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Annual Audit Report 2015

Cardiff and Vale University Local Health Board

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The team who assisted me in the preparation of this report comprised John Herniman, David Thomas, Anne Beegan and Alison Butler

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Summary report

1. This report summarises my findings from the audit work I have undertaken at Cardiff and Vale University Local Health Board (the Health Board) during 2015.
2. The work I have done at the Health Board allows me to discharge my responsibilities under the Public Audit (Wales) Act 2004 (the 2004 Act) in respect of the audit of accounts and the Health Board's arrangements to secure efficiency, effectiveness and economy in its use of resources.
3. 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 relevant Committee. The reports I have issued are shown in Appendix 1.
4. This report has been agreed for factual accuracy with the Executive team. It will be presented to the Board on 28 January 2016 and a copy provided to every member of the Health Board. As part of the Health Board's routine procedures, this report will be made publically available as part of its Board papers. Following Board consideration, the report will also be made available to the public on the Wales Audit Office's own website (www.audit.wales).
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 2014-15 financial statements of the Health Board, although in doing so I have brought several issues to the attention of officers and the Audit Committee. These relate to improving internal controls and accounting practices for public sector payment disclosures, the purchase of equipment towards the end of the financial year, the preparation of the Annual Governance Statement and compliance with authorisation controls.
7. In addition, I placed a substantive report on the Health Board's financial statements alongside my audit opinion. My report explains the two new financial duties introduced on 1 April 2014 by the NHS Finance (Wales) Act 2014, the Health Board's performance against them, and the implications for 2015-16.
8. I have also concluded that:
   - the Health Board's accounts were properly prepared and materially accurate but there is scope for improvement in some areas;
   - the Health Board had an effective control environment to reduce the risk of material misstatements to the financial statements; and
   - the Health Board's control activities that we considered as part of the audit were appropriately controlled and operating as intended, although there are some weaknesses which require management action.
9. The Health Board did not achieve financial balance at the end of 2014-15. I set out more detail about the financial position and financial management arrangements in Section 2 of this report.

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

10. 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, the adequacy of its governance 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. This work has led me to draw the following conclusions:

The Health Board has an approved Integrated Medium Term Plan, but operational pressures and a failure to identify and deliver the required cost reductions mean that it is currently forecasting a deficit of £23 million, compared to a planned deficit of £13 million, at the end of 2015-16

11. Key findings from my review of the Health Board's financial position and management arrangements are as follows:

- financial pressures were increasingly unsustainable in 2014-15 resulting in failure by the Health Board to achieve financial balance in accordance with its approved Integrated Medium Term Plan (IMTP), with a deficit of £21 million reported at the end of 2014-15; and
- the Health Board's financial position continues to be extremely challenging with a significant year-end deficit being forecast for 2015-16, although the Health Board is planning to reassess its year-end forecast following confirmation of additional funding from Welsh Government.

The Board has set a clear vision and promotes an open and transparent culture through generally robust governance arrangements, but further improvements, including the continuing need to strengthen organisational capacity, are necessary

12. Key findings from my review of the Health Board's governance arrangements are as follows:

- the Health Board's three-year strategic plan provides a solid basis for taking the organisation forward but delivery will be reliant on the Health Board managing its financial position and recognising the impact from the South Wales Plan;
- the Health Board's organisational structure is continuing to mature with evidence of an engaging and informed workforce but capacity in some corporate functions and staff acting into posts at some levels throughout the organisation continue to present challenges;
- Board effectiveness, assurance and internal controls continue to be strengthened and are largely effective although there remain some important areas which need to be addressed;

- information governance remains a risk for the Health Board but governance arrangements are now starting to provide the necessary assurance; and
- the Board is appropriately informed of its performance but opportunity exists for further scrutiny within its Performance Committee and the Health Board needs to continue to demonstrate improvement against national and local targets.

While my performance audit work has identified examples of good practice and positive developments, there are also opportunities to secure better use of resources in a number of key areas

13. Key findings from my performance audit reviews are as follows:

- the Health Board has set an ambitious change agenda, demonstrates strong community engagement and partnership working and has made positive progress in relation to workforce planning, but there remain significant risks around estates;
- there are strengths in the way the Health Board manages medicines but there is also scope for improvement in areas associated with the strategic approach, storage facilities, transfer of medicines information and performance monitoring;
- from a difficult starting point, the Health Board is taking appropriate action to identify the volume of its outpatient follow-up need, but too many patients are delayed, the trend is worsening and it needs to do a lot more to develop sustainable follow-up outpatient services; and
- the Health Board is progressing many of the issues raised in my previous reviews, although not all action plans are monitored and a more detailed review of my previous hospital catering and nutrition recommendations has identified that there is further progress needed in this area.

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

Detailed report

About this report

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

16. 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.

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

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

18. 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.

19. 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

20. Appendix 2 presents the latest estimate on the audit fee that I will need to charge to cover the actual costs of undertaking my work at the Health Board, alongside the original fee that was set out in the 2015 Audit Plan.

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

[1] Public Audit (Wales) Act 2004

Section 1: Audit of accounts

22. This section of the report summarises the findings from my audit of the Health Board's financial statements for 2014-15. These statements are the means by which the organisation demonstrates its financial performance and sets out its net operating costs, statement of financial position, 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.

23. 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.

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

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

- Health Board's internal control environment; and
- control activities considered to be relevant to the audit

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

The Health Board's accounts were properly prepared and materially accurate, but there is scope for improvement in some areas

26. The draft financial statements were submitted on a timely basis to meet the 1 May 2015 deadline. There was also clear evidence that the financial statements had been subject to quality assurance checks, including a comprehensive analytical review and a report summarising the major judgments and estimates.

27. 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 and Board on 2 June 2015. Exhibit 1 summarises the more salient issues set out in that report.

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

Issue	Auditors' comments
Public sector payment performance	The Welsh Government issued new guidance last year on the reporting requirements against the Public Sector Payment Performance Policy (PSPP) target for paying trade creditors within 30 days. Annex 10 to Chapter 1 of the Manual for Accounts explicitly requires health boards to include payments made to primary care contractors in their figures. The Exeter system used by the Health Board to process primary care payments does not provide any statistical information on the number of days it has taken to make payments. The Health Board therefore assumes that all payments are made within 30 days per the contractual obligations. The PSPP performance data for this target for both NHS and non-NHS payments in Note 7.1 may be misstated. Not all manual invoices are date stamped by departments on receipt, so it is not possible to confirm whether the Health Board 'starts the clock' when the invoice is actually received by the Health Board rather than when it reaches the Accounts Payable Department within NWSSP.
Purchase of equipment towards the end of the financial year	The Health Board purchased a number of items of equipment towards the end of the financial year. Equipment valued at around £6 million had not been delivered by the end of the year, with some items not expected to be delivered until later in 2015-16. The Health Board can capitalise assets which have not yet been delivered, but it must establish that ownership and title have passed to it, and that it controls the asset even if it does not use it. The Health Board should review and strengthen its arrangements for vesting assets. In particular, to ensure current authorisation controls are in line with the Scheme of Delegation and Earned Autonomy Framework, and that the storage point is specifically referred to in the signed agreement. Furthermore, if additional capital funding is available in future years, the Health Board will need to consider its wider responsibilities under Managing Public Money regarding making advance payments and ensure that these responsibilities are complied with.

Issue	Auditors' comments
Annual Governance Statement	I raised some concerns about the quality of the Health Board's draft Annual Governance Statement and suggested a number of amendments which were incorporated into the final version. In previous years we have reported that the Health Board should review the Annual Governance Statement throughout the year as part of assessing its 'Board Assurance Framework'. In 2014-15 the Health Board continued to review and develop its 'Board Assurance Framework'; however the Annual Governance Statement was not produced until after the year-end. The Annual Governance Statement should be considered regularly throughout the year as part of the assessment of the effectiveness of the 'Board Assurance Framework'.

28. The NHS Finance (Wales) Act 2014 requires the Health Board to meet two new statutory financial duties. I issued a narrative report alongside my audit certificate to explain the new duties, the performance of the Health Board against them, and the implications for 2015-16.

- The first financial duty gives additional resource flexibility to health boards by allowing them to balance their income with their expenditure over a three-year rolling period, replacing the duty to balance their books over a one year period. The first three-year period under this duty is 2014-15 to 2016-17, so the Health Board's performance against this duty will not be measured until 2016-17. From 2014-15 onwards, I will be collating uncorrected misstatements from the audits of years 1, 2 and 3 and considering their cumulative impact on the Health Board's performance against the duty when it is measured at year 3. A small number of insignificant errors were identified in 2014-15.
- The second financial duty is a new duty requiring health boards to prepare and have approved by the Welsh Ministers a rolling three-year IMTP. The Health Board met its second financial duty to have an approved three-year IMTP in place for the period 2014-15 to 2016-17. This plan was approved by the Minister for Health and Social Services on 7 May 2014.

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

- Whole of Government Accounts return – I concluded that the consolidation information was consistent with the financial position of the Health Board at 31 March 2015 and the return was prepared in accordance with the Welsh Government's instructions.
- Remuneration Report – I concluded that the Remuneration Report had been properly prepared in accordance with the National Health Service (Wales) Act 2006 and directions made there under by Welsh Ministers.

- Summary Financial Statements and Annual Report – I concluded that the summary statements were consistent with the full statements and that the Annual Report was largely compliant with Welsh Government guidance. During my audit, I raised issues relating to quality of the draft Annual Report. In particular, the audited summary financial statements were not accurately reflected in various drafts of the Annual Report, with the draft containing a number of significant errors and omissions.

30. My separate audit of the Health Board's Charity financial statements is currently underway. The Trustee will consider my draft report on the financial statements in January 2016.

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

31. 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 whether caused by error or fraud. The control environment includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. I did not identify any material weaknesses in the Health Board's internal control environment.

The Health Board's control activities that we considered as part of the audit were appropriately controlled and operating as intended, although there are some weaknesses which require management action

32. I did not identify any material weaknesses in the Health Board's financial control activities which would impact on my audit opinion. However, I have identified weaknesses in the Health Board's authorisation controls which require improvement:

- In accordance with the Health Board's Scheme of Delegation and Earned Autonomy Framework, the Board is required to approve capital expenditure over £500,000. However, my sample testing identified two items of capital expenditure over £500,000 that had not been approved by the Board. The Chair retrospectively approved these items of capital expenditure on behalf of the Board on 3 June 2015. The Board ratified the Chair's action in July 2015.
- The list of authorised signatories provided to NHS Wales Shared Services Partnership to confirm that manual invoices are properly authorised is out of date. As reported by Internal Audit in July 2014, the Health Board should ensure that there is one up-to-date central database in place that details all authorised signatories, in accordance with its Scheme of Delegation and Earned Autonomy Framework.

33. Last year I reported a number of significant weaknesses in the arrangements over the Health Board's procurement function, which is operated in association with the NHS Wales Shared Services Partnership. In particular, the Health Board had not received ministerial approval for a number of contracts over £1 million. Some of these contracts span into the 2014-15 financial year, or were extended into 2014-15 without ministerial approval. Since that time the Health Board, in association with the NHS Wales Shared Services Partnership, has taken action to address the weaknesses identified. Internal Audit has undertaken a detailed review and has provided 'reasonable assurance' over the Health Board's procurement arrangements.

34. In their Annual Report for 2014-15, Internal Audit reported that the Health Board 'can take limited assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively'. During the year, Internal Audit issued a number of 'limited assurance' reports, which impacted on their overall annual opinion. Significant areas for improvement were identified in respect of clinical governance and information governance. For the audit of financial systems, however, Internal Audit confirmed that adequate control arrangements were in place.

35. Internal Audit also reported a number of control weaknesses, which require management action. The Health Board has developed action plans to strengthen the control weaknesses identified and progress is continuing to be scrutinised by the Audit Committee.

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 arrangements through my Structured Assessment work, including review of the progress made in identified improvement areas since last year;
    - specific use of resources work on medicines management, follow-up of outpatient appointments and local audit reviews, which include ICT capacity; and
    - assessing the progress the Health Board has made in addressing the issues identified by previous audit work on hospital catering and patient nutrition, and reviewing the Health Board's arrangements for tracking external audit recommendations.

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

The Health Board has an approved Integrated Medium Term Plan, but operational pressures and a failure to identify and deliver required cost reductions mean that it is currently forecasting a deficit of £23 million, compared to a planned deficit of £13 million, at the end of 2015-16

Financial pressures were increasingly unsustainable in 2014-15 resulting in failure by the Health Board to achieve financial balance in accordance with its approved IMTP, with a deficit of £21 million reported at the end of 2014-15

38. The NHS Finance (Wales) Act 2014 (the act) has introduced a more flexible finance regime. It provides 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 Act allows local health boards to focus their service planning, workforce and financial decisions and implementation over a longer, more manageable, period and moves away from a regime which encourages short-term decision making around the financial year. The financial flexibilities are, however, dependent upon the ability of NHS bodies to prepare suitably robust IMTPs, and the formal approval of those plans by Welsh Ministers.
39. The Minister for Health and Social Services approved the Health Board's three-year plan, running from 2014-15 to 2016-17, on 7 May 2014. The plan identified a gap of £15.5 million between its annual revenue resource allocation and its planned net expenditure for 2014-15. This excludes repayment of the excess spend incurred of £19.2 million in 2013-14. The plan indicated that these deficits would be recovered by surpluses of £13.2 million and £21.6 million in 2015-16 and 2016-17 respectively.
40. The Welsh Government agreed to provide the Health Board with an additional resource allocation of £15.5 million, in support of its three-year plan, which meant that the Health Board planned to achieve a break-even position in 2014-15. Throughout the year the Health Board paid close attention to the monthly reported outturn and to the forecast year-end position. In October 2014, with increasing concerns over the delivery of planned cost reductions and significant operational pressures, the Health Board changed its year-end forecast position from break-even to a £25.1 million deficit.
41. The Health Board planned to achieve cost reductions of £47.9 million in 2014-15. At the start of the financial year, the Health Board had identified cost reduction plans for £41.2 million, with Clinical Boards required to identify a further £6.7 million of cost reductions as the year progressed. However, Clinical Boards struggled to identify these additional cost reductions, and some of the planned cost reductions have not been delivered.

42. At the end of the financial year the Health Board did not meet its annual revenue resource allocation with an overspend of £21.4 million, due to an adverse operational variance of £5.9 million and an under achievement of planned cost reductions of £15.4 million. Cost reductions of £27.8 million had been delivered compared to a final target of £43.2 million, which had been reduced to reflect additional funding in respect of the wage award.

The Health Board's financial position continues to be extremely challenging with a significant year-end deficit being forecast for 2015-16, although the Health Board is planning to reassess its year-end forecast following confirmation of additional funding from Welsh Government.

43. At its meeting on 31 March 2015 the Board approved for submission to Welsh Government its three-year integrated plan running from 2015-16 to 2017-18. The Minister for Health and Social Services approved this plan on 6 August 2015, subject to a number of terms and conditions. The Welsh Government is monitoring the Health Board's performance against these terms and conditions.

44. The plan has a gap of £33.9 million between its revenue resource allocation and its planned net expenditure over the three years. This excludes recovery of the excess spend incurred in 2014-15 of £21.4 million. It also excludes recovery of the excess spend incurred in 2013-14 of £19.2 million, which the Welsh Government confirmed in May 2015 was no longer required to be recovered.

45. For 2015-16, the Health Board identified cost pressures of £42 million, but the cost reductions target was set at £28.8 million, which the Health Board considered to be more realistic and achievable. This resulted in a planned gap of £13.2 million. At the start of the financial year, the Health Board had identified cost reduction plans for £19.3 million, with Clinical Boards required to identify a further £9.5 million of cost reductions as the year progressed. However, Clinical Boards have again struggled to identify these additional cost reductions, and some of the planned cost reductions have not been delivered.

46. In August 2015, with continued concerns over the delivery of planned cost reductions and significant operational pressures, the Health Board changed its year-end forecast position from a £13.2 million deficit to a £23.2 million deficit.

47. At the end of November 2015, the Health Board reported a year to date overspend of £14.9 million, compared to a year to date planned overspend of £8.8 million. The additional overspend relates to an adverse operational variance of £1.3 million and an under achievement of planned cost reductions of £4.8 million against a target of £18.3 million.

48. The Health Board is currently forecasting a deficit of £23.2 million at the end of the financial year, with £4.1 million of planned cost reductions not yet identified. The Health Board is, however, planning to reassess its year-end forecast in December 2015 following confirmation of additional funding and performance targets from the Welsh Government.

The Board has set a clear vision and promotes an open and transparent culture through generally robust governance arrangements, but further improvements, including the continuing need to strengthen organisational capacity, are necessary

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

- Strategic planning
- Organisational structure
- Board assurance and internal controls
- Information governance
- Performance management

The Health Board's three-year strategic plan provides a solid basis for taking the organisation forward but delivery will be reliant on the Health Board managing its financial position and recognising the impact from the South Wales Plan

50. In 2014, I identified that the Health Board had adopted a clear and robust approach to strategic planning although a slow pace of change and financial constraints were affecting its delivery. The Health Board's refreshed three-year plan was finally approved in August 2015 although Welsh Government set out a number of conditions which the Health Board is expected to meet, including demonstrating clear improvements in performance, its financial position and service delivery. The three-year plan continues to be driven by the clinical services, is comprehensive and outcome focused, and is now underpinned by its Clinical Services Strategy 'Shaping our Future Well-being' which sets out a clear direction of travel for a number of key services. However, it would benefit from a greater focus on primary care and is yet to provide sufficient detail about the impact of the South Wales programme.

51. The Board receives a six-monthly update on implementation of the three-year plan and has early plans in place to revise the performance report to reflect the four key strategic objectives set out in its 'strategy map'. It also has a clear approach for updating the three-year plan in line with the Welsh Government deadlines. However, finance will continue to affect the delivery of the plan, with reliance on the delivery of all of its planned savings targets, which itself has recognised is a considerable risk, and an additional £41.7 million funding requirement to ensure that the Health Board's assets are fit for purpose.

The Health Board's organisational structure is continuing to mature with evidence of an engaging and informed workforce but capacity in some corporate functions and staff acting into posts at some levels throughout the organisation continue to present challenges

52. My previous structured assessment work identified that the organisational structure was maturing but there were a number of risks which impacted on its effectiveness to support operational delivery. During 2015, my team has identified that the Clinical Boards are becoming more mature and, where there are concerns with capacity and capability, the Health Board has adopted a mature approach to providing intervention and support. The Health Board has had substantive gaps in its Executive structure but both the interim Director of Human Resources and the acting Director of Finance have contributed positively to the running of the organisation. However, during that time, this has created additional workload pressures on the existing Executive officers and Executive attendance at Clinical Board meetings, where they act as an 'Independent Member', has been variable. A substantive Director of Finance commenced in December 2015.

53. The Health Board has increased capacity within a number of corporate functions which were of previous concern, however staffing levels in a number of other corporate functions including estates, ICT and patient experience remain low. I remain concerned with the level of capacity within the governance team, particularly given the recent departure of another member of the team.

54. The Health Board recognises the need to develop its capacity and capability and there are positive examples of delivering leadership training and engaging staff in all aspects of the business. A recent staff survey has identified positive improvements in the level of staff engagement over the last 12 months, however, there continue to be gaps at senior management within the Clinical Board and their directorates, with a number of staff acting into posts to provide short-term solutions.

Board effectiveness, assurance and internal controls continue to be strengthened and are largely effective, although there remain some important areas which need to be addressed

55. The Board demonstrates good strategic leadership and conduct. It has effective administration, with all formal procedural requirements met in relation to updating its Standing Financial Instructions (SFI) and its Standing Orders (SO), with the exception of the formal review of the Schemes of Delegation and Earned Autonomy Framework which has been deferred until the substantive Director of Finance is in post. The Board seeks to put the patient experience at the centre. It is extremely open and transparent, and has frank and honest discussions where things have gone wrong, but it also takes the time to recognise the commitment and innovation demonstrated by its staff.

56. The committee structure supports good governance, with all meetings held in public, the continued use of the Board Assurance Framework to inform the agenda setting process and clear work plans to ensure that they appropriately support the Board. There is an improved interface between committees and the Quality, Safety and Experience committee continues to provide good levels of assurance on the safety of services, however despite some improvement in the People, Planning and Performance committee, there is opportunity to further refine the structure of the agenda and to widen the scrutiny and challenge of plans to include the three-year plan.

57. Since my previous structured assessment, the Health Board has implemented the Board Book which helps to streamline Board and committee papers. Papers are generally well written and cover a range of information which Independent Members regularly triangulate against other sources of information.

58. Risk management arrangements have continued to be strengthened at a Board and Executive level with a robust Corporate Risk and Assurance Framework which is regularly reviewed and clear executive level ownership. Internal controls are also generally effective in meeting current assurance requirements. Risk registers however remain variable within Clinical Boards and directorates, and capacity within the Governance team to support clinical services to identify and manage risks remains a concern.

59. As part of my commitment to help secure and demonstrate improvement through audit work, I have reviewed the effectiveness of the Health Board's arrangements to manage and respond to recommendations made as part of my nationally mandated and local programme of audit work during 2015. This work has found that there are generally effective arrangements in place to manage and respond to audit recommendations, although not all action plans are monitored through to completion, and my follow-up work on hospital catering and patient nutrition identified that whilst internal action plans identify that actions are complete, this was not always found to be the case.

Information governance remains a risk for the Health Board but governance arrangements are now starting to provide the necessary assurance

60. My diagnostic review of ICT capacity and resources identified that the Health Board has a positive commitment to ICT and through my structured assessment work, my team have identified that the Information Governance Committee is now starting to provide a good coverage of assurance on information governance matters. The Health Board has developed an Information Governance framework, and key policies and procedures are now in place. The Health Board has also developed an open and transparent relationship with the Information Commissioner and has robust systems in place for managing information breaches. Information Governance however remains a high risk for the Health Board, with particular concerns around the management of the heath record and while a data quality group had previously been established, progress with the data quality agenda has been slow. This is largely due to the Health Board being without a full Executive Team.

The Board is appropriately informed of its performance but opportunity exists for further scrutiny within its Performance Committee and the Health Board needs to continue to demonstrate improvement against national and local targets

61. My previous structured assessment work identified that performance arrangements had been strengthened with a specific focus on the top five priorities, but some services were becoming disengaged and there was a need for the organisation to more explicitly challenge its performance and delivery. During the last 12 months, the Board has continued to effectively scrutinise performance. Each Clinical Board is now subjected to a monthly Executive Performance Review, although arrangements could be further strengthened through regular updates to the People, Planning and Performance Committee which would help eliminate a disconnect that currently exists between this Committee, Board and its clinical services.

62. The performance report to the Board includes many positive aspects such as the use of a scorecard to present a summary of progress, a good mix of qualitative and quantitative information, inclusion of trends and targets and patient experience feedback. However, there remains scope to consider further improvements which could include integrating performance and finance into a single report, widening the coverage of the report so it covers the totality of the Health Board’s activity and identifying assigned responsibilities for delivering identified actions.

63. The Health Board is demonstrating a positive improvement in performance against national targets, however, compliance with a number of key areas including unscheduled care, cancer waiting times and the financial position remain problematic.

While my performance audit work has identified examples of good practice and positive developments, there are also opportunities to secure better use of resources in a number of key areas

The Health Board has set an ambitious change agenda, demonstrates strong community engagement and partnership working and has made positive progress in relation to workforce planning, but there remain significant risks around estates

64. My Structured Assessment work has reviewed how a number of key enablers of efficient, effective and economical use of resources are managed. This work has indicated that the Health Board is making progress on a number of areas relating to the management of resources that I highlighted in previous years’ Structured Assessments but is yet to respond effectively to its estates risk and to build sufficient IT capacity. Key findings are summarised in Exhibit 2

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

Issue	Summary of findings
Change management capacity	Strategic change programmes are starting to underpin the IMTP, supported by a positive culture to improve, but actions to drive through changes are often reliant on the Health Board commissioning external support.
Workforce planning	Positive actions to address workforce challenges are being taken, with improvements in the last 12 months in relation to sickness absence, the recruitment process and compliance with appraisals and development reviews. The Health Board will need to continue to maintain the momentum to drive improvements during the period leading up to the appointment of a new substantive Director of Workforce and Organisational Development.
Estates and assets	The condition of the estate continues to present a significant risk to the Health Board and progress to mitigate this risk is slow. A significant level of investment is needed to improve the condition and the limited funds that are available are being used to react to immediate risks as opposed to longer-term maintenance. Capacity with the estates team remains a challenge, with the Health Board recognising that estate posts are hard to fill, and the Health Board is now non-compliant against a number of statutory requirements.
Stakeholder engagement and partnership working	Building on the good practices we found in previous years, the Health Board has shown significant commitment to proactively engaging with patients, staff and stakeholders and continuing to build partnership working.
Use of technology	The Health Board is committed to making effective use of information systems and technology and has positive examples of using technology innovatively, however, the current level of investment in ICT presents a risk, capacity and staffing levels are the lowest in Wales.

There are strengths in the way the Health Board manages medicines but there is also scope for improvement in areas associated with the strategic approach, storage facilities, transfer of medicines information and performance monitoring

65. My review of medicines management followed on from previous local audit work my team have undertaken on primary care prescribing. It focused on aspects of medicines management that directly impact on inpatients at acute hospitals. The work covered medication information provided by GPs to support admissions, medication reviews that patients receive during their stay, the support patients are given to take their medicines and the arrangements to ensure good medicines management after discharge.

66. My review found that there is clear executive leadership, regular financial monitoring and improved clinical engagement in the new Medicines Management Group, but there is scope to raise pharmacy's profile, clarify accountabilities and strengthen the strategy. My team identified that there are risks associated with separate visions for primary and secondary care and the Health Board has not yet developed a medicines management strategy. In common with other health boards, the pharmacy team has limited involvement in decision making and while there is regular scrutiny of financial information, the medicines savings plan is under-performing.

67. Pharmacy staff costs per bed day are lower than the Welsh average and workload pressures are similar to the rest of Wales, although there is a need to address perceptions of high workload pressure and strengthen succession planning. There is scope to dedicate more resource to training and while there are good relationships between pharmacy and ward staff and a high proportion of wards with named pharmacy staff, there is particular scope to improve access to the pharmacy team outside normal hours.

68. Pharmacy facilities largely comply with key requirements but there are issues with storage space and pharmacy location at University Hospital of Wales (UHW) and temperature regulation of bulk stores at University Hospital Llandough (UHL). The aseptic unit was given a medium risk rating by external inspectors and, in common with the rest of Wales, the preparation of injectable medicines on the wards is not regularly audited. The Health Board has not yet addressed issues with storage of medicines on wards highlighted in the Trusted to Care spot checks and needs to strengthen fridge temperature monitoring and the security of medicines due for return to the pharmacy department.

69. My team identified that there are some strengths to medicines management processes in the Health Board, but there are risks related to information transfer between primary and secondary care, timeliness of reconciliations, non-medical prescribing and supporting patients to take their medicines properly. The Health Board's formulary processes are in line with the rest of Wales, although due to the lack of an electronic prescribing system in secondary care, the Health Board has difficulties monitoring formulary compliance and doctors report more issues accessing the British National Formulary. The Health Board has taken direct action in response to Trusted to Care and we found that when patients were not given their medication, the reasons for non-administration were comparatively well recorded, but the Health Board needs to do much more to assess and support patients' compliance needs and the medicines helpline is poorly utilised.

70. My team identified that there is scope to strengthen performance reporting through benchmarking and more regular consideration of performance indicators. The rate of medication-related admissions is slightly higher than the Wales average and the Health Board needs to do more work to understand the reasons for the pharmacy team's safety interventions. There is mixed evidence about the effectiveness of learning processes and the membership of the new Safe Medicines Practice Group may not be broad enough to ensure a sufficient spread of learning.

From a difficult starting point, the Health Board is taking appropriate action to identify the volume of its outpatient follow-up need, but too many patients are delayed, the trend is worsening and it needs to do a lot more to develop sustainable follow-up outpatient services

71. There is a concern that with a focus on securing first appointments to meet referral to treatment time targets, in a resource constrained environment, less attention is given to follow-up appointments. In some health boards, this has resulted in large backlogs building up, with associated risks for quality of care. During 2015, my team carried out a review of follow-up outpatient appointments to assess how these risks are being identified, managed and mitigated across Wales.
72. My review identified that the Health Board has demonstrated it understands the Welsh Government's data standard requirements well and is improving the range of management information available on outpatient follow-ups. It has also adopted a pragmatic approach to validating its follow-up waiting list, but more work is needed to assess clinical risks to patients waiting beyond their target date.
73. Although the Health Board has reduced the numbers of patients without a target date on its follow-up waiting list, it has a significant and growing number of patients with a known clinical need who are delayed. My team also identified that the Board and its committees do not receive sufficient information to provide assurance on follow-up outpatient appointment delays and whether patients come to harm while delayed.
74. If implemented well, the Health Board's short-term plans should help improve the management of follow-up waiting lists but more needs to be done to reduce the number of patients experiencing delays in receiving a follow-up appointment. My review identified that whilst some specialties are transforming outpatient service models, the Health Board is not yet effectively planning long-term sustainable outpatient services.

The Health Board is progressing many of the issues raised in my previous reviews, although not all action plans are monitored and a more detailed review of my previous hospital catering and patient nutrition recommendations has identified that there is further progress needed in this area

75. In addition to reviewing the effectiveness of the Health Board's overall arrangements to respond to recommendations made as part of my nationally mandated and local programme of audit work as discussed in paragraph 59, my work has found that good progress is being made against audit recommendations with many of them completed in a timely manner, however, as some recommendations are not always tracked through the committees, particularly in relation to my recommendations relating to district nursing, I am unable to comment on whether all of my recommendations are being actioned.

76. During the last 12 months, I have also undertaken detailed follow-up audit work to assess the progress that the Health Board has made in addressing concerns and recommendations arising from previous audit work on hospital catering and nutrition. The findings from this follow-up work are summarised in Exhibit 3.

Exhibit 3: Progress in implementing audit recommendations

Conclusion and key audit findings
The Health Board has made good progress in addressing recommendations to improve catering and nutrition services. More work is needed to strengthen some aspects of the nutritional screening process, to engage all nursing staff in patient mealtimes, and to reduce the gap between the cost of non-patient catering services and the income generated. My team found that: • Arrangements for meeting patients' dietary and nutritional needs continue to improve but screening and documentation processes need to be strengthened: – although patients are nutritionally screened, not all patients are weighed, care plans are not always in place or followed, and gaps in screening information risks diminishing the quality of the process; – compliance with the nutritional care pathway is routinely assessed and reported, both locally and corporately, with action taken to address deficits in the screening process; – current arrangements ensure patients have access to food and beverages 24 hours a day with compliance regularly monitored; – menu items are nutritionally assessed through the all-Wales menu framework with which the Health Board is compliant; and – written information for patients on what to expect in hospital is limited. • Scope remains to improve mealtime experiences for some patients: – patients are generally positive about food services but there is not enough choice for some patients; – nursing support and supervision at mealtimes is limited on some wards; and – protected mealtime principles are more widely embedded than previously. • The cost of patient catering services are better controlled but the income from non-patient catering services is still insufficient:

Conclusion and key audit findings

- the cost of patient catering services is reducing and cost per patient meal compares favourably with other NHS bodies;
- there are clear guidelines about what constitutes un-served meals and plate waste, with un-served wastage below the national target; and
- non-patient catering services still run at a loss but the gap between income and cost is reducing.

- Arrangements for planning, monitoring and reporting on hospital catering and nutrition services are largely robust:
  - there are well-established arrangements through the Nutrition and Catering Steering Group to ensure national policies and standards are implemented;
  - corporate arrangements for monitoring the nutritional care pathway and food quality are well established but information on waste and costs is less visible; and
  - there are effective mechanisms in place to capture and act upon patient feedback about catering and nutrition.

Appendix 1

Reports issued since my last Annual Audit Report

Report	Date
Financial audit reports	
Audit of Financial Statements Report	June 2015
Opinion on the Financial Statements	June 2015
Audit of Financial Statements – Action Plan (other issues)	November 2015
Annual Report – Action Plan	November 2015
Performance audit reports	
Review of Medicines Management	June 2015
Review of Follow-up Outpatient Appointments	October 2015
Diagnostic Review of ICT Capacity and Resources	November 2015
Follow-up Review of Hospital Catering and Patient Nutrition	October 2015
Structured Assessment 2015	December 2015
Other reports	
2015 Audit Plan	March 2015

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

Report	Estimated completion date
Review of Operating Theatres	January 2016
Follow-up Review of Consultant Contract	June 2016
Review of Estates	March 2016
Follow-up Review of Delayed Transfers of Care	April 2016
Review of Radiology Services	August 2016

Appendix 2

Audit fee

The 2015 Audit Plan set out the proposed audit fee of £430,892. 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 NHS Wales Shared Services Partnership.

Appendix 3

Main audit risks

My 2015 Audit Plan sets out the main financial audit risks for 2015. The table below lists these risks and sets out how they were addressed as part of the audit.

Main audit risk	Proposed audit response	Work done and outcome
Control environment risks		
The Health Board has a duty to ensure that robust **accounting records** and **internal controls** are in place to ensure the regularity and lawfulness of transactions.	My audit team will test accounting records and internal controls in place to ensure the regularity and lawfulness of transactions.	I reviewed accounting records and assessed internal controls and did not identify any material issues to report.
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.	I reviewed a sample of transactions and did not identify any issues to report.
At all audits there is a risk of material misstatement due to fraud in **revenue recognition** and it is treated as a significant risk [ISA 240.26-27], unless this presumption is specifically rebutted.	My audit team will consider the Health Board's income streams and assess whether there is a risk of material misstatement due to fraud related to revenue recognition. Where such risks exist, specific testing on the timing and value of revenue will be undertaken.	I considered the Health Board's income streams. No additional risks were identified.
The **Oracle Accounting system release 12** was implemented in April 2014. There is a risk to the integrity of balances transferred into the new accounting system.	My audit team will assess the arrangements that the Health Board has put in place to ensure that balances recorded in the 2013-14 certified financial statements are properly reflected in the new accounting system.	I reviewed the opening balances recorded in the new accounting system and did not identify any issues.

Main audit risk	Proposed audit response	Work done and outcome
Control environment risks		
My audit testing in previous years identified weaknesses in the arrangements over the Health Board's **procurement function**; in particular there were instances where Ministerial approval had not been obtained for all contracts or contract extensions over £1 million. If such contracts are not approved, there is a risk to the regularity opinion.	My audit team will assess the Health Board's procurement arrangements and undertake focused testing to obtain assurance over the regularity of transactions.	I conducted focused testing in this area and placed reliance on the work of Internal Audit. I reported some issues as set out in paragraph 33.
Preparation of the accounts risks		
There may be a risk that the Health Board will fail to meet **statutory financial duties**. However it is unclear at this stage what those statutory financial duties will be, and guidance is due to be issued by Welsh Government shortly. The month 10 position showed a year to date deficit of £21.053 million and a forecast year-end deficit of £24.9 million. I may choose to place a substantive report on the financial statements explaining any failures and the circumstances under which they 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 consider their testing focus and other implications for our work once financial duties are clarified.	The NHS Finance (Wales) Act 2014 requires the Health Board to meet two new statutory financial duties. I issued a narrative report alongside my audit certificate to explain the new duties, the performance of the Health Board against them, and the implications for 2015-16. The **first financial duty** gives additional resource flexibility to health boards by allowing them to balance their income with their expenditure over a three-year rolling period, replacing the duty to balance their books over a one-year period. The first three-year period under this duty is 2014-15 to 2016-17, so health boards' performance against this duty will not be measured until 2016-17.

Main audit risk	Proposed audit response	Work done and outcome
Preparation of the accounts risks		
		The **second financial duty** is a new duty requiring health boards to prepare and have approved by the Welsh Ministers a rolling three-year IMTP. The Health Board met its second financial duty to have an approved three-year IMTP in place for the period 2014-15 to 2016-17. This plan was approved by the Minister for Health and Social Services on 7 May 2014.
Pending Welsh Government guidance, a similar risk may be present relating to the annual **capital resource limit**. The month 10 position showed a year to date overspend of £0.719 million and a forecast year-end overspend of £6.953 million, although this relates to expenditure on certain schemes and the purchase of medical equipment where the Health Board is currently awaiting funding confirmation from the Welsh Government. The current financial pressures on the Health Board increase the risk that management judgements and estimates could be biased in an effort to achieve any financial duties set.	My audit team will consider their testing focus and other implications for our work once financial duties are clarified.	See comments above.
There are specific risk areas which we will review following previous years' audits: • There is a risk to the correct and consistent treatment of upward revaluations of plant, property and equipment resulting from indexation, following the uncertainty in 2013-14 over the application to new builds.	My audit team will audit the financial statements with particular focus on these risk areas, by undertaking focused testing.	I assessed the Health Board's arrangements and carried out appropriate focused testing. I identified one matter to report, in relation to the public sector payment policy disclosures, see Exhibit 1.

Main audit risk	Proposed audit response	Work done and outcome
Preparation of the accounts risks		
• A significant number of new Continuing Healthcare Cases have been received by the NHS in Wales and this increases the risk of misstatement in the financial statements due to the uncertainty over the level of liability falling to the Health Board. There is a risk to the Public Sector Payment Policy (PSPP) disclosures, following concerns reported last year that Welsh Government guidance had not been complied with. For 2014-15, the Health Board is unlikely to meet its PSPP targets due mainly to the large number of invoices 'on hold' and therefore not available to pay.		
Financial statement risks		
The **timetable** for producing and certifying the **annual accounts** remains demanding. The Health Board will need to put in place appropriate arrangements to prepare the accounts and ensure adequate working papers are provided for audit on a timely basis.	My audit team will work closely with Health Board staff to monitor progress, and seek to resolve any issues of timing as soon as possible so that the accounts certification timetable can be met.	The financial statements were prepared in accordance with the agreed timetable and were supported by good working papers. I did not identify any issues to report.

Main audit risk	Proposed audit response	Work done and outcome
Financial statement risks		
The **annual accounts** are compiled under **International Financial Reporting Standards (IFRS) and NHS Manual for Accounts**. The Health Board must have a full understanding of these **requirements**, keeping up to date with changes and ensuring that risks and issues are identified and dealt with appropriately. Specific risk areas include: • estimates, particularly for the continuing healthcare provision, primary care expenditure and specialised services; • significant transactions with related parties; • accuracy and completeness of the Remuneration Report, given a number of changes in Executive Members during the year; and • voluntary early release and redundancy payments, given developments at the Health Board.	My audit team will audit the financial statements with particular focus on these risk areas, by undertaking focused testing.	I assessed the Health Board's arrangements and carried out appropriate focused testing. I did not identify any issues to report.

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