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Auditor General for Wales

# Annual Audit Report 2018 – Cwm Taf University Health Board

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# Summary report

## About this report

- 1 This report summarises the findings from the audit work I have undertaken at Cwm Taf University Health Board (the Health Board) during 2018. I did that work to carry out my responsibilities under the Public Audit (Wales) Act 2004. 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.
- 2 I have reported my findings under the following headings:
  - Key messages
  - Audit of accounts
  - Arrangements for securing economy, efficiency and effectiveness in the use of resources
- 3 I have issued several reports to the Health Board this year. This annual audit report is a summary of the issues presented in these more detailed reports, a list of which is included in [Appendix 1](#).
- 4 [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 2018 Audit Plan.
- 5 [Appendix 3](#) sets out the significant financial audit risks highlighted in my 2018 Audit Plan and how they were addressed through the audit.
- 6 The Chief Executive and the Director of Finance have agreed this report is factually accurate. We presented it to the Audit Committee on 14 January 2018. The Board will receive the report at a later Board meeting and every member will receive a copy. We strongly encourage the Health Board to arrange wider publication of this report. We will make the report available to the public on the [Wales Audit Office website after the Board have considered it](#).
- 7 I would like to thank the Health Board's staff and members for their help and co-operation during the audit work my team has undertaken over the last 12 months.

## Key messages

### Audit of accounts

- 8 I have concluded that the Health Board's accounts were properly prepared and materially accurate, and my work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts. I have therefore issued an unqualified opinion on their preparation, with no significant issues to bring to the attention of officers and the Audit Committee.
- 9 The Health Board achieved financial balance for the three-year period ending 31 March 2018 and so I have issued an unqualified opinion on the regularity of the financial transactions within its 2017-18 accounts.
- 10 As the Health Board achieved financial balance and has an approved three-year plan in place and there were no other issues which warranted highlighting, no substantive report was placed on the Health Board's accounts.

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

- 11 My 2018 structured assessment work at the Health Board has found that:
  - the Board continues to operate well however important aspects of quality governance, risk management and oversight of ICT arrangements require improvement;
  - the Health Board has good arrangements for strategic planning, and effective support for directorates but tracking progress is difficult without detailed IMTP milestones; and
  - financial and asset management arrangements are sound, and the Health Board performs comparatively well on several key performance targets. However, there is a need for continued action address to several significant workforce challenges, including factors driving the relatively high use of locum and agency staff.
- 12 Reviews of discharge planning and primary care services have found some aspects of good practice as well as opportunities to strengthen arrangements for securing efficient, effective and economical use of resources
- 13 The Health Board is participating in the National Fraud Initiative but has made limited use of the data matches released in 2017.
- 14 These findings are considered further in the following sections.

# Detailed report

## Audit of accounts

- 15 This section of the report summarises the findings from my audit of the Health Board's financial statements for 2017-18. These statements are how the organisation shows its financial performance and sets out its net operating costs, recognised gains and losses, and cash flows. Preparing the statements is an essential element in demonstrating appropriate stewardship of public money.
- 16 In examining the Health Board's financial statements, I must 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 meet the 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.
- 17 In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).

**I have issued an unqualified opinion on the accuracy and proper preparation of the 2017-18 financial statements of the Health Board, with no significant issues to bring to the attention of officers and the Audit Committee**

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

- 18 The draft financial statements were produced for audit by the agreed deadline of 27 April 2018 and were again of a good standard. The Health Board has quality assurance processes over the financial statements and there is a high level of scrutiny from the Audit Committee. We concluded that accounting policies and estimates were appropriate and financial statement disclosures were unbiased, fair and clear.
- 19 The deadlines for submission of the accounts and relevant parts of the Annual Report remain challenging and we would like to commend the Finance team and the wider Health Board for the timing and quality of their work. The constructive

working relationships with the Board Secretary, Director of Finance and the whole finance team have continued again this year, and we thank them again for that.

- 20 I reviewed those internal controls that I considered to be relevant to the audit to help me identify, assess and respond to the risks of material misstatement in the accounts. I did not consider them for the purposes of expressing an opinion on the operating effectiveness of internal control. My review did not identify any significant deficiencies in the Health Board's internal controls.
- 21 I must report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues to the Health Board's Audit Committee on 31 May 2018. **Exhibit 1** summarises the key issues set out in that report.

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

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

Issue	Auditors' comments
Uncorrected misstatements	One such misstatement was identified, where £597,000 of income recovered by WHSSC/EASC from secondments to other NHS bodies was netted-off against expenditure, rather than recorded separately as miscellaneous income. This immaterial misstatement did not affect the overall financial position of WHSSC/EASC or the Health Board.
Corrected misstatements	A number of corrections were identified during the audit, as set out in <b>Appendix 3</b> of the report. The only material corrections related to the classification of provisions and Welsh Risk Pool debtors arising from clinical negligence and personal injury legal claims, which again did not affect the overall financial position of the Health Board.
Other significant issues	No other significant issues were raised for the attention of management or the Audit Committee.

- 22 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 2018 and the return was prepared in accordance with the Treasury's instructions.
- 23 My separate independent examination of the charitable funds financial statements is complete, and I certified these accounts on 8 November 2018. In this certification, I confirm that no matters have come to my attention giving me cause to believe that:
- accounting records are not kept as required;
  - the accounts do not accord with those records;
  - the accounts do not comply with applicable legislative requirements;

- the accounts have not been prepared in accordance with the Statement of Recommended Practice for accounting and reporting by charities.

## I have issued an unqualified audit opinion on the regularity of the financial transactions within the financial statements of the Health Board

The Health Board achieved financial balance for the three-year period ending 31 March 2018 and so I have issued an unqualified opinion on the regularity of the financial transactions within its 2017-18 accounts

- 24 The Health Board's financial transactions must be in accordance with authorities that govern them. It must have the powers to receive the income and incur the expenditure that it has. Our work reviews these powers and tests that there are no material elements of income or expenditure which the Health Board does not have the powers to receive or incur. Where a Health Board does not achieve financial balance, its expenditure exceeds its powers to spend and so I must qualify my regularity opinion.
- 25 The Health Board underspent against its Revenue Resource Limit by £23,000 in 2017-18. Added to further minor underspends in 2015-16 and 2016-17, it underspent against its cumulative three-year Revenue Resource Limit by a total of £63,000. The Health Board therefore complied with its statutory duty to break even over a rolling three-year period.

As the Health Board achieved its financial balance duty and has an approved three-year plan in place and there were no other issues which warranted highlighting, no substantive report was placed on the Health Board's accounts

- 26 I have the power to place a substantive report on the Health Board's accounts alongside my opinions where I want to highlight issues. As the Health Board met both of its financial duties: to achieve financial balance (as set out above) and to have an approved three-year plan in place; and there were no other issues warranting report, I did not issue a substantive report on the accounts.



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

- 27 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:
- assessing the effectiveness of the Health Board's governance and assurance arrangements;
  - reviewing the Health Board's approach to strategic planning;
  - examining the arrangements in place for managing the Health Board's finances, workforce, assets and procurement;
  - specific use of resources work on discharge planning, primary care services and regional partnership working in respect of the Integrated Care Fund;
  - reviewing the Health Board's arrangements for tracking progress against external audit recommendations; and
  - assessing the application of data-matching as part of the National Fraud Initiative (NFI).
- 28 My conclusions based on this work are set out below.

## The Board continues to operate well, however, important aspects of quality governance, risk management and oversight of ICT arrangements require improvement

- 29 My structured assessment work examined the Health Board's governance arrangements, the way in which the Board and its sub-committees conduct their business, and the extent to which organisational structures are supporting good governance and clear accountabilities. I also looked at the information that the Board and its committees receive to help them oversee and challenge performance and monitor the achievement of organisational objectives. I found the following.
- 30 **We found that the Board is operating effectively, but the Quality, Safety and Risk committee is not as effective as it could be and there are gaps in the arrangements to oversee progress on ICT developments.** Administration of the Board meetings is good, and it is clear when decisions have been made. There are positive levels of scrutiny and challenge evident at board and committee meetings. However, the Quality, Safety and Risk committee has a large agenda, and papers presented to this committee are not sufficiently succinct. There is scope to review the work of this committee with a view to prioritising its workload and refining the presentation of information to the committee to help support effective scrutiny.

Improvements to the oversight and scrutiny of progress on the implementation of the Digital Health Strategy is required. My staff have also noted that there is currently no cyber security action plan in place.

- 31 **The Health Board has a board assurance framework and risk management strategy in place, however, there is a need to improve the operational identification, review and mitigation of risk.** My work identified that although board members are overall happy with the arrangements in place for identifying and managing risk, there is the opportunity to ensure more frequent regular review of directorate risks registers as a sample we reviewed were not as current as they could have been.
- 32 **Important aspects of the Health Board's quality governance arrangements require improvement.** Whilst the Health Board appears to have the necessary structures and processes in place to support quality governance, in practice we are concerned that the system is not effective in highlighting issues and concerns or demonstrating responses to improvements. Aspects of the quality report presented to the Quality, Safety and Risk committee need to improve as we found that currently the information presented does not enable readers to easily identify areas of concern. The Quality Steering Group responsible for collating various sources of information from quality sub groups, as well as compiling the quality report has not been meeting as required due to pressures on clinical staff. A recent Internal Audit review recommended the Health Board strengthen arrangements to support staff in raising concerns. Additionally, issues with serious incident reporting within Maternity have been identified and it is important that the Health Board demonstrates organisational learning and seeks assurance that issues uncovered in maternity services are not more widespread.
- 33 **The Health Board has clear executive portfolios and lines of accountability, but clinical business meetings need more focus on quality and safety.** There are clear executive portfolios and a clear organisational structure in place which sets out the roles and responsibilities. Whilst there have not been significant changes to its overall operational structure since our last review there have been several changes to the Executive Management Team. Interim arrangements are in place with the Director of Primary and Community Mental Health moving into the Chief Operating Officer role, while a new Director of Primary Community and Mental Health was appointed. The Director of Nursing, Midwifery and Patient Care retired recently, and interim arrangements are in place until the appointment of a new director in 2019. The Director of Finance was appointed earlier this year having previously worked for the Health Board.
- 34 The Health Board holds Clinical Business Meetings (CBMs) which aim to continually improve performance against key indicators, and safety and service quality for patients and staff. The arrangements for these meetings have improved this year, however, they require further development to ensure that issues relating to the quality and safety of services receive sufficient attention. I am aware that work is underway to continue to refine the way CBMs operate.

35 **The Health Board has an embedded process for tracking Internal Audit and External Audit recommendations and reporting actions and progress to the committee.** However, we have highlighted that scrutiny of recommendations marked as complete which are subsequently removed from the tracker needs to improve as there is a risk the recommendations are closed without sufficient Independent Member scrutiny. Additionally, the Health Board could usefully explore the opportunity to utilise the tracker to coordinate actions in response to recommendations from other inspections and external reviews, such as Healthcare Inspectorate Wales, Ombudsman reports and Delivery Unit reports. My Structured Assessment review this year indicates a number of areas where the Health Board is making progress against my previous recommendations but there remains more to do before these actions are completed in full. I discuss this further in [paragraph 48](#).

### The Health Board has good arrangements for strategic planning, and effective support for directorates but tracking progress is difficult without detailed IMTP milestones

- 36 My work examined how the Board engages partners and sets the strategic direction for the organisation. I also assessed how well the Health Board plans the delivery of its objectives and how it monitors progress in delivering the plans. My findings are set out below.
- 37 **The Health Board has a clear strategic vision and its developing its long-term clinical services strategy.** The Health Board has continued with its approach in previous years by developing a detailed engagement plan for consultation with key internal and external stakeholders on the Health Board priorities. The strategic priorities set out in the Integrated Medium-Term Plan (IMTP) were informed by effective engagement with key stakeholders both internally and externally. Board members were positive from our survey as to their level of engagement in setting the vision and strategic priorities.
- 38 **The Health Board has a well-developed approach to its strategic planning underpinned by demand and capacity modelling and guidance.** The Health Board's approach to developing its IMTP remains consistent and builds upon the preceding plan. This is the fifth consecutive year where the Health Board has received Welsh Government approval for its plan. An organisation wide planning workshop and detailed guidance and templates support each directorate to support completion of their directorate IMTPs. The Health Board has temporarily increased capacity to support transformation on a non-recurrent basis and is keeping this area under review. The next iteration of the IMTP will need to reflect the boundary changes and the wider integration of services following the transfer from Abertawe Bro Morgannwg University Health Board. The Health Board is developing processes to manage this transfer and integration of services and is engaged with them in developing their IMTP plans for next year.

- 39 **There are processes in place for monitoring delivery of the IMTP but without detailed milestones it is challenging to gain an accurate impression of progress.** As part of my structured assessment review I considered the monitoring arrangements in place for the IMTP. Positively IMTP reporting has improved this year with clearer links to the activities and strategic themes of the Health Board. However, without a clear picture of the milestones in the initial IMTP it is difficult for an external audience to identify progress and see whether the priorities are on track.

**Financial and asset management arrangements are sound, and the Health Board performs comparatively well on several key performance targets. However, there is a need for continued action address to several significant workforce challenges, including factors driving the relatively high use of locum and agency staff**

- 40 My structured assessment work examined the Health Board's arrangements for managing its workforce, its finances and other physical assets to support the efficient, effective and economical use of resources. I also considered the arrangements for procuring goods and services, and the action being taken to maximise efficiency and productivity. My findings are set out below.
- 41 **The Health Board has a track record of achieving its statutory financial duties and has generally robust financial stewardship and management controls in place.** The 2017-18 financial statements show that the Health Board met its statutory duty. Indications are that this duty will continue to be met in 2018-19. In respect of financial stewardship, the Health Board has a clear framework of roles and responsibilities with appropriate control activities and processes in place. The Health Board has a track record of meeting its statutory reporting requirements. Its draft and final financial statements were submitted to the Welsh Government in line with agreed deadlines. Similarly, the draft and final annual reports were produced in line with guidance from HM Treasury and in accordance with deadlines. Regular finance reports are presented to the Finance and Planning Committee and the full Board. My work also identified good operational procurement arrangements, but also potential to more proactively manage the 'contractual' relationship between the Health Board and the procurement provider. A Local Counter Fraud Service (LCFS) is in place to tackle fraud within the Health Board, however the caseload for the Health Boards local counter fraud service has steadily increased, coupled with impending boundary change has meant that the Health Board is reviewing its LCFS provision with the likelihood of increasing the counter-fraud service capacity from the 2019-20 financial year.
- 42 **Workforce issues continue to challenge the Health Board, but it is taking steps to tackle issues such as higher than average agency expenditure and turnover rates.** The Health Board's Integrated medium-term plan (IMTP) highlights

that the biggest challenge to the Health Board's financial position is the expenditure on medical, dental and nursing locums and bank and agency staff. The Health Board is aiming to reduce medical, dental and nursing and midwifery agency spend by approximately £5.1 million by next year (2018-19) through initiatives such as 'retire and return' for nurses and introducing e-rostering and e-job planning for the medical workforce. The Health Board is taking a number of actions to help fill vacancies, for example recruiting nurses from abroad and running recruitment campaigns such as the '#joincwm Taf.wales' campaign. This campaign aims to dovetail with the national 'TrainWorkLive' campaign. In addition, the Health Board is implementing redesign programmes to modernise its workforce and use its staff differently. At the time of reporting my Structured Assessment findings the Health Board did not have a training and development plan and had not undertaken a training needs assessment which needs to be an area of focus for the future.

- 43 **The Health Board is focussed on delivery of its key access targets and has examples of innovative ways of working to improve efficiency and productivity.** The organisation operates in a challenging environment and while some of its performance metrics have improved the challenge is now to maintain this. There is a positive focus on prudent healthcare which is reflected in the IMTP and there have been some successes in this area, but further resources will be needed to fully embed the principles within the directorates. The Stay Well at Home (SW@H) services has been recognised and received an award for its innovative approach, achieving both financial savings but also improving service user feedback.
- 44 **We found that the Health Board manages its assets well.** Supported by an estates strategy and asset management strategy, the Health Board has a risk management approach to prioritise the limited discretionary capital allocation across estates, ICT infrastructure, medical equipment and other related assets. A fixed asset register is in place, as well as an asset management system. Further work needs to be done to ensure that the Estates directorate risk register is up to date.

## My wider programme of work indicates that the Health Board is demonstrating effective planning, but improvements could be made in some areas

The Health Board has plans in place to improve patient flow and discharge planning and there is regular scrutiny of performance; however, there is scope to improve the discharge policy and pathways

- 45 My work identified that the Health Board has plans in place to improve discharge planning underpinned by policies and improvement initiatives. The Integrated medium-term plan (IMTP) and the unscheduled care plan set out key initiatives for improving patient flow and the Health Board has developed a delayed transfers of care action plan in collaboration with local authority colleagues. However, there is scope of strengthen aspects of the discharge planning policy and the steps in the discharge pathway could be better articulated.
- 46 Dedicated resources are available to support discharge planning and ward staff are confident about what needs to be done to support timely discharge. There is a discharge liaison team available to support complex discharges and ward staff are confident about what needs to be done having been provided with training recently by the discharge liaison team.
- 47 A range of information related to discharge planning and patient flow is regularly presented to the Board and Board members feel well informed. Overall, performance related to discharge planning and patient flow is improving slowly but there is more to do to reduce delayed transfers of care, lengths of stay and waits in the Health Board's emergency departments.

The Health Board has a sound plan for primary care and is making reasonable progress towards implementing key elements of the national vision. Oversight arrangements are strong and performance against some indicators is above average. However, there is further scope to raise the profile of primary care, shift more resources towards primary care and to address workforce challenges.

- 48 I found that the Health Board has a strong primary care plan aligned to national priorities and whilst clusters are at an early stage of development they are being supported to develop. The Health Board is making reasonable progress in delivering its primary care and localities plan and some aspects of performance are better than the Wales average, although a number of difficult challenges remain. The Health Board can point to some specific examples of resources shifting to primary care, but there are barriers to large-scale change, and the available data make it difficult to accurately calculate the overall investment in primary care. In addition, it is recognised that workforce challenges are threatening the sustainability of some general practices, but the Health Board has begun workforce modelling and is in the early stages of testing solutions. There are strong

leadership and monitoring arrangements in place and the Health Board is taking steps to improve primary care data, however there is further scope to raise the profile of primary care at the Board.

The Health Board has made good progress in addressing recommendations from my previous work, but more focus is required to reduce follow-up appointment delays, through improving operational processes and modernising services

- 49 My work has found that the Health Board is making progress in addressing recommendations from my previous audit work. Of the 23 Wales Audit Office reports covered in the audit tracker we have made 174 recommendations, of which 162 have been reportedly implemented, although it is important to note that some require ongoing action. 12 recommendations are outstanding with five overdue their originally agreed completion date and related mainly to Follow Up Outpatients Not Booked and Discharge planning.
- 50 As part of our 2018 Structured Assessment, we have reviewed progress against implementation of the 2017 recommendations. Of the seven recommendations made, one has been implemented and the remainder are in progress, with some having a target date for completion during the current financial year.

My emerging findings on the Integrated Care Fund are showing some challenges

- 51 I have completed the fieldwork for my cross-sector Integrated Care Fund review. I intend to prepare a national summary report early in 2019, setting out my all-Wales findings. My audit team has already presented local findings to Regional Partnership Boards. The key messages for the Cwm Taf Regional Partnership Board (RPB) are:
- The Integrated Care Fund (the fund) has had a positive impact in bringing organisations together across the region, but the RPB will need to consider whether it has sufficient housing and financial representation and will have to take account of the changes that need to be made to the partnership arrangements following the Bridgend transfer.
  - Due to the annual nature of the fund, the region recognises that it has not always used the fund strategically to develop services based on need, with scope to strengthen aspects of project management for the projects supported by the fund.
  - Decisions surrounding the use of the fund are delegated to sub-groups of the regional partnership board. The RPB and its Transformation Leadership Group have a very positive and trusting relationship. This strengthens their ability to take confidence in decisions made through delegated responsibility. Also, RPB members consistently communicate discussions back to their own organisations.
  - There is general agreement that the fund is supporting the right projects and having a positive impact on service users, but like other regional partnership

boards across Wales, few of the projects have been mainstreamed into core services. The Cwm Taf region is attempting to demonstrate outcomes more clearly, but this presents an ongoing challenge.

## The Health Board has not made effective use of the National Fraud Initiative to detect fraud and overpayments

- 52 The National Fraud Initiative (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.
- 53 The Health Board received the outcomes from the 2016 data matching exercise in January 2017. The Trust received 311 recommended matches. In our 2016-17 Annual Audit Report we reported that as at 20 November 2017 the Health Board had only reviewed nine data-matches and had consequently failed to make effective use of NFI as part of its arrangements to prevent and detect fraud.
- 54 As at 12 November 2018, the NFI web application records that the Health Board has now reviewed 216 data matches. Whilst we acknowledge that the Health Board has made progress, there still appear to be some high-risk matches that need reviewing including: matches between payroll, creditor payments and Companies House data and matches between staff and supplier bank accounts.
- 55 In October 2018, participating bodies submitted data for the next data matching exercise. The outcomes of this exercise will be available early in 2019 and it is important that the Health Board implements a timely review of recommended matches that emerge from this exercise. Where data-matches have been reviewed, the Health Board also needs to ensure that NFI web application is updated to clearly record how these matches were reviewed and the outcomes.



# Appendix 1

## Reports issued since my last annual audit report

### Exhibit 2: reports issued since my last annual audit report

The following table lists the reports issued to the Health Board in 2018.

Report	Date
<b>Financial audit reports</b>	
Audit of Financial Statements Report	May 2018
Opinion on the Financial Statements	June 2018
<b>Performance audit reports</b>	
Review of Discharge Planning	February 2018
Primary Care Services	November 2018
Structured Assessment 2018	January 2019
<b>Other reports</b>	
2018 Audit Plan	March 2018

### Exhibit 3: performance audit work still underway

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

Report	Estimated completion date
Clinical coding follow-up	March 2019
Locum Doctors Review	March 2019
Cross Cutting review on Integrated Care Fund	March 2019
Orthopaedic Services follow-up	October 2019

# Appendix 2

## Audit fee

The 2018 Audit Plan set out the proposed audit fee of £407,993 (excluding VAT). My latest estimate of the actual fee, on the basis that some work remains in progress, is in keeping with the fee set out in the outline.

# Appendix 3

## Significant financial audit risks

### Exhibit 4: significant audit risks

My 2018 Audit Plan set out the significant financial audit risks for 2018. The table below lists these risks and sets out how they were addressed as part of the audit.

Significant audit risk	Proposed audit response	Work done and outcome
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	My audit team will: <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases; and</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>	Work completed and no issues arising.
There is a risk that the Health Board will fail to meet its first financial duty to break even against its aggregate revenue and capital resource limits over a three-year period. The Health Board continues to forecast a break-even position at 31 March 2018. Combined with the small surpluses achieved in 2015-16 and 2016-17, this indicates that the Health Board will meet this financial duty. If the Health Board fails this financial duty, I will place a substantive report on the financial statements highlighting the failure. The current financial pressures on the Health Board increase the risk that management judgements and estimates could be biased in an effort to achieve the financial duty.	My audit team will focus its testing on areas of the financial statements that could contain reporting bias. We will also review with management the Health Board's performance and the impact of all audit findings against the revenue and capital resource limits for the three-year period 2015-16 to 2017-18.	Work completed and no issues arising. My audit work on estimates and other subjective areas such as provisions did not identify any material adjustments to the Health Board's result for the year. My staff concluded that, taking trivial errors into account, the Health Board met its financial duties for resource limits over the three-year period 2015-16 to 2017-18.

Significant audit risk	Proposed audit response	Work done and outcome
<p>The timetable for producing and certifying the annual accounts remains demanding. The Health Board will need to ensure appropriate arrangements to prepare the accounts and provide working papers for audit on a timely basis.</p>	<p>My audit team will continue to work closely with management to further improve supporting working papers and streamline the accounts preparation and audit processes.</p>	<p>Work completed and no issues arising. We have no significant matters to raise in terms of the quality or timeliness of working papers provided for audit.</p>
<p>There have been a number of changes at Board level during the year, covering both Independent Members and the Executive. The Health Board will need to update Remuneration Report and Related Party Transaction disclosures appropriately in response.</p>	<p>My audit team will liaise with management to ensure that these disclosures are accurate and will review these areas in detail during the audit.</p>	<p>Work completed. My audit team identified a number of required corrections to the Remuneration Report and Related Party disclosures. These corrections were all actioned by management.</p>
<p>The District Valuer has revalued the Health Board's land and buildings this year. In addition, the Health Board (along with other Health Boards in Wales) has reviewed the process of accounting for its revaluation reserve in the Balance Sheet, with assets now analysed by 'buildings' rather than larger 'sites'. The Health Board will need to reflect these developments accurately in the financial statements.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• test land and building revaluations in detail to ensure that information from the District Valuer is accurately reflected in the financial statements; and</li> <li>• review any adjustments to the revaluation reserve arising this year in detail.</li> </ul>	<p>Work completed and no issues arising.</p>
<p>The new HRG4+ tariff for specialised care services in England has increased the cost of these services in 2017-18. WHSSC are currently in dispute with English care providers as to whether the increased costs will have to be borne by themselves (and ultimately by Welsh Health Boards). If this situation remains unresolved, it could affect the ability of the Health Board to meet its revenue resource limit.</p>	<p>My audit team will liaise with management of WHSSC and the Health Board to determine how this issue could affect accounting entries in the financial statements.</p>	<p>Work completed and no issues arising. We were satisfied that accounting entries for this issue in the 2017-18 accounts by WHSSC/EASC and the Health Board were correct. As this dispute remained unresolved when the 2017-18 accounts were certified, we will need to review this issue again during planning for our 2018-19 audit.</p>

Significant audit risk	Proposed audit response	Work done and outcome
<p>There is a risk that the Health Board will not correctly account for ongoing legal claims between provisions and contingent liabilities. In particular, there are ongoing discussions regarding a Supreme Court judgement in August 2017 on Funded Nursing Care costs, which could result in a significant liability for the Health Board in 2017-18.</p>	<p>My audit team will review the most up-to date position and legal advice and discuss the accounting treatment and presentation of such issues in the financial statements.</p>	<p>Work completed and no issues arising.</p>
<p>In 2016-17 we commented to management on several areas during the course of our audit work including:</p> <ul style="list-style-type: none"> <li>• current/non-current classification of clinical negligence provisions and Welsh Risk Pool debtors; and</li> <li>• remuneration report disclosures.</li> </ul> <p>Ministerial approval of contracts of over £1 million.</p>	<p>We will follow up on the recommendations made in our Financial Accounts Memorandum and the adjustments arising from the audit of the financial statements in 2016-17 as part of our 2017-18 audit work.</p>	<p>Work completed. My audit team identified material corrections in classification required to provisions and related Welsh Risk Pool debtors. These corrections were processed by management and did not affect the overall financial position of the Health Board.</p>

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