



WALES AUDIT OFFICE  
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Auditor General for Wales

# Annual Audit Report 2019 – Hywel Dda 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 Hywel Dda 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:
  - 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.
- 2 I have reported my findings in key messages under the following headings:
  - Audit of accountability report and financial statements; and
  - 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, Board Secretary and the Executive Director of Finance have agreed this report is factually accurate. We will present it to the Board on 30 January 2020. 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 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 However, in issuing this unqualified opinion, I have brought some minor issues to the attention of officers and the Audit Committee.
- 10 The Health Board did not achieve financial balance for the three-year period ending 31 March 2019 and so I have issued a qualified opinion on the regularity of the financial transactions within its 2018-19 accounts.
- 11 Alongside my audit opinion, I placed a substantive report on the Health Board's financial statements to highlight its failure to achieve financial balance and also its failure to have an approved three-year plan in place.

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

- 12 My programme of performance audit work at the Health Board has led me to draw the following conclusions:
  - The Health Board continues to strengthen governance and management arrangements. It has a clear strategic direction and is developing the infrastructure to support delivery of strategic plans. There are improvements in performance but challenges in relation to finance and unscheduled care remain. Finally, oversight and scrutiny of planning needs clarifying.
  - My performance audit work has identified some positive examples but there remain a number of opportunities to secure further improvements in relation to clinical coding and quality governance arrangements.
  - The Health Board has continued to embed the sustainable development principle and is working with partners on Education Programmes for Patients, although it will need to plan more effectively to achieve the full potential benefits in the long term.
- 13 These findings are considered further in the following sections.

# Detailed report

## Audit of accountability report and financial statements

- 14 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.
- 15 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, although in doing so, I have brought some minor issues 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.**

- 16 We received information in a timely and helpful manner and were not restricted in our work. Indeed, remote read-only access to the Health Board's ledger reporting tool and working papers improved the efficiency of our audit work. The deadlines for submission of the financial statements are challenging and we would like to commend the Health Board's Finance team for the timing and quality of the account's preparation work. The constructive but independent working relationships with the Executive Director of Finance and his new team have developed quickly.
- 17 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 29 May 2019. [Exhibit 1](#) summarises the key issues set out in that report.

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

Issue	Auditors' comments
Uncorrected misstatements	None
Corrected misstatements	The amendments to the financial statements were minor by nature and there was no impact on the Health Board's net expenditure
Other significant issues	None

- 18 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.
- 19 My separate audit of the charitable funds financial statements is complete, and I issued an unqualified opinion on 31 October 2019. There were no significant issues reported to trustees.

**I have issued a qualified audit opinion on the regularity of the financial transactions within the financial statements of the Health Board, and placed a substantive report alongside this opinion to highlight its failure to meet its statutory financial duties**

**The Health Board did not achieve financial balance for the three-year period ending 31 March 2019 and so I have issued a qualified opinion on the regularity of the financial transactions within its 2018-19 accounts.**

- 20 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.
- 21 Where a Health Board does not achieve financial balance, its expenditure exceeds its powers to spend and so I must qualify my regularity opinion. At the end of 2018-19, the Health Board reported a financial deficit of £35.4 million, against an agreed deficit total of £35.5 million, the first year that the Health Board has maintained expenditure within this total. However, its cumulative three-year deficit stood at £154.5 million at the end of March 2019. For 2019-20, the Welsh Government has provided some conditional additional funding of £10 million and set a control total of £15 million. However, the condition was that the Health Board kept its spending within this control total. At month seven the Health Board forecast that it would not meet its agreed deficit control total.



Alongside my audit opinion, I placed a substantive report on the Health Board's financial statements to highlight its failure to achieve financial balance and also its failure to have an approved three-year plan in place.

22 I have the power to place a substantive report on the Health Board's accounts alongside my opinions where I want to highlight issues. Due to the Health Board's failure to meet its financial duties I issued a substantive report setting out the factual details: it failed its duty to achieve financial balance (as set out in paragraph 21) and it does not have an approved three-year plan in place, and it is working to an annual plan.

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

23 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, transformational change, managing finance and performance, and managing workforce; and
- specific use of resources work on clinical coding and operational quality and safety arrangements.

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

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

## Governance arrangements are generally sound with further improvements underway

26 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.

27 My work found that positive changes are being made to enhance Board and committee effectiveness, and many aspects of governance remain robust with plans in place to improve identified areas of weakness. A well-developed Board Assurance Framework is in place, and the Health Board is currently examining how it can be updated to support the implementation of its strategy.

- 28 The National Fraud Initiative (NFI) is a biennial data-matching exercise that helps detect fraud and overpayments. In January 2019, the Health Board received 5,103 data-matches through the NFI web application, of which 504 were higher risk and recommended for review. As at October 2019, the Health Board had made good progress in reviewing most of the high-risk payroll and procurement matches with enquiries ongoing in a small number of cases. Creditor payment matches had not been reviewed. The Health Board has since been working with NHS Shared Services and these matches have now been reviewed.
- 29 My work also found that there continues to be a robust process for tracking recommendations by all regulators and holding officers to account where outstanding recommendations remain. Other NHS bodies are looking at the Health Board's tracking arrangements as good practice. Overall, the Health Board has made good progress in addressing previous structured assessment recommendations.

**The Health Board has set a clear strategic direction and is on track to develop its first three-year plan. Arrangements for monitoring delivery of the strategic plan have improved but reporting lines to the Board pose a risk of duplication**

- 30 My structured assessment 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.
- 31 My work found that the Health Board has set a clear and ambitious strategic direction, which is fully supported by key partners but there remain weaknesses in governance arrangements surrounding the Regional Partnership Board which need to be addressed. Although working to an annual plan, the Health Board has a robust planning process in place and is on track to develop its first three-year plan. The arrangements for monitoring delivery against plan have been further developed but the reporting arrangement for the Health and Care Strategy Delivery Group has the potential to duplicate assurance for 2020 onwards.

**The Health Board has established robust arrangements to deliver its strategy, and recent changes are helping to simplify the operational structure. More needs to be done to engage staff in the change agenda, and capacity in some corporate functions remains a challenge**

- 32 My structured assessment work examined the Health Board's arrangements to achieve transformational change and whether supportive organisational structures are in place.

- 33 My work found that the Health Board has established comprehensive programme management arrangements to deliver transformation through the establishment of three change programmes, and a supporting Strategic Enabler Group. Positive clinical engagement has continued into the delivery phase of the health and care strategy, but more needs to be done to engage the wider workforce in the change agenda.
- 34 Recent changes are helping to simplify the operational structure, with a number of directorates increasingly working together. Corporate structures remain largely unchanged, although the business partnering model has now been fully embedded into the finance function. Capacity in some corporate functions however continues to be a barrier to adopting a business partnering model more broadly.

### **The Health Board has strengthened financial management arrangements and improved performance overall, but a number of financial, service and quality challenges remain, and opportunities to extend performance management exist**

- 35 My structured assessment work considered the Health Board's current performance. I also considered arrangements for managing performance, including financial grip and control.
- 36 My work found that the Health Board's in-year deficit position is reducing year-on-year, partly due to additional Welsh Government funding in recognition of the Health Board's demographic and rurality challenges, but the financial position for 2019-20 still remains challenging. The turnaround process and the new business partnering model are strengthening the Health Board's ability to manage its finances, along with an increasing focus on the longer-term by the Finance Committee. However, a greater understanding of, and response to, underlying cost drivers as well as increased accountability and ownership is needed if the Health Board is to move to a break-even position.
- 37 In relation to service performance, despite an overall backdrop of improvements, performance has declined in a number of areas during the year with unscheduled care remaining a particular challenge. There are early signs of improvement in quality performance in relation to response times to concerns, never events and mortality rates but there remains a considerable amount of work still to do particularly in relation to healthcare acquired infection rates. Performance management reviews continue to evolve but there is scope to apply the review process to corporate directorates.

## The Health Board compares well against a number of workforce metrics, is putting new initiatives in place to develop the workforce and support staff well-being, and is increasing the focus at Board and Committee level

- 38 My structured assessment work examined the actions that the Health Board is taking to ensure that its workforce is well managed. I also assessed arrangements for addressing training and development needs and action to engage and listen to staff and address wellbeing needs.
- 39 My work found that the Health Board's performance on some key workforce measures compares better than the Wales average, with a number of the measures some of the best in Wales. Gaps in staffing levels however has meant a continued reliance on the use of temporary staff and despite overall positive workforce performance, learning and development remains a challenge.
- 40 The Health Board continues to implement a substantive programme of organisational development work at all levels of staff, and steps are being taken to establish a 'speaking up' process. Workforce is not a key feature of Board and committees but as part of changes to committee effectiveness, the focus on workforce is being increased.

## The Health Board has continued to embed the sustainable development principle and is working with partners on Education Programmes for Patients, although it will need to plan more effectively to achieve the full potential benefits in the long term

- 41 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 Education Programmes for Patients (EPP) and the contribution they make to improved population health and wellbeing.
- 42 My review found that the Health Board has made further progress in ensuring that its corporate approach reflects the need for SD in a challenging financial environment. The Health Board, together with its partners, is setting the foundations of an approach which will enable them to do things differently and together. The approach recognises the need for collective long-term thinking. Core arrangements and processes are evolving to reflect the need for a sustainable approach to all aspects of service provision. The Health Board is making progress in developing its approach to ensuring the effective involvement of citizens and stakeholders.

- 43 More specifically, my work found that the Health Board will need to plan the EPP more effectively to ensure it delivers long-term outcomes. The EPP places prevention at the heart of its approach to improving individual and population health. The EPP is planned on a multi-agency basis to deliver health and social care objectives but there are opportunities to widen the programme to include other services and increase its impact. Staff and volunteers collaborate on the provision of EPP courses but there is scope to widen collaboration. Patients are involved in the design and delivery of courses, and staff want to increase the involvement of young people and those in employment.

### My performance audit work has identified some positive examples but there remain a number of opportunities to secure further improvements in relation to clinical coding and quality governance arrangements

Clinical coding continues to be a low priority for the Health Board and non-compliance with the completeness target is impacting on overall improvement in accuracy and staff morale. The use of coding data as business intelligence remains underdeveloped and there is still considerable room for progress against our previous recommendations

- 44 My review found that the proportion of episodes coded within a month of completion is below target and there is evidence that pressure to clear the backlog is affecting overall improvement in accuracy and reducing staff morale within the department.
- 45 Despite widespread awareness of the issues associated with clinical coding performance, it is still a low priority and the use of coded data for business intelligence remains under-developed. The Health Board has also made limited progress against previous audit recommendations and several issues require considerable attention

The Health Board now has some good quality and safety arrangements at a directorate level, supported by developing corporate arrangements but these are not yet consistent, and the flow of assurance from directorates to the Board is not as effective as it could be

- 46 My work identified that quality governance arrangements within some directorates are good, but they are not sufficiently consistent across the organisation. Corporate arrangements are developing but capacity within the clinical audit and patient experience teams is an issue and shared learning is not as prominent as it could be.
- 47 The Operational Quality, Safety and Experience Sub-committee is evolving with scope to take greater assurance from directorates and to focus more on key risks, but attendance is problematic. The functioning of Quality, Safety and Experience

Assurance Committee is improving but work is needed to address attendance at two of its other sub-committees and improve the quality of papers.

- 48 I shall be undertaking further work on quality governance in the Health Board during 2020, as part of my wider work across Wales on this important topic.

# Appendix 1

## Reports issued since my last annual audit report

Exhibit 2: reports issued since my last annual audit report

Report	Date
<b>Financial audit reports</b>	
Audit of Financial Statements Report	May 2019
Opinion on the Financial Statements	June 2019
Audit of Charitable Funds Financial Statements Report	September 2019
Opinion on Charitable Funds Financial Statements	October 2019
<b>Performance audit reports</b>	
<a href="#">Clinical Coding</a>	July 2019
<a href="#">Operational Quality and Safety Arrangements</a>	July 2019
<a href="#">Well Being of Future Generations</a>	October 2019
Structured Assessment 2019	November 2019
<b>Other</b>	
2019 Audit Plan	January 2019

Exhibit 3: performance audit work still underway

Report	Estimated completion date
Orthopaedics	February 2020
Quality Governance arrangements	June 2020
Review of the sustainable use of RTT monies (tbc)	June 2020

# Appendix 2

## Audit fee

The 2019 Audit Plan set out the proposed audit fee of £391,355 (excluding VAT). My latest estimate of the actual fee, on the basis that some work remains in progress, is £370,512. The decrease is due to efficiencies in the financial audit and a refund of £20,843 will be made shortly.



# Appendix 3

## Financial audit risks

My 2019 Audit Plan set out the financial audit risks for the audit of the 2018-19 financial statements. **Exhibit 4** lists these risks and sets out how they were addressed as part of the audit.

### Exhibit 4: financial audit risks

Audit risk	Proposed audit response	Work done and outcome
<p>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]</p>	<p>My audit team will:</p> <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>	<p>My audit team:</p> <ul style="list-style-type: none"> <li>• tested the material journal entries and no unusual items were identified;</li> <li>• reviewed accounting estimates for biases; and</li> <li>• evaluated the rationale for any significant transactions outside the normal course of business</li> </ul>
<p>The Health Board is unlikely to meet its first financial duty to break even over a three-year period. The position at month 7 shows a year-to-date deficit of £21.6 million and a forecast year-end deficit of £35.5 million. This combined with the outturns for 2016-17 and 2017-18, predicts a three-year deficit of £154.2 million.</p> <p>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 predicted out-turn.</p>	<p>Where the Health Board fails this financial duty, I will place a substantive report on the financial statements highlighting the failure.</p> <p>My audit team will focus its testing on areas of the financial statements which could contain reporting bias.</p>	<p>My audit team reviewed material accounting estimates and all were assessed as reasonable</p>
<p>There have been fundamental changes at a Senior Level to the key contacts/personnel within the Finance Department during 2018. The need for</p>	<p>My audit team will work with, and support where possible, the newly appointed members of the team. My audit team will</p>	<p>My audit team worked closely with the newly established finance team and the audit was concluded satisfactorily.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>changes within the finance team at the Health Board have been reported by WAO previously. The appointment of new staff allows the Health Board to benefit from experience from other organisations, both within and outside the NHS. However, the introduction of significant change in staffing does bring a risk that specific local NHS knowledge and experience is eroded.</p>	<p>assess the likely impact of these changes throughout the audit and respond to any identified risks of material misstatement should they arise.</p>	



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