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# Annual Audit Report 2017 – **Cardiff and Vale University Local Health Board**

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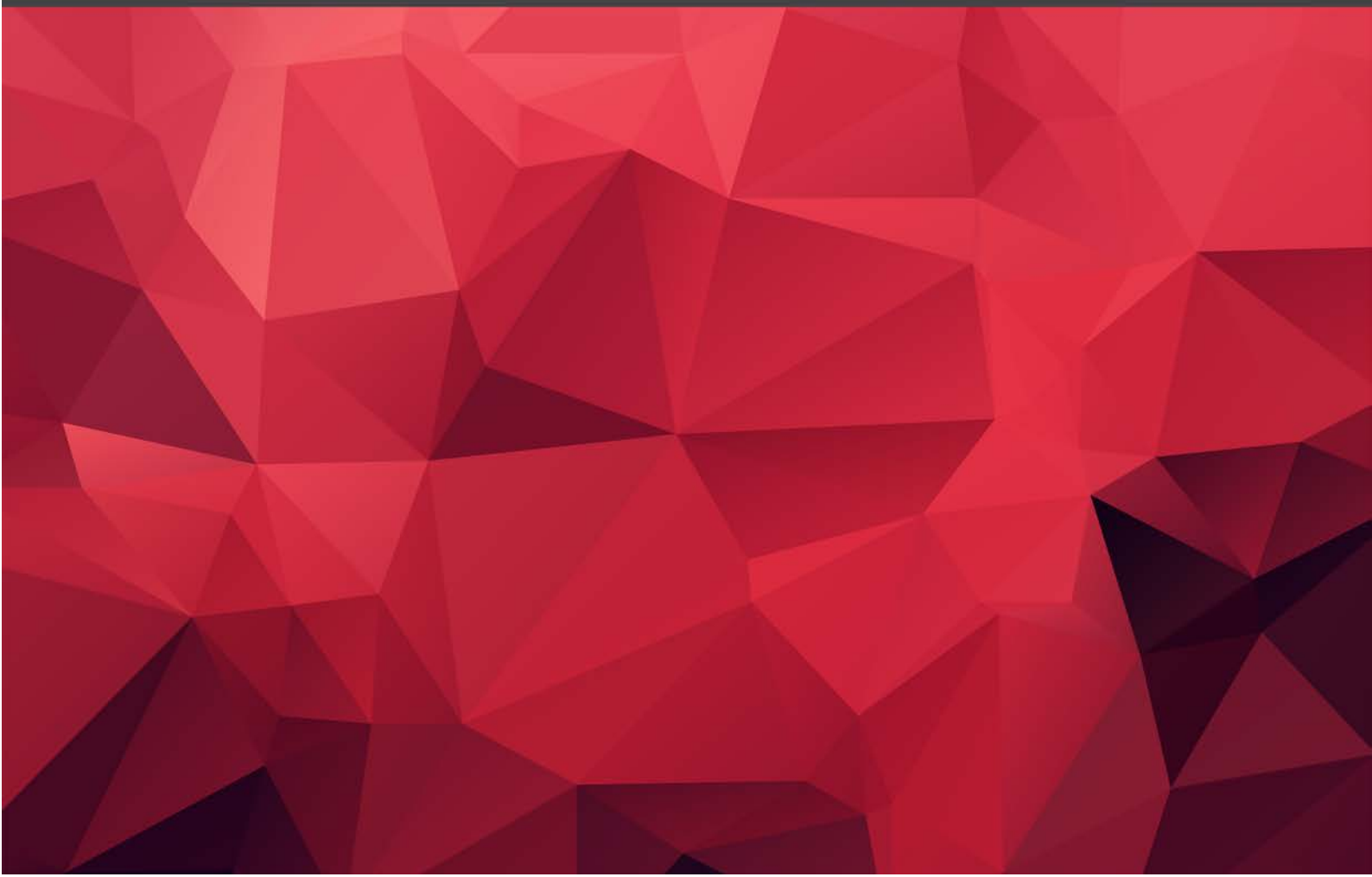

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

The team who helped me prepare this report comprised Anne Beegan, Mark Jones, Dave Thomas and John Herniman.

# Contents

# Summary report

## Summary

1 This report summarises my findings from the audit work I have undertaken at Cardiff and Vale University Health Board (the Health Board) during 2017. I did that work 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.

2 My audit work focused on strategic priorities and the significant financial and operational risks facing the Health Board, and which are relevant to my audit responsibilities. The separate reports I have produced during the year have more detail on the specific aspects of my audit. We discuss these reports and agree their factual accuracy with officers before presenting it to the Audit Committee. My reports are shown in Appendix 1.

3 The Chief Executive and the Director of Finance have agreed the factual accuracy of this report, which we presented to the Audit Committee on February 27, 2018. The Board will receive the report at a subsequent Board meeting and every member will receive a copy. We strongly encourage the Health Board to arrange wider publication of this report. Following Board consideration, we will make the report available to the public on the Wales Audit Office website.

4 My audit work can be summarised under the following headings.

### Section 1: audit of accounts

5 I issued an unqualified opinion on the Health Board's 2016-17 financial statements being true and fair, and properly prepared. I issued a qualified regularity opinion because the Health Board failed to meet its financial duty to manage revenue expenditure within its resource allocation over the three-year period, exceeding its cumulative revenue resource limit of £2.5 billion by £50.5 million.

6 Alongside my audit opinion, I placed a substantive report on the Health Board's financial statements, which explained the financial duties placed on the Health Board by the NHS Finance (Wales) Act 2014, and the reasons the Health Board did not meet those duties for 2016-17. Section 2 of this report has more detail about the financial position and financial management arrangements.

7 While I did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the financial statements, there were some important weaknesses that I brought to the attention of officers and the Audit Committee, which require management action. These issues relate to improving accounting practices and financial reporting, and the quality of the draft Annual Governance Statement.

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

8 I have examined the Health Board's financial planning and management arrangements, its governance and assurance arrangements, and its progress on the improvement issues identified in last year's Structured Assessment. I did this to satisfy myself that the Health Board has made proper arrangements for securing efficiency, effectiveness and economy in the use of its resources. I have also undertaken Performance Audit reviews on specific areas of service delivery. My conclusions based on this work are set out below.

### The Health Board now has effective arrangements in place to support the planning and monitoring of savings, but is facing an increased deficit position for the three-year period ending March 2018

9 Key findings from my review of the Health Board's arrangements for planning and delivery of financial savings are as follows:

- savings for 2017-18 are well managed, but historical under achievement of savings targets and recent overspends against resource limits means that the Health Board is forecast to have a cumulative increasing deficit position of £61 million by March 2018;
- the planning of savings is aligned to the Health Board's three-year planning cycle and delivery is supported by corporate services, however, there is scope to revisit the allocation of targets to take advantage of areas with greater savings opportunities; and
- there are strong scrutiny and monitoring arrangements of financial savings at Board, committee and operational levels, and good mechanisms for learning lessons.

### Operational arrangements are generally effective but there are weaknesses in Board oversight and assurance, and it is unlikely that the new data protection regulations will be met in time

10 Key findings from my review of the Health Board's governance and assurance arrangements are as follows:

- strategic planning is generally effective and increasingly joined up across the organisation, however scrutiny of delivery remains a gap at Board and committee level, despite close monitoring at an operational level;
- the Health Board's organisational structure continues to mature with steps being taken to improve joint working across the organisation, though concerns about corporate governance capacity remain;
- the Board and some of its committees are not providing sufficiently rigorous and consistent oversight, partly due to turnover in membership, and until the

two new committees are fully established, there are risks to assurance on performance and planning;

- the Health Board recognises that risk management needs to improve and is reviewing operational and corporate risk management processes, however due to capacity issues within the corporate governance team this will be a slow process;
- the Health Board's information governance arrangements are not yet developed enough to effectively implement the new General Data Protection Requirements (GDPR) by May 2018;
- operational performance management is robust and comprehensive, but Board and committee oversight is as yet ineffective;
- the Health Board has not yet made effective use of the NFI to detect fraud and overpayments; and
- the Health Board has made mixed progress against my previous structured assessment recommendations and its arrangements for tracking progress against recommendations from our other audit work still need to be improved.

## The Health Board has responded well to the issues raised in my public interest report that highlighted governance failings around the awarding of certain HR contracts and the appointment of a Director

11 For the first time in relation to a Health Board, I used my powers under the Government of Wales Act 2006 (Paragraph 19 of Section 8) to report publicly in respect of fundamental weaknesses that I identified in the Health Board's governance and decision-making arrangements.

12 My public interest report highlighted significant governance failures in relation to the award of three contracts for HR consultancy services and the subsequent appointment of a Director. Following the publication of my report, the Health Board responded positively and identified clear actions for improvement. The Audit Committee and Board are overseeing implementation of the actions, with good progress being made.

## My performance audit work has identified some positive arrangements whilst also identifying some opportunities to secure better use of resources in a number of key areas

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

- workforce and estates are increasingly supporting the goals of the Health Board, though informatics is struggling to keep pace;
- whilst operationally the radiology service is well managed, there are risks to the current and future service delivery because of a lack of strategic and business planning, increasing demand, reporting backlogs, aging equipment, and recruitment and retention issues;

- the Health Board has strengthened the governance of GP out-of-hours but performance is mixed and risks remain in relation to the sustainability of the service;
- in respect of discharge planning arrangements, the Health Board has robust improvement plans, strong performance management arrangements and performance overall is improving, but there is scope to improve ward staff training and awareness of policies and community services;
- the Health Board is not effectively monitoring all of my previous recommendations however my follow up work has identified that the Health Board has made progress in addressing my recommendations on the management of follow-up outpatients;
- collaborative commissioning arrangements have helped drive some important changes for emergency ambulance services in Wales; however, the maturing arrangements require greater commitment from some partners; and
- collaborative arrangements for managing local public health resources do not work as effectively as they should.

14 We would like to thank the Health Board's staff and members for their assistance and co-operation during the audit.

# Detailed report

## About this report

15 This Annual Audit Report 2017 to the Board members of the Health Board sets out the findings from the audit work that I have undertaken between January and December 2017.

16 I undertake my work at the Health Board 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 assurance;
- performance audit examinations undertaken at the Health Board;
- the results of the work of other external review bodies, where they are relevant to my responsibilities; and
- other work, such as data-matching exercises as part of the National Fraud Initiative (NFI) and certification of claims and returns.

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 2017 Audit Plan.

21 Finally, Appendix 3 sets out the significant financial audit risks highlighted in my 2017 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 2016-17. 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.

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 prepared in accordance with statutory and other requirements, and comply with relevant requirements for accounting presentation and disclosure;
- whether that part of the remuneration report to be audited is properly prepared;
- whether the other information provided with the financial statements (usually the annual report) is consistent with them; and
- the regularity of the expenditure and income in the financial statements.

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

## While I issued an unqualified opinion on the 2016-17 financial statements being true and fair and properly prepared, I issued a qualified regularity opinion and a substantive report, and in doing so I brought a number of issues to the attention of officers and the Audit Committee

### The Health Board's draft financial statements were properly prepared, materially accurate, and provided to me on time, although there is scope for some further improvement

25 The draft financial statements were submitted on the Welsh Government's deadline of 28 April 2017. There was clear evidence that the financial statements had been subject to good quality assurance checks by both the relevant Health Board officers and the Audit Committee, prior to their submission for audit.

26 I did not encounter any significant difficulties during the audit. I received information in a timely and helpful manner and I was not restricted in my work. The Health Board prepared a detailed closedown plan for 2016-17, which incorporated my audit requirements. This approach helped the preparation and audit of the

financial statements by the target date set by the Welsh Government. I continue to work closely with the Health Board to identify areas where further improvement can be made for 2017-18.

27 I am required 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 its Board on 1 June 2017. The Board approved the audited financial statements that day, which I subsequently certified on 7 June 2017.

28 Exhibit 1 summarises the key issues set out in my report to the Audit Committee, as those charged with governance.

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

| Issue | Auditors' comments |
|---|---|
| Provision for continuing healthcare costs | The 2016-17 financial statements disclose that over 204 'phase 3' continuing healthcare claims have been received by the Health Board, for which the assessment process remains incomplete (last year we reported that there were over 240 such cases).<br>The Powys Teaching Health Board continues to review these cases on behalf of all NHS Wales organisations, but its progress is slow. The claims may result in significant additional costs to the Health Board, and we have a growing concern that many cases are still not reviewed sufficiently to allow an assessment of possible and probable costs. |
| The record keeping of plant and equipment assets | Previous audit work had highlighted instances where the Health Board had not consistently used its process for labelling equipment-based assets with a unique identification reference.<br>This year's audit found similar errors, reaffirming my view that the Health Board's recording of its equipment assets is weak. |
| Accruals for goods and services received not yet invoiced | Previous audit work had highlighted that many of the Health Board's purchase orders are old and are likely to be invalid. For 2015-16, I had estimated that around £1.7 million of these accruals were more than a year old.<br>I established that in response to my audit recommendations, the Health Board had strengthened its review of the accruals and in doing so had cancelled many of them. However, I established that despite this work by the Health Board, there was still some £1.476 million of the accruals for goods and services received prior to 31 March 2016 (ie over a year old). |

| Issue | Auditors' comments |
|---|---|
| Annual Governance Statement | Previous audit work had highlighted concerns over the poor quality of the draft Annual Governance Statement (AGS) submitted for my audit, which required numerous amendments.<br>This year I have found that while the Health Board had sought to improve the preparation of its AGS, the preparation process commenced quite late and as a result, incomplete versions of the AGS were submitted for audit, which did improve during the audit due to the input and oversight of the Health Board's new Head of Governance. |
| Reports generated from the Oracle ledger | As reported the previous year, the automated accounts-payable system feeder is continuing to produce spurious entries in the ledger, which greatly inflate both debit and credit postings. |
| Related party disclosures | Related party returns are required annually from each member of the Board, in order to inform the disclosures required in the financial statements.<br>Despite the Health Board's repeated attempts, it had been unable to obtain a return from its former Chief Executive, who had left the Health Board in November 2016. In the absence of a return, the Health Board therefore needs to ensure that returns are complete, including for any senior staff that leave during the year. |

29 As part of my financial audit, I also undertook a review of the 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 2017 and the return was prepared in accordance with the Welsh Government's instructions.

30 My separate audit of the 2016-17 Charitable Funds' financial statements is complete, with my findings reported to officers. The audited financial statements were considered by the Charitable Funds' trustees on 25 January 2018 and were certified on 26 January.

## The Health Board breached its revenue resource limit for the three-year period to 31 March 2017, which resulted in my qualification of the regularity opinion

31 The Health Board breached its revenue resource limit by spending £50.5 million over the £2.5 billion that it was authorised to spend in the three-year period 2014-15 to 2016-17. This excess spend of £50.5 million constitutes irregular expenditure. I therefore issued a qualified regularity opinion.

32 Alongside my audit opinion, I placed a substantive report on the Health Board's financial statements, which explained the financial duties placed on the Health

Board by the NHS Finance (Wales) Act 2014, and the reasons the Health Board did not meet those duties for 2016-17.

33 Over the same three-year period, the Health Board did not breach its capital resource limit of £167.1 million. The Health Board underspent against this limit of some £217,000.

My work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the financial statements, although there are some weaknesses which require management action

34 I reviewed the Health Board's internal controls that I considered relevant to the audit to help me identify, assess and respond to the risks of material misstatement in the financial statements. However, I did not consider them for the purposes of expressing an opinion on the overall operating effectiveness of internal control. On that basis, my review did not identify any significant deficiencies in the Health Board's internal controls, and I have set out my main observations and recommendations (which the Health Board have accepted) within Exhibit 1 above.

35 Further to the Exhibit 1 recommendations, my Engagement Lead issued a separate report to the Health Board's finance officers, which sets out the less significant issues arising. I will consider the progress made by the Health Board in implementing the recommendations as part of next year's audit.

# 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 planning and delivery of financial savings 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 a review of the progress made in addressing structured assessment recommendations made last year;
- assessing the application of data-matching as part of the National Fraud Initiative (NFI);
- specific use of resources work on radiology services, GP out-of-hours services and discharge planning; and

- assessing the progress the Health Board has made in addressing the recommendations raised by previous audit work on the management of follow-up outpatients and reviewing the Health Board's arrangements for tracking progress against external audit recommendations.

37 I have also undertaken performance audit work that has examined the governance arrangements within the Emergency Ambulance Services Committee, and the collaborative working arrangements between local public health teams and Public Health Wales NHS Trust.

38 The main findings from the work referenced above are summarised under the following headings.

## The Health Board now has effective arrangements in place to support the planning and monitoring of savings, but is facing an increased deficit position for the three-year period ending March 2018

39 In addition to commenting on the Health Board's overall financial position, my structured assessment work in 2017 has considered the actions that the Health Board is taking to achieve financial balance and create longer-term financial sustainability. I have assessed the corporate arrangements for planning and delivering financial savings in the context of the overall financial position of the organisation. I have also reviewed progress made in addressing previous structured assessment recommendations relating to financial management. I summarise my findings below.

### Savings for 2017-18 are well managed, but historical under achievement of savings targets and recent overspends against resource limits means that the Health Board is forecast to have a cumulative increasing deficit position of £61 million by March 2018

40 Historically the Health Board has set ambitious annual savings targets. Although it has achieved significant amounts of savings, the Health Board has not achieved its annual targets and target levels have gradually reduced over time. Since 2015 the savings target has become more realistic and in 2016-17 in particular, although it had not identified all of the required savings schemes at the start of the year, the Health Board almost achieved its £26 million savings

41 For the three-year period 2014-17, the Health Board however failed its duty to spend within its financial allocation, overspending its allocation by £50.5 million. The Welsh Government did not approve the Health Board's three year integrated medium term plan (IMTP) and for 2017-18, the Health Board has been working to an annual operating plan.

42 In 2016-17, the Health Board applied a delegated savings target of 3% to each of its nine clinical and service boards, but only two met the target. In recent years, the proportion of recurring savings had been high but in 2016-17, the proportion fell to

50% of all savings. Non-pay and medicines management accounted for over half of the target savings.

43 In 2017-18, the Health Board has a savings target of £35 million, and a planned annual deficit of £30.9 million. This planned deficit is a slightly worsened position on the reported deficit for 2016-17. At month six, the Health Board was on target to deliver its savings target and the in-year planned deficit position. Due to historical spend, the three-year rolling deficit for 2015-18 however is forecast at £61 million, which is £10 million worse than the cumulative deficit to the 31 March 2017. Despite improved in-year delivery against savings targets and the overall financial position, the level of savings being identified and subsequently achieved however is not yet sufficient to reduce a growing cumulative deficit.

## The planning of savings is aligned to the Health Board's three-year planning cycle and delivery is supported by corporate services, however, there is scope to revisit the allocation of targets to take advantage of areas with greater savings opportunities

44 The Health Board has a top-down approach to savings planning, meaning the corporate finance team sets a Health Board wide target, which is applied equally across the clinical and service boards. Service areas are responsible for identifying individual savings schemes, and planning and delivering these through their cost improvement plans.

45 The Health Board introduced its 'turning the curve' programme in the latter part of 2016-17. This has provided a platform to address the Health Board's financial issues. Although this programme is under review, the Health Board continued to strengthen its financial governance arrangements by introducing a new Finance Committee and developing a Cost Improvement Programme (CIP) tracker. The tracker is a planning and monitoring tool and used to monitor progress.

46 Savings planning is aligned with the Health Board's IMTP planning cycle; with a requirement for clinical and service boards to develop their savings plan over a three-year period. There is a flat rate approach to savings and CIP performance suggests that savings targets are achievable. However, the flat line approach means that opportunities to identify areas with a greater potential to save more are missed, and there is now scope for the Health Board to identify higher targets to areas where there is greater potential to save more.

47 Finance and workforce functions are integrated within clinical and service boards, and play a key role in developing the IMTP and savings plans. Other support functions such as informatics also support the clinical and service boards. The Health Board has five crosscutting themes, which are supported by the Programme Management Office. The Health Board has also recently set up a Transformation Board, which recognises that service transformation is required to make longer-term savings.

### There are strong scrutiny and monitoring arrangements of financial savings at Board, committee and operational levels, and good mechanisms for learning lessons

48 The Health Board has a Finance Committee, which meets monthly. This committee receives a detailed report on the Health Board's latest financial position, including delivery against savings targets by clinical and service board. This report is also presented to the Board, which meets bimonthly.

49 Delivery of savings at a clinical and service board level is monitored on a weekly basis, and issues discussed at monthly executive level performance reviews. The Chief Executive chairs these reviews, which include all executive directors. Escalation arrangements are in place if CIP delivery for a clinical or service board is off-track. Directorates also monitor their savings plans and report up to clinical and service board meetings. Crosscutting themes are monitored through the crosscutting steering group.

50 The Health Board has a number of mechanisms for sharing ideas and learning lessons at various operational levels. The Health Board is also represented well at national level forums.

## Operational arrangements are generally effective but there are weaknesses in Board oversight and assurance, and it is unlikely that the new data protection regulations will be met in time

51 My structured assessment work has assessed the Health Board's governance and assurance arrangements. This included the effectiveness of the board and its governance structures and the progress made in addressing previous structured assessment recommendations and improvement issues. My findings are set out below.

### Strategic planning is generally effective and increasingly joined up across the organisation, however scrutiny of delivery remains a gap at Board and committee level, despite close monitoring at an operational level

52 The Health Board failed its statutory duty to have an approved three-year integrated medium term plan, and, for the second year running, has been working to an annual operating plan. Initial drafts of the 2017-18 plan included an increased planned deficit position. The Board finally agreed the 2017-18 plan in May 2017 with the revised planned deficit position of £30.9 million.

53 The Board receives regular updates on IMTP planning and development, but there are gaps in scrutiny at Board and committee level in relation to delivery of the plan. The committee responsible for scrutinising delivery was stood down in May 2017, and the new Strategy and Engagement Committee is still in its infancy. There are, however, increasingly better links between the plan and the Health Board's financial position, and there is robust monitoring of the delivery of the plan at an operational level through the executive level performance reviews.

## The Health Board's organisational structure continues to mature with steps being taken to improve joint working across the organisation, though concerns about corporate governance capacity remain

54 During the year, the Health Board did not make any fundamental changes to its organisational structure, although it now has a full executive team in place. The new Chief Executive joined in July 2017 with a new Director of Workforce and Organisational Development following in October. At the time of our structured assessment fieldwork, the Health Board was about to appoint a substantive Chief Operating Officer.

55 In recognition of the fact that the clinical board structure can promote silo working, the executive team has taken action to promote increasing cross-organisational working, particularly through the executive level performance reviews. Corporate services work across the clinical boards, with finance and workforce resources embedded within each of the clinical boards. However, other support functions are not as embedded although integrated working is improving.

56 The corporate governance team plays an active role in providing challenge and support to the executive team and the wider organisational structure. Even though a new Head of Corporate Governance was appointed in April 2017, our previously reported concerns around team capacity remain

## The Board and some of its committees are not providing sufficiently rigorous and consistent oversight, partly due to turnover in membership, and until the two new committees are fully established, there are risks to assurance on performance and planning

57 The Health Board experienced a significant turnover of independent members (IMs) during 2017. Seven new IMs have been appointed, although a further two IMs were due to leave at the end of December 2017. This level of turnover has posed risks to Board continuity, although outgoing IMs have provided legacy statements and extended support to ensure a smooth transition. Of the seven new IMs, only one has had previous NHS board experience, placing increasing pressure on the Health Board to get the new IMs up to speed through its Board development programme.

58 Our observations of Board and some of its committees[2] indicate that the level of scrutiny and challenge varies, as does committee administration. The Finance Committee and the Quality, Safety and Experience Committee are two of the better run committees. The previous People, Planning and Performance (PPP) Committee was disbanded in May 2017, and two new committees were established. However, these committees (Strategy and Engagement Committee,

[2] As part of our structured assessment work, we observed the Board and the following committees – Finance Committee, Quality Safety and Experience Committee, Strategy and Engagement Committee, Resources and Delivery Committee and Audit Committee

and Resources and Delivery Committee) have only held two meetings and are still in their infancy. The time lag between standing down the PPP committee and establishing the new committees has introduced risks around gaps in Board assurance.

59 Papers and minutes for committees are generally well written. However, the Chief Executive and Chair have recognised that discipline around papers in relation to quality and size needs to improve, in order to support more effective scrutiny and review of information.

The Health Board recognises that risk management needs to improve and is reviewing operational and corporate risk management processes, however due to capacity issues within the corporate governance team this will be a slow process

60 The Health Board's combined Corporate Risk and Assurance Framework (CRAF) is currently under review. The CRAF has been in place for four years, however the Health Board recognises that risk management needs to improve to give better assurance to the Board.

61 The CRAF is a live document and is clearly laid out, but risks are not yet aligned to the corporate objectives, the risks lack clarity, are not reducing as a result of mitigating action and a number were assigned to the previous PPP committee for some months after it was disbanded.

62 A risk management workshop was held in May 2017 and improvement actions have already started, including improved reporting of risks. The Health Board aims to launch a new version of the CRAF in 2018, alongside a wider review of the risk management policy. This is a substantive piece of work but capacity to undertake it is limited.

The Health Board's information governance arrangements are not yet developed enough to effectively implement the new General Data Protection Requirements (GDPR) by May 2018

63 The Health Board has made progress in addressing recommendations from the Information Commissioner's Office 'limited assurance' review but the majority of actions remain ongoing, despite the need for these to be addressed ahead of the GDPR coming into force in 2018.

64 The Health Board has recognised the legislative changes and what other actions are required in readiness of the GDPR but progress in addressing these actions has been slow. Compliance with information governance training is well below the target of 85% and response times to information requests are slow. The Health Board's information governance strategy also needs to be aligned to the national digital strategy. The Health Board has a small information governance team and its ability to meet the GDPR effectively will be challenging within the timescales.

## Operational performance management is robust and comprehensive, but Board and committee oversight is as yet ineffective

65 The Health Board has strong performance management arrangements. The executive team holds all clinical and services boards to account through regular performance review meetings, which are focused, and well organised. As well as holding to account, the review meetings offer support and encouragement, and provide opportunities to discuss national issues and cross-board working. Comprehensive performance dashboards support the performance review meetings.

66 At Board level, the new Resources and Delivery Committee is responsible for providing assurance on performance and workforce. However, the information reported to the committee is less detailed than that reported to Board, which focuses on priority targets or performance areas that have deteriorated. More information should be made available to the committee to support its scrutiny function and improve its effectiveness in providing assurance to the Board.

## The Health Board has not yet made effective use of the NFI to detect fraud and overpayments

67 The NFI is a biennial data-matching exercise that helps detect fraud and overpayments by matching data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. It is a highly effective tool in detecting and preventing fraud and overpayments, and helping organisations to strengthen their anti-fraud and corruption arrangements.

68 Participating bodies submitted data to the current NFI data matching exercise in October 2016. We released the outcomes of the exercise to participating bodies in January 2017. The Health Board is a mandatory participant in NFI.

69 In January 2017, the Health Board received 9,980 data-matches through the NFI web application. Data-matches highlight anomalies which when reviewed can help to identify fraud and error. Whilst we would not expect organisations to review all data-matches, some of the matches are categorised as ‘recommended matches’. These are matches considered to be of high risk and therefore recommended for early review. We identified 851 ‘recommended matches’ for the Health Board.

70 The NFI web-application, which records the findings of the Health Board’s review of its data-matches, shows that as at 20 November 2017, the Health Board had only reviewed 11 of the data-matches. I recognise that the Health Board has experienced delays in the NHS Wales Shared Services Partnership identifying a suitable contact to lead on the creditor matches, which account for the majority of the NFI matches. I also recognise that it was the intention of the local counter fraud service to review the remainder of the matches during quarter four of 2017-18. In discussion with the Health Board, I am assured that both the NHS Wales Shared Service Partnership and the local counter fraud service are now giving the data-

matches the appropriate attention. The Health Board is due to provide data for the next NFI exercise (NFI 2018-19) in October 2018.

## The Health Board has made mixed progress against my previous structured assessment recommendations and its arrangements for tracking progress against recommendations from our other audit work still need to be improved

71 The Health Board has made mixed progress in addressing the recommendations in last years structured assessment work. Of the 12 recommendations, two are complete and seven are in progress, but not complete. The Health Board has made limited progress against three recommendations.

72 In addition to reviewing the actions taken to address my 2016 structured assessment recommendations, I also considered the effectiveness of the Health Board's wider arrangements to respond to my audit recommendations. External audit recommendations are tracked through the Audit Committee which meets every 1-2 months. This includes Wales Audit Office recommendations as well as those from other inspectorates.

73 This year my team found that external recommendations tracking arrangements are disjointed. There is a separate tracker report for recommendations made by the Wales Audit Office and other external inspections. The Wales Audit Office tracker shows which committee will be providing assurance and monitoring the recommendations. However progress against individual recommendations is not shown, there are no end dates and the status of all recommendations is 'ongoing'. The external inspections tracker is cumbersome and confusing, many items do not show completion dates and completed actions remain on the tracker.

74 The lack of robust and clear recommendations tracking arrangements will obstruct effective monitoring and prevent the Health Board from identifying key issues identified across audit and inspection bodies. In 2016, I recommended the Health Board strengthen tracking arrangements for external audit recommendations, to date this recommendation has not been progressed. Little progress has been made but the corporate governance team is in the very early stages of reviewing tracking arrangements. As part of this review, the team plans on reviewing the policy for handling reports coming into the organisation, to ensure it has greater oversight of external reviews and recommendations. This piece of work is being led by the Head of Corporate Governance, however, as raised in paragraphs 56 and 62, I have concerns about the capacity within the corporate governance team to complete this work.

## The Health Board has responded well to the issues raised in my public interest report that highlighted governance failings around the awarding of certain HR contracts and the appointment of a Director

75 I identified a number of fundamental weaknesses in the governance and decision-making arrangements over the award of three contracts for HR consultancy services. I reported my findings publicly on 17 July 2017. I prepared this report in accordance with Paragraph 19 of Schedule 8 to the Government of Wales Act 2006. This provides that if I think that it would be in the public interest to bring to the public's attention a matter coming to my notice in the course of an examination of auditable financial statements, I may prepare a report on that matter.

76 The matter under consideration first arose in 2016 through my audit of the Health Board's 2015-16 financial statements. As the audit of the consultancy contracts progressed, I identified certain other matters, which I judged were in the public interest. To date, this has been the only instance where the Auditor General for Wales has issued a 'public interest report' in respect of a Welsh NHS body.

77 The key findings from the report were:

- the way in which the Health Board procured and managed HR consultancy contracts awarded to RKC Associates fell well short of the standard that the public has a right to expect of a public body;
- the way in which an HR consultancy contract was awarded to RKC Associates in February 2016 along with the actions of key decision-makers compromised the integrity of the procurement process; and
- the process followed by the Health Board that led to the appointment of the owner of RKC Associates to the position of Director of Workforce and Organisational Development in April 2016 was fundamentally compromised, lacked transparency and was poorly documented.

78 Following the publication of my report the National Assembly's Public Accounts Committee considered my findings, with evidence from the Health Board's Chair and Chief Executive Officer. I am pleased that since issuing the report, the Health Board has responded positively and in doing so has developed a detailed action plan, and is making good progress to implement it.

## My performance audit work has identified some positive arrangements whilst also identifying some opportunities to secure better use of resources in a number of key areas

### Workforce and estates are increasingly supporting the goals of the Health Board, though informatics is struggling to keep pace

79 My Structured Assessment work has reviewed how a number of key enablers of efficient, effective and economical use of resources are managed. My key findings are summarised in Exhibit 2.

Exhibit 2: progress in implementing audit recommendations in specific service areas

| Issue | Summary of findings |
|---|---|
| Workforce planning | Approaches for recruitment, retention and supporting workforce management are generally effective, and while some aspects of training and development present challenges, the Health Board is taking steps to tackle them<br>During the year, the Health Board had a number of recruitment successes, although some professional groups and specialties remain hard to recruit. Despite this, agency spend is low. The Health Board implemented a number of successful initiatives to support workforce productivity and these are now having a positive impact.<br>Sickness absence rates are also reducing. However, turnover of staff is higher than the average for Wales, and the length of time to recruit is also above the average. Compliance with mandatory training and performance appraisals also needs to improve, with both medical and non-medical appraisal rates falling short of the 85% target. Work is underway to improve access to training and, since the appointment of the new Director of Workforce and Organisational Development, there has been an increased focus on training and appraisals at performance management reviews. |

| Issue | Summary of findings |
|---|---|
| Estates and assets | The Health Board has continued to focus its attention on estates. A recent internal audit review of how it is managing compliance with statutory requirements provided 'reasonable assurance'.<br>The risks associated with backlog maintenance are slowly reducing, although the level of significant risks that the Health Board is carrying remains high, with the majority of this risk associated with the main University Hospital of Wales (UHW) site in Cardiff.<br>The Health Board has taken steps to develop a series of estates management plans which articulate how the Health Board intends utilising its estate over the next ten years. |
| ICT and use of technology | The Health Board faces a number of challenges in its arrangements for the use of information technology, deployment of national IT systems and securing appropriate resources to deliver the informatics strategic outline programme.<br>The Health Board has developed its informatics strategic outline programme (SOP) for 2016-2021 although Welsh Government capital and revenue funding was not sufficient to cover the SOP intentions.<br>The Health Board continues to have an ageing IT systems infrastructure and the need to replace legacy IT systems. The Health Board has been making prioritised investments under its 'keeping the lights on' capital programme, albeit that capital funding is constrained. These investments have helped maintain IT systems whilst waiting for the deployment of the national IT programme, although some systems are likely to be passed their 'end-of-life' date by the time the national IT systems are rolled out.<br>The low level of investment on IT infrastructure and informatics resources increases the risk of potential threats arising from cyber-attacks. As yet, the Health Board does not have a dedicated IT security officer.<br>The Health Board measures IT KPIs but these focus mostly on the performance of the IT service desk and call resolution. |

Whilst operationally the radiology service is well managed, there are risks to the current and future service delivery because of a lack of strategic and business planning, increasing demand, reporting backlogs, aging equipment, and recruitment and retention issues

80 My work on radiology services found that patients have good access to in and out of hours radiology services, with a robust system in place to ensure referrals are correctly prioritised. While the time patients have to wait for their radiological examination has fallen, waiting time targets however are still not being met consistently. Despite a backlog, reporting is not outsourced and radiographers are under-utilised. Clinical performance is regularly audited, discussed and fed back to staff; however, there are concerns about staff participation because of capacity issues. Processes are in place to monitor and learn from complaints and incidents, however patient and staff feedback highlights long standing environmental concerns, which are not being addressed.

81 Steps are being taken to try to reduce service pressures, but clinical advances and external factors, such as demand from other health board areas and public health campaigns, continue to increase demand. Whilst clear referral guidance is in place, my team found that referring clinicians are unaware of it, and although the service is taking positive steps to reduce inappropriate referrals, the lack of an e-referral system is a risk. However, the service has a good system to manage waiting lists and appointment slots.

82 Radiology staffing levels have grown at a slower rate than the rest of Wales and this is complicated by significant local and national recruitment and retention challenges. The radiology workforce profile generally compares favourably with the rest of Wales, although there are limitations on the staffing comparisons due to the tertiary nature of the service and difficulties accounting for complexity. Staffing constraints hinder training opportunities and compliance with statutory and mandatory training is poor. Compared to Wales, there is an above average number of scanners, with longer operating hours, and whilst there is potential to further optimise weekend usage, this may cost the service more.

83 The Health Board does not have a radiology strategy nor detailed operational and workforce plans, however, the service is taking steps to address this. The management structure and lines of accountability are clear, and the service is well represented on Board committees and sub-committees. However, in recent years, the service has overspent against its budget and missed its savings target, and whilst finance performance reports are clear, remedial actions are not included. Despite equipment at or reaching the end of life expectancy, and frequent breakdowns, there is no equipment replacement programme in place. Generally, radiology ICT systems do not serve the Health Board's needs, and radiology performance is regularly reviewed at corporate and management level, however the performance dashboard needs to be strengthened and used to its full potential.

## The Health Board has strengthened the governance of GP out-of-hours but performance is mixed and risks remain in relation to the sustainability of the service

84 My work found that the Health Board does not have a GP out-of-hours strategy but is planning change to the service through an action plan and a new business case. There are good arrangements for clinical and operational leadership of the GP out-of-hours service; and the Health Board has strengthened the way it monitors GP out-of-hours performance and learns from incidents but the approach to clinical audit and patient feedback is limited.

85 The service has increased its skill mix but remains fragile because there is no workforce plan and there are frequent problems filling shifts. The Health Board's expenditure on GP out-of-hours has decreased and in 2015-16, its spending was the lowest per contact in Wales. Since our fieldwork, the Health Board has increased funding for GP out-of-hours services.

86 The Health Board works in a range of ways to inform the public about out-of-hours services but there is scope to improve signposting from its website and practice answerphone messages. The service answers calls more quickly than other services in Wales and whilst there appear to be no call terminations, there may be inaccuracies in the data. Timeliness of call-backs to patients remains one of the service's most stubborn problems with performance remaining below the all-Wales average. Timeliness of home visits and appointments is mixed compared with the average performance across Wales. Problems with data consistency make it difficult to compare referral patterns and whilst the out-of-hours service does not have a directory of services, it does have protocols with emergency departments.

## In respect of discharge planning, the Health Board has robust improvement plans, strong performance management arrangements and performance overall is improving, but there is scope to improve ward staff training and awareness of policies and community services

87 My work identified that the Health Board has developed clear plans for improving discharge planning with partners. The Health Board has a well-developed draft discharge policy, reviewed with partners, however patient and carers have not been involved in its review. The recently revised discharge pathways are comprehensive and form part of the draft discharge policy.

88 The Health Board has dedicated discharge resources, which are multi-agency and multi-disciplinary but these are available weekdays only. There is scope to improve staff training and raise awareness of policies, pathways and access to information about community services.

89 There are clear lines of accountability and regular scrutiny of discharge planning performance, which includes partners. Board members generally feel informed about discharge planning performance, with action being taken to develop further the range of information available. Performance is improving but it is too early to comment on whether this is linked to improvements in discharge processes.

The Health Board is not effectively monitoring all of my previous recommendations however my follow up work has identified that the Health Board has made progress in addressing my recommendations on the management of follow-up outpatients

90 In addition to reviewing the effectiveness of the Health Board's arrangements to manage and respond to recommendations made as part of my audit work as discussed in paragraphs 71-74, I have reviewed the extent to which progress is being made against audit recommendations through the Health Board's own tracking arrangements.

91 My work has found that whilst the Audit Committee considers the initial action plan at the time the report is finalised, subsequent consideration of my reports at the most appropriate committee can be slow, and progress updates are not always reported. This has in part been due to the disbanding of the PPP committee and the subsequent gap before setting up the new Resources and Delivery Committee.

92 Where progress has been reported, it is not clear from the updates the extent to which my recommendations have been completed. I have therefore been unable to take a view on the Health Board's progress against my previous recommendations, using its own tracking arrangements.

93 During the last 12 months, I have 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 in specific areas of service delivery. The findings from this follow-up work are summarised in Exhibit 3.

Exhibit 3: progress in implementing audit recommendations in specific service areas

| Area of follow-up work | Conclusions and key audit findings |
|---|---|
| Progress update of follow-up outpatients | The Health Board has made progress in addressing the recommendations made in our 2015 report, and, with the Outpatient Transformation Programme (under the remit of the Planned Care Board), is well placed to meet all recommendations. |

Collaborative commissioning arrangements have helped drive some important changes for emergency ambulance services in Wales; however, the maturing arrangements require greater commitment from some partners.

94 My review of the all-Wales arrangements for commissioning emergency ambulance services found that the Emergency Ambulance Services Committee (EASC) has helped drive some important changes, such as the development of the CAREMORE®[3] model. However, structures and roles to secure accountability for

[3] The CAREMORE® model is a 'made in Wales' commissioning method. Its registered trademark belongs to Cwm Taf University Health Board on behalf of NHS Wales.

emergency ambulance services are unclear. I found that there is scope to clarify the roles of EASC, the Welsh Government and the Chief Ambulance Services Commissioner in relation to emergency ambulance service performance, finance and service modernisation. In addition, although the formation of EASC has supported all-Wales ownership of emergency ambulance services, my team identified that EASC needs to do more to drive through service transformation. In addition, the sub-group structure, which underpins EASC, lacks clarity and purpose, which is affecting attendance by health board staff and the ability of the subgroups to make a meaningful contribution.

95 Partners support the commissioning model but the pace with which health boards are driving the necessary changes to enable it to work as intended varies, and the model does not consider regional or cross-border activity. My work identified that there is a general willingness of WAST and health boards to work together to improve ambulance services, but the level of ownership of emergency ambulance performance and pathway modernisation by health boards is variable, with the predominant focus on the latter stages of the ambulance pathway, such as, ambulance handovers. I reported that WAST is properly responding to agreements set out by EASC, however, health boards' compliance with and level of understanding of the requirements set out in CAREMORE® vary.

96 My work found that commissioning arrangements are underpinning some improvements to emergency ambulance services. The introduction of the new clinical response model is supporting partners to achieve Welsh Government performance targets, with the potential for further performance improvements from other recently agreed initiatives. Planned service changes and performance monitoring of partners are now increasingly aligned with the Ambulance Patient Care Pathway (referred to as the five-step model). However, more consistency is needed across health boards and it is too soon to say if this is having an impact. There is a significantly improved and broader set of measures, which focus on activity and performance through the Ambulance Quality Indicators. However, partners are not yet doing enough to fully understand patients' outcomes and experience when receiving emergency ambulance care.

## Collaborative arrangements for managing local public health resources do not work as effectively as they should

97 My review of collaborative arrangements between Public Health Wales NHS Trust (the Trust) and health boards for managing local public health resources found that effective collaboration in relation to health improvement work is dependent upon consensual leadership, which is not always evident. In the overall public health system, a broad range of people and organisations contribute to protecting and improving health and wellbeing, and reducing health inequalities in Wales. No one organisation is wholly responsible for achieving improvements in population health and wellbeing but achievement is predicated on effective collaboration.

98 While it may not be desirable to identify a single system leader, there does need to be greater clarity over respective roles of the different stakeholders within the system. My work found that there is a lack of meaningful dialogue between the Trust, local public health teams and Directors of Public Health about respective roles, responsibilities and an agreed framework about what work is best done collectively.

99 Currently, there is an absence of effective arrangements to ensure that value for money is being secured from the resources allocated to local public health teams. Meetings do not take place between the Trust and Directors of Public Health to discuss how resources to improve health and wellbeing are used and whether they deliver the intended benefit. My work also found a lack of robust methods for allocating or changing resources of local public health teams. Instead, ad hoc discussions take place as vacancies arise.

100 My work found that arrangements are in place to support professional registration of staff deployed across local teams, but more clarity is needed on how this is used to demonstrate professional competence and career progression. New arrangements are also helping to strengthen appraisal processes and personal development planning but more needs to be done to assess the collective development needs of local public health teams.

101 Mechanisms for communicating and sharing information between the Trust and local public health teams are underdeveloped. There is no standardised approach for sharing intelligence about what works well, and what different players were doing at both a national and local level. My work also found a lack of arrangements for co-ordinating work developed or delivered locally or nationally, and communicating information to the same-shared partners.

102 I have noted the collective and collaborative management response that has been prepared by the Trust, Health Boards and Welsh Government to my findings. I intend to undertake further work in 2018 to assess the progress that has been made to address the concerns identified above.

# Appendix 1

## Reports issued since my last annual audit report

Exhibit 4: reports issued since my last annual audit report

| Report | Date |
|---|---|
| **Financial audit reports** | |
| Audit of Financial Statements Report | May 2017 |
| Opinion on the Financial Statements | June 2017 |
| **Performance audit reports** | |
| Radiology Services | February 2017 |
| Emergency Ambulance Services Commissioning | April 2017 |
| GP Out-of-Hours Services | September 2017 |
| Collaborative Arrangements for Managing Local Public Health Resources | October 2017 |
| Progress update of follow-up outpatients | October 2017 |
| Review of Discharge Planning | November 2017 |
| Structured Assessment 2017 | January 2018 |
| **Other reports** | |
| 2017 Audit Plan | February 2017 |

Exhibit 5: performance audit work still underway

| Report | Estimated completion date |
|---|---|
| Progress update of medical equipment | February 2018 |
| Review of Primary Care | June 2018 |
| Cross-cutting review of the Integrated Care Fund | October 2018 |

# Appendix 2

## Audit fee

The 2017 Audit Plan set out the proposed audit fee of £420,652 (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 plan.

# Appendix 3

## Significant audit risks

Exhibit 6: significant audit risks

| Significant audit risk | Proposed audit response | Work done and outcome |
|---|---|---|
| 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 relevant to the audit to ensure accuracy, regularity and lawfulness of transactions. | My team reviewed accounting records, 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 in accordance with International Standards on Auditing 240. | My audit team will:<br>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;<br>• review accounting estimates for biases; and<br>• evaluate the rationale for any significant transactions that the audit identifies, which may potentially be outside the normal course of business. | My team reviewed a number of the accounting estimates and a sample of transactions that included journal entries. I did not identify any issues to report. |
| There is a risk of material misstatement due to fraud in revenue recognition and as such is treated as a significant risk in accordance with International Standards on Auditing 240. | 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 we determine that such risks do exist we will undertake specific testing. | My audit team considered the Health Board's income streams. No additional risks were identified. |

| Significant audit risk | Proposed audit response | Work done and outcome |
|---|---|---|
| Based on our review of the Health Board's financial reporting and our discussions with senior officers, it seems highly likely that the Health Board will spend in excess of its revenue resource allocation. The month 9 position shows a year-to-date deficit of £25.2 million and forecast a year-end deficit of £30.9 million.<br>Under the NHS Finance (Wales) Act 2014, local health boards ceased to have annual resource limits with effect from 1 April 2014. Instead, 2014-15 and 2015-16 became the 'transitional' first two years under the new statutory financial duty not to exceed a rolling three-year resource limit. Accordingly, there could not have been any breach of a statutory resource limit in either of those two individual years.<br>With effect from the 2016-17 financial year onwards, the provisions of the 2014 Act require me to compare the Health Board's cumulative expenditure for the year of account and the previous two years with the corresponding three-year resource limits for both revenue and capital. | My audit team will continue to monitor the Health Board's financial position for the 2016-17 financial year, and also for the cumulative position for the three years to 31 March 2017. This review will also take into account the impact of any relevant uncorrected misstatements over those three years.<br>If the Health Board fails to meet the three-year resource limits for revenue and/or capital, I would expect to qualify my regularity opinion on the 2016-17 financial statements. I would also expect to place a substantive report on the statements to explain the basis of the qualification and the circumstances under which it had arisen. | The Health Board did not meet its three-year revenue resource allocation. As reported within Section 1 of this report, I therefore qualified my regularity opinion on the 2016-17 financial statements.<br>I placed a substantive report on the financial statements explaining the Health Board's performance against its statutory duties under the NHS Finance (Wales) Act 2014, and my audit qualification. |

| Significant audit risk | Proposed audit response | Work done and outcome |
|---|---|---|
| The current financial pressures on the Health Board, around its revenue and capital expenditure, and cash spend; increase the risk that management judgements and estimates could be biased in an effort to report within the financial limits put in place by the Welsh Government. | My audit team will identify those areas of the financial statements that they judge to be prone to reporting bias, and undertake focused audit testing where appropriate. | My team reviewed a number of management's key judgments and estimates. I did not identify any material issues to report.<br>My Audit of Financial Statements Report did however report the Health Board's continued poor progress in examining and assessing the estimated cost of its 'phase 3' continuing healthcare claims. |
| There is risk around the calculation and disclosure of the Health Board's payment performance against the targets set out in the Welsh Government's Public Sector Payment Policy (PSPP).<br>The Health Board's month 9 reporting forecasts significant pressure on its cash position at year-end, with a year-end cash shortfall of £18.0 million. This shortfall of cash could potentially increase creditor payment times and impact on payment performance. | My audit team will audit the PSPP disclosures and consider any implications that the cash pressures have on the Health Board's target. The auditors of NHS shared services will undertake some of this audit work. | The audited financial statements reported that the Health Board did not meet the Welsh Government's targets, which require the Health Board to pay 95% of creditors within 30 days of delivery.<br>By number, the Health Board paid 59.7% of its NHS creditors, and 94% of its non-NHS creditors, within the 30 days' target.<br>As I had done the previous year, in my Audit of Financial Statements Report I explain that the disclosed payment-performance percentages are potentially misstated due to the way that the Health Board reports its invoices in dispute. |

| Significant audit risk | Proposed audit response | Work done and outcome |
|---|---|---|
| The timetable for producing and certifying the annual report and accounts is demanding.<br>The 2016-17 financial year is the second year of implementing HM Treasury's three-part reporting that is based on: a Performance Report, Accountability Report and Financial Statements.<br>The Welsh Government has reviewed the requirements and logistics for 2016-17, with this year's requirements set out in the current consultation draft the 2016-17 Manual For Accounts.<br>The Health Board will need to put in place appropriate arrangements to prepare the accountability report at the same time as the financial statements 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.<br>The Health Board's Annual Governance Statement is disclosed within the Accountability Report. My audit is required to review the governance statement to ensure that it complies with HM Treasury and Welsh Ministers' guidance. As part of my audit work, I will review the statement to ensure that it is consistent with audit results, and my knowledge and understanding of the Health Board. | I audited the Accountability Report with satisfactory results. In my Audit of Financial Statements Report, I acknowledged that some improvements had been achieved for 2016-17, although I also set out the need for the earlier preparation of the Accountability Report for 2017-18. |

| Significant audit risk | Proposed audit response | Work done and outcome |
|---|---|---|
| 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.<br>Specific risk areas include:<br>• estimates, particularly for the continuing health-care provision and primary care expenditure;<br>• capital developments, with complex accounting requirements;<br>• significant transactions with related parties;<br>• the consideration and approval of contracts valued at more than £1 million; and<br>• accuracy and completeness of the Remuneration Report, including exit packages and changes to Executive Members during the year. | My audit team will audit the financial statements with particular focus on these risk areas, by undertaking focused testing.<br>With regard to the Remuneration Report, we are aware that during 2016-17 there has been a number of changes to the Health Board's executive roles and the officers appointed to certain posts. My audit team will examine these changes. The audit testing will include whether the appropriate authorisations are in place, and whether the disclosures within the Remuneration Report are accurate. | I assessed the Health Board's arrangements and carried out appropriate testing. While my findings were generally satisfactory, I raised a number of recommendations for improvement in my Audit of Financial Statements Report. |

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