would benefit by being more clearly linked to service and workforce plans, as part of preparation for integrated medium-term planning.

42 Despite the lack of a clear long-term strategy, I found that financial planning roles and responsibilities are clear and understood. The Health Board has arrangements for revenue and capital budget setting that are underpinned by a Budget Planning Framework.

In the continued absence of strategic direction and associated clinical service and workforce plans, the Health Board is yet to establish a sound and sustainable approach to financial management in 2016-17 and is highly unlikely to achieve financial balance for this financial year

43 The Health Board continues to face significant financial challenges. Its Annual Operational Plan for 2016-17, identified a forecast deficit of £30.0 million, comprising an underlying deficit of £44.2 million and an operational surplus of £14.2 million, after delivering anticipated savings of £30.0 million.

44 I have previously reported the need for transformational service planning, which is evidenced by the Health Board's challenging financial position. It is encouraging to see improving approaches for the management of in-year savings led by the Programme Management Office. This includes processes to identify and deliver large-scale savings and strengthened oversight of the delivery of savings plans.

45 The Health Board reported that savings programmes continue to develop with the introduction of a 'programme board framework' consisting of a number of strategic work-streams that feed into 10 programme boards. All savings schemes have a service lead who oversees the development of a project initiation document that requires the need to undertake quality impact assessments ensuring consideration on quality and safety implications.

46 At the end of December 2016, the Health Board forecast that its most likely annual overspend remained at £30 million. It acknowledged that the achievement of the projected deficit remains extremely challenging. At month nine, the Health Board had identified cash releasing savings schemes of £30.6 million, of which £23.0 million were recurring. The Health Board anticipates delivering savings of £32.2 million in 2016-17, and by the end of December 2016, it reported that it had delivered £22.7 million of cash releasing savings against planned savings of £22.1 million.

47 There remain significant financial pressures in Secondary Care and Mental Health and Learning Disabilities with a cumulative overspend of £5.3 million and £6.0 million at month nine respectively. As in previous years, agency costs to cover vacancies or to address quality and safety issues present a significant challenge to the Health Board, with average monthly costs of approximately £3.8 million at month nine.

48 Looking ahead, the Health Board continues to face significant financial challenges. With the £30 million budget deficit in 2016-17, the Health Board anticipates an aggregate deficit of £76.1 million for the three-year period ending 31 March 2017, failing its statutory duty to balance its income with its expenditure over that period. To date, there has been only limited progress on the urgent need to develop financially and clinically sustainable service models, together with greater support for service integration. This financial position presents a significant risk that the Health Board will breach its financial duty under the NHS Finance (Wales) Act 2014.

The Health Board's in-year financial controls operate effectively to ensure appropriate stewardship and the recent introduction of the new Financial Assurance Framework should provide stronger and more systematic assurance to the Audit Committee

49 The Health Board's roles and responsibilities are clearly set out in its Budget Planning Framework that is underpinned with updated standing financial instructions, standing orders and a scheme of delegation. Budget manager roles are well defined and Annual Accountability Agreements are in place, with good progress being made in 2016 with all budget managers having signed the agreements by the end of September 2016.

50 In October 2016, the Health Board received recognition at the annual Healthcare Financial Management Awards for its work on developing a Financial Assurance Framework, which should provide greater and more systematic assurance to the Audit Committee. Whilst it is still in its infancy, the framework is promising and should provide an additional effective source of assurance to the Audit Committee.

51 The Finance and Performance, and Audit Committees play active roles in the financial control framework. Quarterly financial conformance reports setting out compliance with procurement, payroll, receivable, payable and losses and special payment procedures are reviewed by the Audit Committee.

52 Internal Audit reviews the Health Board and NHS Wales Shared Services Partnership (NWSSP) managed financial systems under its annual core plan. Internal Audit concluded that audits of the Health Board financial systems confirmed that a sound system of internal control is in place.

Appropriate financial information is presented to the Board to inform decision making and support corrective action if required

53 Effective financial management is important if health bodies are to deliver better health outcomes, services and value for money. As a consequence, I undertook a comparative analysis of the content of financial reports within NHS bodies in Wales. I found that the Health Board's financial reporting provides valuable insight, and compares favourably to other NHS bodies in Wales in respect of:

- forecasting key areas such as in-year revenue, capital and cash positions; and

- the identification of targets and reporting against them was included in most reports.

54 The Health Board produces monthly monitoring returns to the Welsh Government and internal financial reports that are considered at the monthly Finance and Performance Committee and Board meetings. The finance department completes its month-end reporting process within five working days of the month-end, with Welsh Government monitoring return reports being submitted by day nine each month.

55 My review of the month 2 finance report found it to be well structured and the information provided was consistent and reliable. The report was easy to read with key messages supported by detail flowing from the summary report, which included a dashboard for key financial targets. The report also clearly sets out statutory financial duties including the cumulative position over a three-year period in the context of the Act and special measures. I found good use of tables and graphics to show performance, exceptions, trends and risk areas, and an informative table was provided setting out risks to the year-end financial position.

56 Financial information is reported to the Finance and Performance Committee on a timely basis, typically in week four of the following month. The timeliness of finance reports submitted to the Board could, however, be improved. This is currently determined by the cycle of business which appropriately requires scrutiny of the reports by the Finance and Performance Committee ahead of consideration by the Board. However, I noted scope to improve the timing of Board reporting as the month 2 finance report was presented to the Board on 21 July 2016, 51 days after the financial reporting period end.

57 I will issue a separate, more detailed report presenting the comparative analysis of financial reports which will be shared with NHS bodies in early 2017.

The Health Board is laying some sound foundations to secure its future and the pace of change is increasing, although it has considerable further work to do in important areas

58 My governance and assurance work has assessed the Health Board's strategic planning and reporting arrangements and the approach for developing and reviewing a board assurance framework. I have also considered the overall effectiveness of the board and its governance structures and the progress made in addressing previous structured assessment recommendations and improvement issues.

A promising new strategy and planning framework is now in place, although concerns remain around capacity to meet the Health Board's planning timeframe as well as overall capacity to deliver service modernisation and change

59 My previous structured assessments and joint review work highlighted the gaps in strategic plans, and the challenges around developing an agreed integrated clinical strategy. Since late 2015, the Health Board has continued to develop its planning capability.

60 The Health Board has moved forward in a number of key ways in its refreshed approach to strategy and planning, with the Board itself actively involved. The Board approved a planning framework, based on a set of design principles adapted from a Monitor Framework. This model includes elements of co-production, evidence-based scenario planning, a strong focus on engagement, and aspects of benefits realisation.

61 The Health Board is now using a distributed planning model, with central facilitation, templates and quality assurance of operational plans. The divisional teams (area and acute) are currently contributing to plan development for 2017. The relationships between operational and planning teams are starting to develop.

62 During 2016, the Board publicly stated the high-level vision for the Health Board. There is a clear, agreed and shared plan to develop a whole organisation strategy, and supporting strategies. These planning approaches include key milestones and dates, and take an inclusive and engaged approach with both staff and partners. A parallel set of work streams are underway to develop and expand on the concept of 'what services will look like'. These comprise the overarching strategy Staying Healthy, Living Well, and, more detailed supporting strategies for key areas such as Mental Health, Primary and Community Services, Estates, Maternity, Children's services, and Older people's services. Future service models will need to be shaped to meet demand while also being sustainable from a workforce and financial resource perspective.

63 The Health Board has learnt from its experiences around maternity services in 2015, and is building upon both this learning, and adopting a more open and transparent style led by the Chief Executive to reinvigorate its public and stakeholder engagement. The Health Board has also reinvigorated the way in which it engages with its Stakeholder Reference Group and Health Professions Forum.

64 The Health Board is developing its approach to staff engagement. The Office of the Medical Director is leading a work stream on clinical engagement, but this is still at an early stage of development. As part of a wider staff engagement strategy and plan, other mechanisms to increase staff engagement are also now being widely used such as cascade briefings, chief executive blogs and newsletters, walk-arounds and an increased emphasis, through operational management routes, on staff appraisal.

65 The new framework for strategy and planning is promising, although it has yet to deliver the coherent set of plans that are needed to support the organisation's strategic aims and identify clinically and financially sustainable models of service delivery. The Health Board is working towards an annual plan for 2017-18, but with the intention of delivering an approvable Integrated Medium Term Plan in early 2018 for the 2018-2021 period. The timeline for strategy development is tight, and has already been purposefully revised to allow the feedback from the Welsh Government's listening exercise to be incorporated into strategy development work and avoid duplication. This means that ultimately, if engagement and strategy development work is not progressed in time, the Integrated Medium Term Plan may not be completed and agreed by the end of March 2018.

66 Another key challenge for the Health Board is change management capacity. As strategy and plans are approved, then they will need to be delivered and supported by sufficient change management capacity and capability. In late 2014, the Health Board commissioned an external Programme Management Office, supported by an internal service improvement team. The Programme Management Office function is focused on financial and performance improvement, but not on complex service transformation projects. The Health Board recognises that additional capacity and capability will be needed to support delivery of change.

Board and Committee effectiveness is improving, although more work is needed to refine the board assurance framework

67 In reaching this conclusion I found:

- the Health Board has approved its board assurance arrangements and is developing a combined Corporate Risk and Assurance Framework as a pragmatic interim solution in the absence of an agreed Integrated Medium Term Plan; and
- in 2016, board and committee effectiveness improved, with evidence of better scrutiny and challenge.

68 Assurance mapping[2] is an increasingly used tool for systematically identifying and mapping the assurances needed over key risks to achieving organisational objectives. The Health Board has been developing its system of assurance and its understanding of what this means over the past few years. The Board itself has had direct involvement in developing and articulating its purpose, vision and strategic goals. These were developed through board development sessions and communicated through engagement events.

69 In parallel with its work on strategy and the development of the Integrated Medium Term Plan for 2018, the Board continues to work on its corporate objectives which will inform the development of the Board Assurance Framework. The timeframe for this meant that the Board decided that it needed an interim solution, until its

[2] HM Treasury, **Assurance Frameworks**, December 2012.

engagement and strategy work developed a sufficiently detailed picture of what services will look like in the future. This interim solution is the Corporate Risk Assurance Framework. The Corporate Risk Assurance Framework, which was developed with significant input from the Chair of the Audit Committee, maps the most important risks to delivery of safe and comprehensive services and population health against the assurances, controls, and mitigating actions, and assigning a specific committee for monitoring.

70 The Board has articulated its risk appetite, which it refreshed in 2016. It understands what level of risk it is prepared to tolerate, and how it plans to mitigate and manage risks and issues across the Health Board. The Board knows and understands the key risks, but cannot be assured that all threats and risks are adequately captured until operational management structures are all fully populated and the revised risk management strategy is in operational use.

71 My previous work highlighted issues with board and committee effectiveness, and a number of improvements to these aspects of governance are part of the Health Board's special measures governance improvement plan. The Board has revised its committee structure, and has made progress on key processes, with new standardised document formats, and supporting arrangements.

72 Both my ongoing observations at Board and committees, and my survey of board members demonstrate a growing maturity and confidence in the board and committee arrangements. All committees have revised and mapped annual work plans. As 2016 progressed, my observations indicated that the Board increasingly talked and acted as a team, demonstrating cohesion, consistency and maturity in its deliberations and decision-making. This is a positive development, and demonstrates a step-change since my initial joint work with Healthcare Inspectorate Wales in 2013.

73 The Committee Business Management Group ensures that committee business is effectively co-ordinated, supports the smooth flow of assurances, and ensures appropriate cross-referral between committees. The Board undertook a full cycle of board development sessions and board briefings. These non-public sessions are designed to ensure the full board has sufficient knowledge of key emerging themes and challenges, and provides a space for discussion and exploration of up-coming challenges.

The Health Board is taking action in response to my previous structured assessment recommendations, although some important actions are still outstanding

74 In 2015, my structured assessment made six recommendations relating to recommendations management, developing a proactive approach for stakeholder communications, strategic planning, information governance and change management capacity. Five of my recommendations have been completed over the last 12 months, with the only area outstanding relating to change management capacity.

75 In addition to reviewing the actions taken to address my 2015 structured assessment recommendations, I also considered the effectiveness of the Health Board's wider arrangements to respond to my audit recommendations. I found that the Health Board's revised arrangements for monitoring the implementation recommendations are now embedded. A tracking report identifying the status of recommendations is considered at every audit committee meeting, and is used to challenge the pace of management response. It is not always clear, however, whether the actions taken in response to the recommendations have always addressed the underpinning issues identified in reports.

My performance audit work has identified opportunities to secure better use of resources in key areas

76 This section provides a summary on my local and mandated performance audit work programme that I have reported over the last 12 months. This includes reviews of medical equipment and consultant contract management arrangements.

My work on medical equipment has identified that day-to-day maintenance of medical equipment is reasonably well managed and there are effective, risk-based systems for prioritising capital spend. However, arrangements for low-cost equipment are less clear and the Health Board lacks a definitive medical equipment inventory

77 There is clear senior management structure for medical equipment supported by the Medical Devices Oversight Group, Medical Devices Capital Group and Medical Devices Locality groups. The Health Board is developing arrangements to manage risks associated with medical equipment at an operational level, but strategic risks are not always escalated quickly. There are effective systems in place within the medical equipment group structure to identify potential trends in incidents, and to investigate and take mitigating action where necessary. There is, however, limited focus on medical equipment within the overarching corporate risk register. Historically, communication within the Health Board has not always been fully effective, causing delays in some key operational risks being recognised at a strategic level. For example, the need to co-ordinate the replacement of the pharmacy robotic dispenser with the Ysbyty Glan Clwyd refurbishment works.

78 The Health Board uses its discretionary capital budget effectively to prioritise new and replacement medical equipment, but for lower-cost items, arrangements are less clear and there is no single inventory of all items. Bids for discretionary funding for medical equipment are submitted annually and there is a clear process of prioritisation linked to clinical risk. There is also forward planning on a five-year basis. However, there is no single inventory for medical equipment in the Health Board. The Health Board's asset register only captures capital items (ie those over £5,000) and the picture below £5,000 is less clear. The lack of a single source of complete inventory information makes it difficult to determine costs are in relation to out-of-life equipment.

79 The Health Board has reasonably effective arrangements for the maintenance of medical equipment but its equipment library could be more effective and standardised across the Health Board by sharing good practice across sites. The Electro-Biomedical Engineering Department manages medical equipment well, and despite an ongoing maintenance backlog, hospital staff report high levels of satisfaction with its service. However, as not all equipment is recorded on its maintenance system, there is a risk to patient safety if the Health Board does not know if all equipment below £5,000 is properly maintained or calibrated.

The Health Board has made some progress with consultant job planning, but none of my previous national and local recommendations have been implemented fully

80 The amended NHS Wales Consultants' Contract (the contract), came into effect on 1 December 2003. The contract states that a consultant's job plan should be reviewed at least annually to ensure that job plans take account of changing patterns of service delivery, evolving organisational and personal objectives, and advances in technology and medical practice.

81 At 31 March 2015, the Health Board reported that 70 per cent of consultants had a job plan and of those, 86 per cent had been reviewed in the last 12 months. My recent work indicated that the Health Board has provided job planning training in the past aimed at clinical and other managers. However, the Health Board was unable to confirm when this training took place, and the training materials we reviewed were undated. Interviewees generally thought the Health Board's approach to job planning training was not systematic and less than half of consultants who responded to my recent survey said they had clear guidance on the job planning process.

82 The contract is clear that consultants should agree an appropriate set of outcomes, relevant to the speciality. The achievement of outcomes should be a key factor in the clinical manager's judgement that the job plan review is satisfactory, or unsatisfactory. The Health Board recognises the importance of outcome-based discussions, and has emphasised this to clinical and general managers. However, my work showed that the Health Board has much to do to make routine the practice of discussing, setting and recording outcomes during job planning. In my detailed review of a sample of 20 job plans, we did not find any that contained evidence of outcomes or discussions about outcomes.

83 The Health Board manages appraisal much better than job planning, and the two processes frequently do not work together as they should. The Health Board has implemented the Medical Appraisal and Revalidation System and at March 2015 reported that 86 per cent of consultants had received an annual appraisal within the last 12 months.

84 My report in 2013 recommended that all health bodies should have job planning monitoring processes, however, current arrangements in the Health Board do not appear robust. The introduction of the new electronic job planning system should

provide the Health Board with a standard job planning process and a means for providing assurance on the quality of these processes, which is currently lacking.

85 A key aim of the contract is to facilitate closer working between health managers and consultants to enhance the quality of service and benefit patients. However, the Health Board has some way to go to make this a universal practice. In my survey of consultants, over half of respondents said that they did not discuss modernising services, or think they could discuss steps to improve clinical practice. We also found that too many job planning meetings do not discuss supporting professional activities outputs or outcomes.

Appendix 1

Reports issued since my last annual audit report

Exhibit 3: reports issued since my last annual audit report

The following table lists the reports issued to the Health Board since my last annual audit report.

Report	Date
Financial audit reports	
Final Accounts Audit Deliverables	February 2016
Audit of Financial Statements Report	May 2016
Opinion on the Financial Statements	June 2016
Audit of the Charity Financial Statements Report	November 2016
Opinion on the Charity Financial Statements	November 2016
Performance audit reports	
Follow-up Review of Consultant Contract	September 2016
Structured Assessment 2016	January 2017
Medical Equipment	September 2016
Other reports	
2016 Audit Plan	March 2016

Exhibit 4: performance audit work still underway

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

Report	Estimated completion date
Review of Radiology Services	March 2017
Review of GP Out-of-Hours Services	March 2017
Review of Discharge Planning	July 2017
Follow up outpatients – progress update	April 2017
Review of Estates	June 2017

Appendix 2

Audit fee

The 2016 Audit Plan set out the proposed audit fee of £462,953 (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

Exhibit 5: significant audit risks

My 2016 Audit Plan set out the significant financial audit risks for 2016. The table below lists these risks and sets out how they were addressed as part of the 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: • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.	I completed focussed 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 the Welsh Government shortly. The month 9 position showed a year-to-date deficit of £16.6 million and forecast a year-end deficit of £19.7 million. I may choose to place a substantive report on the financial statements explaining the failure and the circumstances under which it arose. 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 undertake testing of the Health Board's financial duties.	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 £19.5 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 9 monitoring report identified a projected cash shortfall/balance at year-end of £19.7 million. 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 focussed 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 2015 procurement follow-up review.	My audit team will assess progress in implementing the recommendations arising from my follow-up review to inform my regularity opinion.	I undertook a follow-up on procurement issues and concluded that the Health Board implemented my 2015 recommendations. I did identify further opportunities for strengthening arrangements for using Single Tender Waiver forms and how these are reported in the health Board's Financial Conformance report.
I have identified a number of disclosures as being material by nature. These include the disclosure of Related Parties and the Remuneration note, in particular the presentation of the remuneration of the former Chief Executive, who left his post to take a secondment opportunity.	I will design detailed testing to obtain the required assurance that disclosures identified as material by nature are complete, accurate and in line with the requirements of the Manual for Accounts issued by the Welsh Government.	I completed focussed audit testing as planned on the disclosures deemed material by nature. I concluded that the disclosures were complete, accurate and in line with the requirements of the Manual for Accounts issued by the Welsh Government.

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