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Auditor General for Wales

Annual Audit Report 2019 – **Aneurin Bevan 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 Aneurin Bevan University Health Board (the Health Board) during 2019. I did that work to carry out my responsibilities under the Public Audit (Wales) Act 2004. That Act requires me to:

- examine and certify the accounts submitted to me by the Health Board, and to lay them before the National Assembly;
- 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
- 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 in Key messages under the following headings:

- 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 2019 Audit Plan.

5 Appendix 3 sets out the financial audit risks highlighted in my 2019 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 4th February 2020. 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 the Accountability Report and Financial Statements

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.

9 The Health Board achieved financial balance for the three-year period ending 31 March 2019 and so I have issued an unqualified opinion on the regularity of the financial transactions within its 2018-19 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, so 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 programme of Performance Audit work at the Health Board has led me to draw the following conclusions:

- The Health Board's corporate governance arrangements generally work well but risks to achieving strategic priorities have not been clearly articulated and documented in a board assurance framework (BAF). There is scope to improve aspects of risk management, and to increase reporting on patient experience and progress against IMTP priorities. In addition, there are significant performance challenges and an increasing risk that the Health Board will fail to achieve financial balance.
- The Health Board is making progress to embed the sustainable development principle in service design and has clearly considered it when developing Connect.
- My performance audit work has identified positive progress in addressing issues identified by previous audits but there is scope to secure further improvements.

12 These findings are considered further in the following sections.

Detailed report

Audit of the Accountability Report and Financial Statements

13 This section of the report summarises the findings from my audit of the Health Board's financial statements for 2018-19. These statements are how the organisation shows its financial performance and sets out its net assets, net operating costs, recognised gains and losses, and cash flows. Preparing the statements is an essential element in demonstrating appropriate stewardship of public money.

14 My responsibilities in auditing the Health Board's financial statements are described in my Statement of Responsibilities publications, which are available on the Wales Audit Office website.

I have issued an unqualified opinion on the accuracy and proper preparation of the 2018-19 financial statements of the Health Board

I have concluded that 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.

15 We received the draft financial statements for the year ended 31 March 2019 on 26 April 2019, in line with the Welsh Government's agreed timetable.

16 As in previous years, the accounts and audit process ran smoothly with excellent engagement from the Health Board's Finance Team. My audit team found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear. There were only some delays with receiving complete supporting information on the remuneration report. Apart from this, we received information in a timely and helpful manner and were not restricted in our work.

17 We met the Health Board's Finance Team regularly during the final audit to review progress and clear any issues arising promptly. We also continued to develop our audit approach and carried out early audit testing of 'in-year' transactions wherever possible. The Finance Team prepared a detailed closedown plan for 2018-19 which incorporated our audit requirements and details of the supporting papers. This approach continued to strengthen the financial statements production process and helped to meet the tight clearance timetable. We will continue to work closely with the Health Board to review the process and experiences this year to identify any areas where we can further develop and refine the procedures and to ensure any lessons learned can be carried forward to 2019-20.

18 We did note that during the year, Internal Audit reported on several system weaknesses, which require management action. We took account of these weaknesses when planning our audit approach.

19 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 28 May 2019. 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	There were no uncorrected misstatements identified in the financial statements. Where misstatements were identified these were corrected by management.
Corrected misstatements	There were several minor misstatements that were corrected by management. However, we did not consider that they needed to be drawn to your attention as part of your responsibilities over the financial reporting process. As well as a few additional disclosures, the financial corrections were relatively minor and did not impact on the reported surplus
Other significant issues.	We had no concerns about the qualitative aspects of your accounting practices and financial reporting We did not encounter any significant difficulties during the audit. There were no significant matters discussed and corresponded upon with management which we needed to report to you. There were no matters significant to the oversight of the financial reporting process that we need to report to you. We did not identify any material weaknesses in your internal controls. There were no other matters specifically required by auditing standards to be communicated to those charged with governance.

20 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 2019 and the return was prepared in accordance with the Treasury's instructions.

21 My separate audit of the Health Board's charitable funds financial statements has also been completed. My financial statements report was presented to the Board

on 27 November 2019. I issued an unqualified audit report on the charitable fund's financial statements on 9 December 2019.

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 2019 and so I have issued an unqualified opinion on the regularity of the financial transactions within its 2018-19 accounts.

22 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.

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.

23 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.

24 As detailed above, the Health Board has met its financial duty to break even over the three years 2016-17 to 2018-19 and reported a retained surplus of £530,000 for this period.

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

25 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:

- undertaking a structured assessment of the Health Board's arrangements for overall governance, strategic planning, managing financial resources, and managing workforce productivity and efficiency;

- reviewing the use of resources specifically on primary care and clinical coding; and
- reviewing progress against my recommendations related to medicines management in acute hospitals, GP out-of-hours services and district nursing services.

26 In order to discharge my responsibilities under the Well-being of Future Generations Act 2015, I have also undertaken work to review the Health Board's arrangements for implementing the Act.

27 My conclusions based on this work are set out below.

The Board is generally effective in the conduct of its business and has made key changes to committee operation but the pace of work on board assurance and risk has slowed, performance challenges persist, and patient experience and outcomes are not yet routinely reported

28 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 it oversee and challenge performance. I found the following.

29 The Board has generally effective arrangements to support the conduct of business with changes to committee operation set to improve overall Board effectiveness. Assurance mechanisms to support good governance are generally sound. Risks to achieving strategic priorities have not been clearly articulated, development of a documented board assurance framework has slowed, and risk management arrangements and the quality of the corporate risk register need further improvement. The timeliness and quality of responses to complaints and concerns is improving but further progress is needed, and patient experience and outcomes are not routinely reported. Improvements to clinical audit arrangements are now underway. However, significant challenges in operational performance persist especially waiting times at emergency departments and referral to treatment.

30 The Audit Committee continues to receive the tracker to monitor progress against internal and external audit recommendations. Progress is considered at every meeting with pace of progress regularly challenged. Until recently the Committee only monitored Internal Audit high-priority recommendations, but recently reinstated medium-priority recommendations to better monitor progress towards completion. The Health Board has made good progress to address my 2018 structured assessment recommendations with ongoing work to complete remaining actions by March 2020.

Strategic planning remains robust but, there is scope to strengthen aspects of formal IMTP reporting

31 My structured assessment work considered how the Board sets strategic objectives for the organisation and how well it plans to achieve and monitor them. My findings are set out below.

32 The planning approach remains robust with workforce and financial requirements an integral part of the process. Arrangements for monitoring and reporting on delivery of strategic plans are well established but formal reporting on IMTP progress was delayed. And, there is scope to clarify risk mitigation related to Clinical Futures and better link IMTP progress with the high-impact priorities.

Financial management arrangements are largely sound, but delivery of savings is essential to achieve financial balance

33 My structured assessment work examined the actions the Health Board is taking to achieve financial balance and create longer-term financial sustainability. I also assessed the financial position of the organisation, the approach to financial planning, financial controls and stewardship, and the arrangements for financial monitoring and reporting. My findings are set out below.

34 Arrangements for financial planning and monitoring financial performance are generally sound and financial controls are satisfactory. The Health Board has a track record in achieving its financial duties, but increasing financial pressures risk a deficit unless further savings are achieved.

35 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. In January 2019, the Health Board received more than 5,000 data-matches through the NFI web application and prioritised the high-risk data matches for review and timely investigation. It made good use of the NFI initiative and by December most high-risk matches and a sample of other matches had been reviewed.

Workforce challenges persist, despite action being taken on key areas, such as recruitment and retention, sickness absence and employee wellbeing

36 My structured assessment work examined the actions that the Health Board is taking to ensure that its workforce is well managed and productive. I also assessed arrangements for addressing training and development needs and action to engage and listen to staff and address wellbeing needs. My findings are set out below.

37 Although sickness absence rates remain stubbornly high, targeted support is reducing rates in some areas. There is a comprehensive programme of work to recruit and retain staff and redesign the way in which staff work. Continued reliance on locum and agency staff to cover vacancies, sickness absence and operational pressures means expenditure on temporary staff is rising. Compliance with the appraisal process, statutory and mandatory training and consultant job planning is improving, albeit slowly. The Health Board remains committed to looking after the health and wellbeing of its staff and has implemented a range of initiatives to prevent and shorten absence and support wellbeing more generally. Initiatives include 'chill out in the chapel' where staff can receive a neck or shoulder massage during their lunch break, more traditional counselling or listening services, peer-to-peer support for issues like bullying and financial wellbeing advice and support.

The Health Board is making progress to embed the sustainable development principle in service design and has clearly considered it when developing the Connect service

38 I reviewed the extent to which the Health Board is applying the sustainable development (SD) principle and the five ways of working in order to do things differently. My work considered how the SD principle is being embedded in core arrangements and included examination of a step being taken by the Health Board to meet one of its wellbeing objectives. The step reviewed was the Health Board's approach to developing Connect, a specialist weight management service for children and young people and their families.

39 Work is ongoing to embed the sustainable development principle into core arrangements and processes and the Health Board continues to build on its arrangements for involving citizens and stakeholders. However, the Health Board's programme board that oversees work to embed the Well-being of Future Generations Act does not review progress against the wellbeing objectives, nor the steps taken to achieve them. There is no formal reporting on progress to the executive team, while reports to the Public Partnerships and Wellbeing Committee are infrequent

40 The Health Board successfully applied the sustainable development principle when designing Connect and has identified opportunities to build upon this work. The Health Board had a clear long-term focus when developing the service. Connect has a preventative focus with ongoing work to ensure adequate levels of support in the community and is helping to shape a whole-systems approach to tackling childhood obesity. The Health Board collaborated with multiple stakeholders, both internally and externally when designing Connect, as well as involving prospective service users. The Health Board is working to make early involvement of children, young people and family's normal practice.

My performance audit work has identified positive progress in addressing issues identified by previous audits but there is scope to secure further improvements

Despite a high level of accuracy, coding completeness is a significant issue and the profile and use of coded data to support improvement has not increased. Reasonable progress has been made implementing my previous recommendations, but some issues remain unresolved

41 Clinical coding involves the translation of written clinical information (such as a patient's diagnosis and treatment) into a code format. Good quality clinically coded data plays a fundamental role in the management of hospitals and services. It can be used to support healthcare planning, resource allocation, cost analysis and assessments of treatment effectiveness. My review found that accuracy of the clinical coded data remains high, but completeness figures has worsened significantly since 2017 with performance regularly below target. The target is that 95% of hospital episodes should have been coded within one month of the episode end date. Furthermore, the Health Board was carrying a significant backlog of episodes still to be coded. The Health Board has made reasonable progress on our previous recommendations, but issues around medical records, the low profile of clinical coders, reporting coding performance at Board level and using coded data to support improvement are yet to be resolved.

The Health Board has generally made good progress to address my recommendations for improving medicines management in acute hospitals, GP out-of-hour services and district nursing services.

42 The most common therapeutic intervention in the NHS is prescribing of medicines and medicines management covers the purchase of drugs, the processes and behaviours influencing the clinical and cost-effective use of medicines. Patients' medicines need to be managed well to ensure treatment and recovery is optimised and to ensure value for money. My work reviewed progress in addressing my 2015/16 recommendations for improving corporate arrangements and processes for medicines management, the medicines management workforce and facilities, processes and monitoring of pharmacy services. I found that the Health Board has made good progress to improve aspects of medicines management within acute hospitals, but some high-risk recommendations remain outstanding, in particular:

- it has taken steps to improve corporate arrangements for medicines management and is playing its part in taking forward the collaborative all-Wales medicines management work programme;
- good progress has been made in implementing pharmacy workforce recommendations, although the Health Board still has the lowest level of pharmacy staffing per 10,000 population in Wales;

- it has made some improvements to medicines management facilities, but issues with temperature regulated, secure bulk storage remain, and an audit programme for injectable medicines on wards has yet to be implemented;
- it has made good progress in implementing recommendations related to medicines management processes, but it has yet to develop a register of non-medical prescribers; and
- steps have been taken to improve monitoring and reporting of pharmacy performance indicators and learning from pharmacist safety intervention rates; but the Board has yet to receive an annual report on medicines management.

43 GP out-of-hours services provide healthcare for patients with urgent (but not emergency) medical problems outside normal surgery hour. My work reviewed progress in addressing my 2017 recommendations for involving staff in service planning, improving support for learning and development, exploring reasons for low morale, improving clinical leadership and operational management, public information and training on telephone triage and evaluating the extension of GP practice hours. I found that the Health Board has made good progress to improve aspects of the GP out-of-hours service in particular:

- a range of mechanisms for communicating with out-of-hours staff are now in place;
- the out-of-hours peer review was positive about leadership and management and cited improvements since the new operational leadership team has been in place;
- regular discussions with staff about personal development and steps to build team culture and trust are improving morale;
- the GP practice extended hours scheme was reviewed and found to be improving access but assessing value for money was more difficult;
- it has taken measures to ensure that the public receive a consistent message about the out-of-hours service; and
- out-of-hours GPs no longer perform telephone triage because the new 111 service model includes front-end call handling and clinical triage.

44 District nursing staff play a crucial role within the primary and community health care team, providing the core universal element of adult community nursing care 24 hours a day, seven days a week. The growing elderly population coupled with shorter hospital stays and the move to treat more patients, often with multiple complex care needs, in the community means that district nursing services require an appropriately coordinated, resourced, skilled and effectively deployed workforce. My work reviewed progress made in addressing my 2015 recommendations for clarifying the role and purpose of the service, influencing and managing the growing demand on care in the community, improving staff deployment to better match demand, and to strengthen performance monitoring and management. I found that that the Health Board has largely addressed my

recommendations for improving the management of district nursing services, in particular:

- there has been continued progress with integration of community nursing services, including district nursing;
- the purpose and remit of the district nursing service have been clarified and the service specification is regularly reviewed in collaboration with key stakeholders;
- referral criteria and processes have been agreed in collaboration with key stakeholders;
- caseloads are reviewed weekly and work to better match resources to current and future demand is ongoing;
- it remains an active contributor to the national nurse staffing programme to develop an evidence-based workforce planning tool based on patient need;
- there is good compliance with the interim district nurse staffing principles; and
- the introduction of the scheduling tool enables performance monitoring against a set of locally agreed indicators and benchmarking with peers.

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 2019.

Report	Date
Financial audit reports	
Audit of Financial Statements Report	May 2019
Opinion on the Financial Statements	June 2019
Performance audit reports	
Clinical Coding	March 2019
Well Being of Future Generations	November 2019
Medicines Management in Acute Hospitals: Update on Progress	November 2019
GP Out-of-Hours Services: Update on Progress	December 2019
Structured Assessment 2019	December 2019
District Nursing: Update on Progress	December 2019
Other	
2019 Audit Plan	April 2019

Exhibit 3: performance audit work still underway

There are also several 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
Quality governance arrangements	June 2020
Orthopaedics	February 2020
Local review topic to be confirmed	May 2020

Appendix 2

Audit fee

The 2019 Audit Plan set out the proposed audit fee of £402,146 (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

Financial audit risks

Exhibit 4: financial audit risks

My 2019 Audit Plan set out the financial audit risks for the audit of the 2018-19 financial statements. The table below lists these risks and sets out how they were addressed as part of the audit.

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.	Audit work carried out as planned and no evidence found of management over-ride of controls.
There is a risk that the Health Board will fail to meet its first financial duty to break even over a three-year period. Whilst the Health Board is currently predicting a year-end surplus, there are a number of risks to this position with a 'worst case' financial risk of £1m which could push the Health Board into deficit. Where 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	My audit team will: monitor the Health Board's financial position for the 2018-19 financial year; and focus its testing on areas of the financial statements which could contain reporting bias	Audit work confirmed that the Health Board met its annual revenue resource allocation and its financial target to break even.

Audit risk	Proposed audit response	Work done and outcome
in an effort to achieve the financial duty.		
New accounting standards IFRS 9 financial instruments applies from 1 April 2018 and brings in a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will result in earlier recognition of expected credit losses and will impact on how the Health Board calculates its bad debt provision. IFRS 15 revenue from contracts with customers introduces a principles-based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration the body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.	My audit will assess the likely impacts of the new IFRSs and undertake work to respond to any identified risks of material misstatement.	Audit work carried out as planned to assess the likely impacts of the new IFRSs. No evidence found which identified risks of material misstatement.

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