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Annual Audit Report 2015

Hywel Dda University Local Health Board

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The team who assisted me in the preparation of this report comprised Ann-Marie Harkin, David Thomas, Tracey Davies and Geraint Norman.

Contents

Summary report

1. This report summarises my findings from the audit work I have undertaken at Hywel Dda University Local Health Board (the Health Board) during 2015.

2. The work I have done at the Health Board allows me to discharge my responsibilities under the Public Audit (Wales) Act 2004 (the 2004 Act) in respect of the audit of accounts and the Health Board's arrangements to secure efficiency, effectiveness and economy in its use of resources.

3. My audit work has focused on strategic priorities as well as the significant financial and operational risks facing the Health Board, and which are relevant to my audit responsibilities. More detail on the specific aspects of my audit can be found in the separate reports I have issued during the year. These reports are discussed and their factual accuracy agreed with officers and presented to the Audit Committee. The reports I have issued are shown in Appendix 1.

4. This report has been agreed for factual accuracy with the Chief Executive and the Director of Finance, Planning & Performance. It will be presented to the Audit Committee on 12 January 2015 and the Board on 28 January 2016 and a copy provided to every member of the Health Board. We strongly encourage wider publication of this report by the Health Board. Following Board consideration, the report will also be made available to the public on the Wales Audit Office's own website (www.audit.wales).

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

Section 1: Audit of accounts

6. I have issued an unqualified opinion on the Health Board's 2014-15 financial statements although in doing so I have brought some issues to the attention of officers and the Audit Committee and placed a substantive report alongside my audit opinion. The issues raised relate to expenditure on two contracts with private sector healthcare providers which are both in excess of £1 million. These contracts were not formally approved by the Minister as required by the NHS (Wales) Act 2006 and the contracts were not procured in accordance with the Health Board's Standing Financial Instructions (SFIs). I also highlighted the findings of the NHS Wales Shared Services Partnership Audit and Assurance Services which reviewed a sample of larger capital projects and reported a number of significant issues and recommendations which the Health Board has been slow to address.

7. In addition, I placed a substantive report on the Health Board's financial statements alongside my audit opinion. My report explains the two new financial duties introduced on 1 April 2014 by the NHS Finance (Wales) Act 2014, the Health Board's performance against them, and the implications for 2015-16.

8. I have also concluded that:

- the Health Board's financial statements were properly prepared and materially accurate but there is scope for improvement in some areas;
- the Health Board had an effective control environment to reduce the risk of material misstatements to the financial statements; and
- the Health Board's control activities that we considered as part of the audit were appropriately controlled and operating as intended although there are some weaknesses which require management action.

9. The Health Board did not achieve financial balance at the end of 2014-15. I set out more detail about the financial position and financial management arrangements in Section 2 of this report.

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

10. I have reviewed the Health Board's arrangements for securing efficiency, effectiveness and economy in the use of its resources. This includes my Structured Assessment work which has examined the Health Board's financial management arrangements, the adequacy of its governance arrangements, and the progress made in relation to the improvement issues identified last year. Performance audit reviews have also been undertaken on specific areas of service delivery. This work has led me to draw the following conclusions.

The Health Board has a sound approach to in-year financial management, although financial breakeven was not achieved in 2014-15 and is very unlikely to be achieved in 2015-16. A key challenge for the Health Board is to develop a clear strategic direction through its IMTP

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

- In 2014-15, the Health Board had a sound approach to in-year financial management. However, the Health Board did not achieve a balanced financial position and despite receiving additional funding from the Welsh Government, the Health Board reported a £7.5 million deficit. The Health Board did not have an approved three-year Integrated Medium Term Plan (IMTP).
- The Health Board did not set a balanced financial position for 2015-16 and is currently forecasting an outturn deficit position of £32.5 million. Contributing to this deficit is the underachievement of a number of savings plans. As in 2014-15, the Health Board does not have an approved three-year IMTP.

The Health Board has continued to strengthen governance arrangements and has built a more open and engaging culture. However, progress on some issues has been slow and fundamental issues still need to be addressed including agreeing a clear strategic plan and strategic objectives, establishing a Board assurance framework and improving performance

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

- There is not an approved three-year plan although the Health Board has an annual plan and has strengthened its planning approach. However, capacity constraints, gaps in clinical engagement to support strategic planning and leadership along with the pace of transformation present risks.
- Changes to executive portfolios have strengthened accountability but the benefits of the organisational restructure have not been fully realised across acute hospitals and the capacity of some of the corporate and operational management functions are constrained.
- Board effectiveness, assurance and internal controls continue to be strengthened and are largely effective although there remain some important areas which need to be addressed.
- While some aspects have been strengthened, information governance remains a risk for the Health Board.
- Performance management arrangements have been strengthened although there remain further opportunities for improvement. Many performance targets are not being met.

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

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

- the Health Board is better at engaging staff, local people and partners but still faces significant risks around its workforce, ICT capacity and change management;
- whilst there are good aspects of medicines management processes, there is also scope for improvement in areas associated with corporate arrangements, performance monitoring, aseptic facilities, information transfer, reducing variation across sites and supporting people to take their medicines; and
- information on the scale of delayed follow-up outpatient appointments is unreliable and the Health Board is not doing enough to assess clinical risk or prioritise outpatient service modernisation.

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

Detailed report

About this report

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

16. My work at the Health Board is undertaken in response to the requirements set out in the 2004 Act[1]. That Act requires me to:

a) examine and certify the financial statements 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 financial statements relate have been applied to the purposes intended and in accordance with the authorities which govern it; and

c) satisfy myself that the Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

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

18. I have issued a number of reports to the Health Board this year. The messages contained in this Annual Audit Report represent a summary of the issues presented in these more detailed reports, a list of which is included in Appendix 1.

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

- Section 1: Audit of accounts
- Section 2: Arrangements for securing economy, efficiency and effectiveness in the use of resources

20. My 2015 Audit Plan set out the proposed audit fee of £420,452. 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 Audit Plan. Included within this fee is the audit work undertaken in respect of the shared services provided to the Health Board by the NHS Wales Shared Services Partnership.

21. Finally, Appendix 2 sets out the main financial audit risks highlighted in my 2015 Audit Plan and how they were addressed through the audit.

[1] Public Audit (Wales) Act 2004.

Section 1: Audit of accounts

22. This section of the report summarises the findings from my audit of the Health Board's financial statements for 2014-15. The financial statements are the means by which the organisation demonstrates its financial performance and sets out its net operating costs, statement of financial position, recognised gains and losses, and cash flows. Preparation of an organisation's financial statements is an essential element in demonstrating appropriate stewardship of public money.

23. In examining the Health Board's financial statements, I am required to give an opinion on:

- whether they give a true and fair view of the financial position of the Health Board and of its income and expenditure for the period in question;
- whether they are free from material misstatement – whether caused by fraud or by error;
- whether they are prepared in accordance with statutory and other requirements, and comply with all relevant requirements for accounting presentation and disclosure;
- whether that part of the Remuneration Report to be audited is properly prepared; and
- the regularity of the expenditure and income.

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

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

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

I have issued an unqualified opinion on the Health Board's 2014-15 financial statements although in doing so I have brought some issues to the attention of officers and the Audit Committee and placed a substantive report alongside my audit opinion

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

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

27. I am required by International Standard on Auditing (ISA) 260 to report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues to the Health Board's June Audit Committee and Board. Exhibit 1 summarises the more salient issues set out in that report.

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

Issue	Auditor's comments
Private sector healthcare providers	During 2014-15 the Health Board incurred expenditure on two contracts with private sector healthcare providers which were both in excess of £1 million (£1.3 million and £1.5 million). These contracts were not formally approved by the Minister as required by the NHS (Wales) Act 2006. In addition, the contracts were not procured in accordance with the Health Board's SFIs. This expenditure was therefore 'irregular' but as these payments were not quantitatively or qualitatively material to the financial statements there was no audit qualification. The Health Board has reviewed these contracts and we will undertake a follow-up audit early in 2016.
Capital schemes	The Health Board spent some £27 million on capital projects in 2014-15 and it kept within its Capital Resource Allocation. As part of our audit of this expenditure, we have relied on the work undertaken by the NHS Wales Shared Services Partnership Audit and Assurance Services (Specialist Services Unit). During 2014-15 the Specialist Services Unit has reported to the Audit Committee on a sample of the larger capital projects and has also undertaken a range of follow-up work. These reports include a number of significant issues and recommendations which the Health Board has been slow to address. The Specialist Services Unit has reported that the Health Board needs to: • improve the scrutiny of business cases ensuring that they link to the clinical strategy; • ensure that there is appropriate executive lead involvement in all projects; • improve the governance and project management of projects; • where single tenders are used, the Health Board needs to ensure that value for money can be demonstrated; • undertake post project evaluations for all significant projects ensuring that lessons learnt are disseminated to other projects; and • speed up the Health Board's update of the capital procurement framework which has been significantly delayed. The Health Board needs to ensure that the recommendations made by the Specialist Services Unit are implemented on a timely basis and that the governance and project management of capital projects are improved. We will follow up progress in 2016.

Issue	Auditor's comments
Public Sector Payment Performance (PSPP)	The Health Board's performance against the PSPP 'prompt payment code' is set out in Note 7.1 in the financial statements – the Welsh Government has set a Ministerial target of 95 per cent for the number of non-NHS payments within 30 days of delivery. We have identified: • The Health Board has reported performance of 94.6 per cent for the number of non-NHS payments within 30 days of delivery in 2014-15, which is below the Ministerial target. During the first part of 2014-15 there were significant issues arising from the upgrade of business systems on an all-Wales basis, which resulted in the target not being achieved. Since October 2015 the target has been achieved month on month. • The Manual for Accounts requires payments made to primary care contractors to be included in the PSPP performance data. In line with other NHS bodies across Wales, the Health Board uses the Exeter system to process primary care payments. This system does not provide statistical information and the Health Board therefore assumes that all payments are made within 30 days as per the contractual obligations. As a result, the PSPP performance for both NHS and non-NHS payments in Note 7.1 may be misstated. The Health Board will need to examine this all-Wales issue in 2015-16. We will follow up progress in 2016.
Annual Governance Statement	I raised some minor issues about the Health Board's draft Annual Governance Statement and suggested a number of amendments which were incorporated into the final version. In previous years we have reported that the Health Board should review the Annual Governance Statement throughout the year as part of assessing its 'Board assurance framework'. In 2014-15 the Health Board continued to review and develop its Board assurance framework but the Annual Governance Statement was not produced until after the year-end. The Annual Governance Statement should be considered regularly throughout the year as part of the assessment of the effectiveness of the Board assurance framework.

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

- The **first financial duty** gives additional resource flexibility to health boards by allowing them to balance their income with their expenditure over a three-year rolling period, replacing the duty to balance their books over a one-year period. The first three-year period under this duty is 2014-15 to 2016-17, so health boards' performance against this duty will not be measured until 2016-17. From 2014-15 onwards, I will be collating uncorrected misstatements from the audits of years 1, 2 and 3, and considering their cumulative impact on the Health Board's performance against the duty when it is measured at year 3. A small number of insignificant errors were identified in 2014-15.
- The **second financial duty** is a new duty requiring health boards to prepare and have approved by the Welsh Ministers a rolling three-year IMTP. The Health Board submitted an updated three-year IMTP in January 2015, and although the Minister for Health and Social Services noted the plan was an improvement over the previous plan, he did not consider the plan sufficiently robust to approve. As a result, the Health Board did not meet its second financial duty to have an approved three-year IMTP in place for the period 2014-15 to 2016-17.

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

- Whole of Government Accounts return – I concluded that the consolidation information was consistent with the financial position of the Health Board at 31 March 2015 and the return was prepared in accordance with the Welsh Government's instructions.
- Remuneration Report – I concluded that the Remuneration Report had been properly prepared in accordance with the National Health Service (Wales) Act 2006 and directions made thereunder by Welsh Ministers.
- Summary Financial Statements and Annual Report – I concluded that the summary statements were consistent with the full statements and that the Annual Report was compliant with Welsh Government guidance.

30. My separate audit of the Health Board's Charity financial statements was completed in December 2015. I have issued an unqualified opinion on the financial statements although I have identified some areas for improvement.

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

31. My work focuses primarily on the accuracy of the financial statements, reviewing the control environment to assess whether it provides assurance that the financial statements are free from material misstatement whether caused by error or fraud. The control environment includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. I did not identify any material weaknesses in the Health Board's general internal control environment.

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

32. I did not identify any material weaknesses in the Health Board's financial control activities which would impact on my audit opinion. However, as set out in Exhibit 1, I have identified some weaknesses in the operation of some of the Health Board's controls.

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

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

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

35. I have a statutory requirement to satisfy myself that NHS bodies have proper arrangements in place to secure efficiency, effectiveness and economy in the use of their resources. I have undertaken a range of performance audit work at the Health Board over the last 12 months to help me discharge that responsibility. This work has involved:

- reviewing the Health Board's financial management arrangements, including the progress being made in delivering cost saving plans and their contribution to achieving financial balance;
- assessing the effectiveness of the Health Board's governance arrangements through my Structured Assessment work, including review of the progress made in identified improvement areas since last year;
- specific use of resources work on medicines management, follow-up of outpatient appointments and local audit reviews, which include ICT capacity; and
- assessing the progress the Health Board has made in addressing the issues identified by previous audit work on information governance, and reviewing the Health Board's arrangements for tracking external audit recommendations.

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

The Health Board has a sound approach to in-year financial management, although financial breakeven was not achieved in 2014-15 and is very unlikely to be achieved in 2015-16. A key challenge for the Health Board is to develop a clear strategic direction through the IMTP

For 2014-15, the Health Board had a sound approach to in-year financial management. However, the Health Board did not achieve a balanced financial position in 2014-15, despite receiving additional funding from the Welsh Government, reporting a £7.5 million deficit. The Health Board did not have an approved three-year IMTP

37. In 2014-15, monthly budget monitoring and reporting to the Welsh Government, Board and departments was robust, comprehensive and timely. During 2014-15, the Health Board faced significant financial constraints and the approved budget for 2014-15 was not set to achieve a balanced financial position, with an initial predicted deficit of £56.7 million with identified savings of only £13 million.

38. At the end of 2014-15, the revenue resource allocation was not met, with an overspend of £7.5 million despite receipt of additional funding of £38.7 million from the Welsh Government and the withdrawal of the requirement to repay the £19.2 million deficit carried forward from 2013-14.

39. For 2014-15, reported savings exceeded the revised target of £10 million by £4.9 million. However, savings were significantly less than the £23.5 million achieved in 2013-14.

40. For capital expenditure, the Health Board prioritised significant estates risks and it achieved its Capital Resource Limit of £25.5 million.

41. As set out in Section 1 above, for 2014-15, the Health Board did not meet its statutory duty requiring it to have a Welsh Government approved three-year IMTP.

The Health Board did not set a balanced financial position for 2015-16 and is currently forecasting an outturn deficit position of £32.5 million. Contributing to this deficit is the under achievement of a number of savings plans. The Health Board does not have an approved IMTP.

42. In 2015-16, the Health Board's monthly budget monitoring and reporting to the Welsh Government, Board and departments continued to be robust, comprehensive and timely.

43. For 2015-16, again financial pressures were significant and the Health Board could not set a balanced budget, with the Board approving a proposed deficit position of £25.6 million, including a very challenging savings target of £24.5 million. In January 2016 the Health Board is forecasting an outturn deficit position of £32.5 million which includes the projected under-achievement of a number of Cost Improvement Plans (CIPs) as set out below. Underlying recruitment difficulties and the requirement to use more costly locum and agency staff are a key contributor to the worsening financial position and it is very unlikely financial balance will be achieved at the year-end.

44. The Health Board has struggled to deliver very ambitious planned CIPs. The CIPs set for 2015-16 are currently below profile and are likely to show a significant under-achievement at the year-end. Of the total budgeted £24.5 million savings, only £15.2 million (62 per cent) have so far been identified as specific schemes, and as at Month 6 actual savings are £3.6 million against a profile of £6.7 million (54 per cent).

45. The Health Board continues to address the significant estate risks in 2015-16 and is on course to meet its Capital Resource Limit of £10 million in 2015-16.

46. For 2015-16, the Health Board did not meet its statutory duty requiring it to have a Welsh Government approved rolling three-year IMTP. The Health Board was told by the Welsh Government at the beginning of 2015-16 that it was going into the second year of a three-year planning cycle.

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

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

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

There is not an approved three-year plan although the Health Board has an annual plan and has strengthened its planning approach. However, capacity constraints, gaps in clinical engagement to support strategic planning and leadership along with the pace of transformation present risks

48. In 2014, I identified that while the Health Board had a clear vision and had delivered a number of significant service changes, the Welsh Government did not approve the Board's agreed IMTP as it fell significantly short of what was expected. Key issues included an absence of strategic options, a lack of clarity of the intended outcomes with delivery and performance outcomes not clearly set out, workforce plans not being robust, a significant deficit across the three years and capital allocations not in line with the Welsh Government's assumptions. The Health Board recognised that its approach to strategic planning needed to be strengthened with better linkages across financial, service and workforce plans were required.

49. The Health Board has strengthened its planning approach and processes with redefined strategic planning responsibilities, greater transparency and Board assurance about planning. In the absence of a three-year plan the Health Board is working to a one-year plan. A refreshed 'first cut' three-year plan was discussed at the November Board meeting. The draft plan addresses a number of the issues previously raised although the Health Board readily acknowledges that the plan is still in development with key components yet to be added and aspects needing further refinement. The Health Board has a clear process for taking the plan to the next stage in January when the final approved plan will be submitted to the Welsh Government. The Health Board also plans to engage widely on the content of the plan during January 2016.

50. There are a number of risks and challenges to producing a sound plan including challenging timescales to achieve the key milestones for producing the plan, corporate and operational capacity constraints, gaps in clinical engagement and leadership, and uncertainty over financial planning assumptions. A significant challenge will be the Health Board's ability to produce a balanced plan. Further challenges include the lack of agreed strategic objectives which the Health Board has committed to put in place once the plan is agreed and a lack of an overarching services strategy that clearly articulates how clinical services will be delivered across the Health Board. The Health Board has consciously focused on stabilising and innovating rather than transforming services. While there are benefits to this focus, some services may need to be transformed before they can be stabilised and the Health Board will need to consider these carefully.

Changes to executive portfolios have strengthened accountability but the benefits of organisational restructure have not been fully realised across acute hospitals and the capacity of some of the corporate and operational management functions are constrained

51. My previous structured assessment work identified that the Health Board had reorganised its structure into an acute services directorate that spans the whole Health Board along with three county directorates. The 2014 organisational restructure aimed to provide more consistent care, a greater sense of cohesion and improve performance and efficiency. My team identified that one of the challenges would be securing agreement from some clinical specialities to work as one service across the Health Board.

52. During 2015, my team has identified that the benefits of the organisational structure had not been fully realised across acute hospitals. While the Health Board has undertaken significant work to strengthen the medical model across the Health Board this has not been replicated in other services. As such the Health Board is not yet achieving its ambition of operating as one hospital over four sites and the restructure has not been successful in removing 'silo' working across the acute sites. While some progress has been made in improving performance and efficiency it remains a challenge. The restructure also created other problems in that it reduced on-site senior management cover. Short-term temporary measures were put in place to provide on-site senior management support and guidance to address operational issues as they arise. The interim 'three at the top' model of managerial, medical and nursing support successfully helped address day-to-day service challenges. However, this additional structure has created some confusion in terms of lines of reporting and accountability.

53. In the past year, the Executive Director portfolios have been amended and the changes have strengthened accountability. The Executive structure is also now filled with substantive appointments. My team have identified that the limited capacity of some of the directors' supporting structure is a concern as it could hamper delivery of key objectives within their portfolios. More generally across the Health Board, senior and middle management capacity and capability remain a concern for some services.

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

54. The Board demonstrates greater openness and transparency, and a commitment to strengthen governance and quality improvement. Schemes of delegation have been strengthened and there is now clearer accountability. The Health Board has effective administration with all formal procedural requirements met in relation to updating its SFIs and its Standing Orders (SOs). My previous structured assessment work identified that the Health Board did not have agreed strategic objectives or a Board assurance framework. This made it more difficult for the Board to demonstrate it is getting the right assurances. In 2015, these fundamental governance controls continue to be absent, although some progress has been made in producing a draft Board assurance framework. The Health Board plans to have agreed and put in place its strategic objectives and Board assurance framework once there is an agreed three-year plan. The Board is committed to improving patient experience, and progress has been made in a number of areas including actions taken to address the significant backlog of concerns and incidents along with progressing a pilot of real time recording. However, the timeliness of response to complaints and incidents remains poor and a new backlog has built up.

55. Important changes to the structure and operation of Board committees have strengthened overall governance and assurance. The Health Board has revised its Board Committees to better support effective scrutiny, reduce duplication and ensure better linkages and co-ordination across committees. There is clear alignment with executive portfolios, clear work plans and agenda setting, and management is good, Challenge and scrutiny are generally good and there is honest and self-critical debate. However, the Quality, Safety, Experience and Assurance Committee is not always getting the right level of assurance from its sub-committees and there still needs to be better use of exception reporting. While the quality of committee papers has improved some do not provide the necessary assurance. Committee members are increasingly less tolerant of this and authors are often asked to provide greater assurance.

56. The Health Board continues to develop its management information to support effective decision making and scrutiny. A wide source of information is available and a significant amount of work has gone into improving the way management information is presented. Independent members show a good level of understanding of data and a willingness to ask for more information or changes to presentation. Paragraph 63 provides further detail on performance information.

57. Risk management arrangements have continued to be strengthened at a Board and Executive level with a robust Risk Management Strategy and Policy, and clear processes which are well supported at a corporate and operational level. The Health Board clearly and honestly articulates its most extreme risks through the corporate register which is publicly accessible, there is clear executive and senior manager responsibility, and the Health Board has identified its risk appetite. The Health Board continues to hold a significant level of risk which it is striving to address including fragile services, an adverse financial position, condition of the estate, workforce challenges and difficulty meeting many performance targets. However, many of these are longstanding risks. The Audit and Risk Assurance Committee (ARAC) is now responsible for overseeing risk management arrangements and the risk register and where risks exceed six months' tolerance it plans to call executives to account. Areas for improvement include aligning its risks to its strategic objectives once agreed, and progressing partnership risk identification and management. Internal controls are generally effective in meeting assurance requirements.

58. As part of my commitment to help secure and demonstrate improvement through audit work, I have reviewed the effectiveness of the Health Board's arrangements to manage and respond to recommendations made as part of my nationally mandated and local programme of audit work during 2015. This work has found that over the past year while the quality of management responses has improved it is still inconsistent and in some instances is poor. Furthermore. the pace of improvement in addressing some previous recommendations has been slow. The Health Board is taking action to strengthen its approach, to improve tracking and management of recommendations and has strengthened its approach for ensuring senior management ownership. A new tracker is in development, which will track all external and internal audit recommendations in one place. The new tracker is work in progress and the aim is to introduce it at to the March 2016 ARAC.

While some aspects have been strengthened, information governance remains a risk for the Health Board

59. My diagnostic review of ICT capacity and resources identified that overall the level of commitment to ICT in the Health Board is below the all-Wales average. Since the audit, the Health Board has updated its ICT strategy and has presented this to the Board. The emerging strategy links the risks of a poor infrastructure to information governance and identifies actions needed to address this. However, this will need significant investment and until this is resolved the risks from the ICT infrastructure on information governance remain. The Health Board's information governance department consists of one person, which presents a significant risk to the organisation. The Health Board has proposed a new structure which aims to address the shortfall but again this will require funding.

60. Information Governance issues are discussed and scrutinised at the Information Governance Sub-Committee (IGSC) which is a committee of the Business, Planning, Performance and Assurance Committee (BPPAC). Recent Board debate considered whether the role and remit of the sub-committee should extend to cover areas within the emerging strategy. This would include information governance, ICT infrastructure and developments that contribute to good governance. However, the final decision was to revert back to its purest form of information governance with a sub-group of the IGSC to look at information management and technology issues. The IGSC provides a good vehicle for scrutiny and assurance.

61. During the last 12 months my team have undertaken work to assess the Information backup arrangements and to assess progress against addressing concerns and recommendations for previous information governance reviews. My audits found that the Health Board has acted on our Information Governance recommendations but risks remain because the issues have not yet been fully addressed and a greater corporate approach is still required.

Performance management arrangements have been strengthened although there remain further opportunities for improvement. Many performance targets are not being met

62. My previous structured assessment work identified arrangements for monitoring and reviewing performance had been enhanced and there was a greater understanding of performance issues. However, performance monitoring was largely provider focused and performance improvement continued to be a significant challenge. During the last 12 months, the Board has strengthened its performance management arrangements, with clearer accountability, and monthly performance scrutiny and challenge meetings chaired by the Chief Executive Officer. Detailed performance reports go to the Board and BPPAC covering performance, finance and workforce.

63. Concerted action has been taken to strengthen performance reporting to support decision making and scrutiny, in terms of content, the timeliness and alignment of performance information. The performance reports include a number of positive aspects such as a good mix of qualitative and quantitative information, inclusion of trends and targets, the use of narratives and exception reporting which provides details of proposed actions. The Health Board has stated its intentions to report performance in a more integrated way to make it easier to get a rounded picture of performance. Progress is being made towards achieving this but it has not yet been achieved and there remain opportunities to further strengthen performance reporting, including a better executive summary to capture the key issues and widening the coverage of the totality of the Health Board's activity, for example, community and primary care services.

64. The Health Board is working to address key performance areas and while some progress is being made, many performance targets are not being met including unscheduled care and elective waiting times. Corporate and operational capacity constraints are proving a barrier to effectively managing and improving performance.

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

The Health Board is better at engaging staff, local people and partners but still faces significant risks around its workforce, ICT capacity and change management

65. My Structured Assessment work has reviewed how a number of key enablers of efficient, effective and economical use of resources are managed. This work has indicated that the Health Board is making progress on a number of areas relating to the management of resources that I highlighted in previous years' Structured Assessments but it still faces significant risks around its workforce, ICT capacity and the Health Board needs to put in place a more robust change management infrastructure. I have not commented on the Health Board's Estate in this year's Structured Assessment as it is the subject of a more detailed local audit which will report early in 2016. Key findings are summarised in Exhibit 2.

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

Issue	Summary of findings
Change management capacity	While there are examples of positive service change, the supporting change management infrastructure needs strengthening. Key barriers to successful change include the lack of dedicated programme and project management capacity, limited informatics analyst capacity and corporate and operational capacity constraints.
Workforce planning	The Health Board has taken a number of actions to understand and address its workforce priorities but there remain significant workforce risks and a number of workforce management issues still need to be addressed.
Partnership working	The Health Board is committed to partnership and collaborative working and it continues to be strengthened although more needs to be done to demonstrate the impact.

Issue	Summary of findings
Stakeholder engagement	The Health Board continues to strengthen its staff and public engagement and there are signs of greater trust although the Health Board recognises that this needs to be continuously worked on.
Use of technology	The Health Board has given greater priority to improving ICT infrastructure but lack of investment and funding means it remains a risk.

Whilst there are good aspects of medicines management processes, there is also scope for improvement in areas associated with corporate arrangements, performance monitoring, aseptic facilities, information transfer, reducing variation across sites and supporting people to take their medicines

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

67. My review found that weaknesses in corporate arrangements for medicines management may be a barrier to ensuring adequate oversight and strategic planning. My team found that while county pharmacy leads are continuing to provide leadership at a local level the frequent changes in senior leadership are a risk to improvement in medicines management. Although the medicines management group works well as the forum for taking medicines-related decisions with decisions quickly circulated across the Health Board. Whilst there is an integrated strategy for medicines management it needs to be updated and there needs to be greater consultation with pharmacy staff. In common with other health boards, the pharmacy team has limited involvement in senior decision-making forums and while there is regular monitoring and scrutiny of financial information, the medicines management savings plan is underperforming.

68. Whilst the pharmacy staffing profile is similar to the rest of Wales, there are perceptions of high workload, and the current pressures on the pharmacy team are resulting in prioritisation of services to particular patient groups. Services are generally responsive and relationships are good but there are variations across sites, there is scope to improve access outside normal working hours and the focus on training needs to increase.

69. Pharmacy facilities largely comply with key requirements but there are issues with temperature control and ward medicine storage. All aseptic units have deficiencies although there are significant risks with the unit at Glangwili Hospital particularly in relation to its physical structure. The Health Board is taking action to address issues with storage and refrigeration of medicines on the wards highlighted in 'Trusted to Care' spot checks.

70. My team identified some good aspects of medicines management processes but there are risks with information transfer between primary and secondary care, variations across sites and supporting patients to take their medicines properly. Timeliness of medicines reconciliation is generally good across the Health Board and most patients receive a comprehensive review. The Health Board's formulary processes are generally in line with the rest of Wales and doctors report that hard copies of the British National Formulary are more accessible than electronic copies. The Health Board has taken direct actions in response to 'Trusted to Care' and we found that the reasons for non-administration were comparatively well recorded. Although more needs to be done to assess patients' compliance needs and educate and support patients to take their medicines properly.

71. My team identified scope to strengthen performance reporting through the setting and monitoring of key performance indicators, benchmarking and more regular consideration of performance at Board committee level. The Health Board needs to do more to understand the higher than average number of pharmacy team safety interventions. There are generally good processes to learn from medication errors and systems failures related to medicines although we were told that certain types of incidents are not being recorded.

Information on the scale of delayed follow-up outpatient appointments is unreliable and the Health Board is not doing enough to assess clinical risk or prioritise outpatient service modernisation

72. There is a concern that with a focus on securing first appointments to meet referral to treatment time targets, in a resource constrained environment, less attention is given to follow-up appointments. In some health boards, this has resulted in large backlogs building up, with associated risks for quality of care. During 2015, my team carried out a review of follow-up outpatient appointments to assess how these risks are being identified, managed and mitigated across Wales.

73. My review identified that weaknesses in the Health Board's systems and practices are producing information that is insufficiently accurate which means that the Health Board cannot adequately assess the clinical risks associated with delayed follow-up appointments. The Health Board has not adhered to the Welsh Government data standard requirements and needs to improve the accuracy, reliability and range of information available on outpatient follow-ups. The Health Board is just starting to put in place a systematic approach to validate its follow-up outpatient list and work is needed to establish the scale of actual demand and to assess the clinical risks and harm to patients waiting beyond their target date.

74. The number of patients listed as waiting in the Health Board for a follow-up appointment has reduced due to data cleansing, however, too many patients are delayed. My team identified that the Board and its committees do not receive sufficient information about follow-up outpatient appointment delays or whether patients come to harm while delayed, and scrutiny and assurance arrangements need improving.

75. While short-term operational arrangements are beginning to be developed to help reduce the number of delayed follow-up outpatient appointments more needs to be done to change how services are delivered. My review found that although the Health Board has plans to modernise planned care and increase care in the community, there is insufficient focus on transforming outpatient service pathways.

Appendix 1

Reports issued since my last Annual Audit Report

Report	Date
2015 Audit Plan	March 2015
Financial audit reports	
Audit of Financial Statements Report – Health Board	June 2015
Opinion on the Financial Statements	June 2015
Audit of Financial Statements Report – Charities	December 2015
Performance audit reports	
Review of Follow-up Outpatient Appointments	October 2015
Diagnostic Review of ICT Capacity and Resources	October 2015
Review of Medicines Management	August 2015
Data Backup Review	June 2015
Information Governance Follow-Up	June 2015
Structured Assessment 2015	December 2015

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

Report	Estimated completion date
Hospital Catering & Patient Nutrition Follow Up Review	January 2016
Temporary Staffing Review	February 2016
Review of Estates	March 2016
Follow-up Review of Consultant Contract	June 2016
Review of Radiology Services	August 2016

Appendix 2

Main audit risks

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

Main audit risk	Proposed audit response	Work done and outcome
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	My audit team will: • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.	I reviewed a sample of transactions and did not identify any issues to report.
There is a risk of material misstatement due to fraud in revenue recognition and as such revenue recognition is treated as a significant risk [ISA 240.26-27].	My audit team will: • review and test the individual funding and income streams received by the Health Board; and • consider whether all funding and income streams have been identified.	I considered the Health Board's income streams. No additional risks were identified.

Main audit risk	Proposed audit response	Work done and outcome
There is a significant risk that the Health Board will fail to meet its annual revenue resource limit at the end of the financial year. However, it is unclear at this stage what those statutory financial duties will be: guidance is due to be issued by the Welsh Government shortly. As was the case last year, I may choose to place a substantive report on the financial statements explaining the failure and the circumstances under which it arose. The current financial pressures on the Health Board increase the risk that management judgements and estimates could be biased in an effort to achieve the resource limit.	My audit team will focus its testing on areas of the financial statements which could contain reporting bias.	The NHS Finance (Wales) Act 2014 requires the LHB to meet two new statutory financial duties. I issued a narrative report alongside my audit certificate to explain the new duties, the performance of the Health Board against them, and the implications for 2015-16. The **first financial duty** gives additional resource flexibility to health boards by allowing them to balance their income with their expenditure over a three-year rolling period, replacing the duty to balance their books over a one year period. The first three-year period under this duty is 2014-15 to 2016-17, so health boards' performance against this duty will not be measured until 2016-17. The **second financial duty** is a new duty requiring LHBs to prepare and have approved by the Welsh Ministers a rolling three year IMTP. The Health Board did not met its second financial duty to have an approved three-year IMTP in place for the period 2014-15 to 2016-17.
There is a significant risk that the Health Board will face severe pressures on its cash position at the year-end. A shortfall of cash is likely to increase creditor payment times and impact on PSPP performance.	My audit team will audit the PSPP bearing in mind the cash pressures on the Health Board.	I assessed the Health Board's arrangements and carried out appropriate focused testing. I identified some matters to report, in relation to the PSPP disclosures, see Exhibit 1.

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