



WALES AUDIT OFFICE
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Archwilydd Cyffredinol Cymru
Auditor General for Wales

Annual Audit Report 2019 – **Health Education and Improvement Wales**

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This report was prepared for the Auditor General by Mike Usher, David Thomas, Helen Goddard and Clare James.

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Detailed report

About this report

- 1 This report summarises the findings from the audit work I have undertaken at Health Education and Improvement Wales (the Authority) 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 accounts submitted to me by the Authority, and to lay them before the National Assembly;
 - b) satisfy myself that the expenditure and income to which the accounts relate have been applied to the purposes intended and in accordance with the authorities which govern it; and
 - c) satisfy myself that the Authority 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 the Accountability Report and Financial Statements
 - Arrangements for securing economy, efficiency and effectiveness in the use of resources
- 3 I have issued several reports to the Authority 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 Authority, alongside the original fee that was set out in the 2019 Audit Plan.
- 5 The Chief Executive and the Interim Director of Finance have agreed this report is factually accurate. We presented it to the Audit and Assurance Committee on 27 January 2020. The Board will receive the report at a later Board meeting and every member will receive a copy. We strongly encourage the Authority 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.
- 6 I would like to thank the Authority'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

- 7 I have concluded that the Authority's accounts were properly prepared and materially accurate, and my work did not identify any material weaknesses in the Authority's internal controls relevant to my audit of the accounts. I have therefore issued an unqualified opinion on their preparation.
- 8 However, in issuing this unqualified opinion, I have brought the following matters to the attention of officers and the Audit and Assurance Committee:
- classification of expenditure, accruals and accounting for prepayments could be improved, but in our view, this is not unexpected for an organisation still in its relative infancy where both staff and operating procedures are yet to be fully embedded; and
 - the core criteria and timing of bids invited for future supplementary allocations to Welsh Universities should be considered and strengthened, in order to ensure good value for money and appropriate use of resources.
- 9 The Authority achieved its first financial duty for the period ended 31 March 2019, to secure that its expenditure does not exceed the aggregate of the funding allotted to it for the period, and so I have issued an unqualified opinion on the regularity of the financial transactions within its accounts for the period then ended.
- 10 The Authority was issued with a Remit Letter on 25 October 2018, confirming that the period to 31 March 2019 would remain a transitional period as the Authority commenced full operations. The Authority was therefore not subject to a second financial duty for the period of account to 31 March 2019. As the Authority met its first financial duty, and there were no other issues which warranted highlighting, no substantive report was placed on the Authority's accounts. The Authority was required to prepare an annual plan for 2019-20 in accordance with the NHS Wales Planning Framework.

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

- 11 My programme of Performance Audit work at the Authority has led me to draw the conclusion that strong leadership and sound arrangements have supported **effective business and a positive staff culture in 2019. A one-year plan is in place with good progress so far on the three-year plan. Improvement opportunities exist to formalise and improve assurance arrangements.**

Audit of the Accountability Report and Financial Statements

- 12 This section of the report summarises the findings from my audit of the Authority's financial statements for the period ended 31 March 2019. 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.
- 13 My responsibilities in auditing the Authority'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 financial statements of the Authority for the period ended 31 March 2019, although in doing so, I have brought matters to the attention of officers and the Audit and Assurance Committee

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

- 14 Officers submitted for audit a good quality draft account to timetable, supported by good quality working papers. Generally, we 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. We did find that some classification of expenditure, accruals and accounting for prepayments could be improved, but in our view this is not unexpected for an organisation still in its relative infancy where both staff and operating procedures are yet to be fully embedded.
- 15 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 Authority's Audit and Assurance 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

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

Issue	Auditors' comments
Uncorrected misstatements	IT assets included within Property, plant and equipment were overstated by £64,000 as the Authority was not in possession of these assets until April 2019. This misstatement was not corrected due to its immaterial impact upon the accounts.
Corrected misstatements	<p>The audit fee disclosure was increased by £87,000 to accrue for the full fee for 2019 audit and inspection work. A proportion of other operating costs totalling £825,000 was reclassified to Postgraduate Medical, Dental and Pharmacy Education costs, to more accurately reflect the nature of the transactions.</p> <p>Accruals increased, and non-NHS creditors decreased, by £1,481,000 to correctly classify those expenditure transactions incurred during the reporting period for which no invoice was received prior to the year-end.</p> <p>During our audit we recommended a number of additions, amendments and deletions to disclosures within the financial statements to ensure completeness, clarity, accuracy and consistency throughout, and to comply with best practice as set out in the NHS Wales 2018-19 Manual for Accounts.</p>
Other significant issues	The core criteria and timing of bids invited for future supplementary allocations to Welsh Universities should be considered and strengthened, in order to ensure timely receipt within the accounting period.

I have issued an unqualified audit opinion on the regularity of the financial transactions within the financial statements of the Authority

The Authority achieved its first financial duty for the period ended 31 March 2019, to secure that its expenditure does not exceed the aggregate of the funding allotted to it for the period, and so I have issued an unqualified opinion on the regularity of the financial transactions within its accounts for the period then ended

- 16 The Authority'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 Authority does not have the powers to receive or incur.
- 17 Where an Authority does not meet its financial duty, I must qualify my regularity opinion. For the period ended 31 March 2019 the Authority achieved an

underspend of £68,000 against its Revenue Resource Limit and achieved break-even against its Capital Resource Limit, and hence met its financial duty.

The Authority was not subject to a second financial duty for the period of account to 31 March 2019. As the Authority met its first financial duty, and there were no other issues which warranted highlighting, no substantive report was placed on the Authority's accounts

- 18 I have the power to place a substantive report on the Authority's accounts alongside my opinions where I want to highlight issues.
- 19 The Authority was issued with a Remit Letter on 25 October 2018, confirming that the period to 31 March 2019 would remain a transitional period as the Authority commenced full operations. Hence the Authority was not subject to a second financial duty for the reporting period, and as there were no other issues warranting report, I did not issue a substantive report on the accounts.
- 20 The Authority is required to prepare an annual plan for 2019-20 in accordance with the NHS Wales Planning Framework.

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

- 21 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 structured assessment at the Authority over the last 12 months to help me discharge that responsibility. This work has involved reviewing the Authority's arrangements for overall governance, strategic planning, managing financial resources, and managing workforce productivity and efficiency. As the Authority is a new NHS body, my work was undertaken in two stages: an initial baseline review in the spring to provide early feedback to the Board on key areas, and further work in the autumn which built upon and followed up on my baseline review findings.
- 22 My conclusions based on this work are set out below.

The Board and committees provide strong leadership and administer their business well, but risk, board assurance, performance management and information governance are areas for further development

- 23 My structured assessment work examined the Authority's governance arrangements, the way in which the Board and its sub-committees conduct their business, and the extent to which organisational structures are supporting good governance and clear accountabilities. I also looked at the information that the Board and its committees receive to help them oversee and challenge performance and monitor the achievement of organisational objectives. I found the following:
- the Board and its committees are demonstrating strong, collegiate leadership with a focus on continuous learning. They are supported by clear and comprehensive administrative processes and a sound organisational structure. There is an opportunity to review Board and committee oversight to ensure no operational areas are omitted from scrutiny.
 - there is a risk management framework in place though some risk registers are incomplete and risk appetite is not defined. Work is needed on the Board Assurance Framework (BAF) to identify and map key sources of assurance, some of which require development, particularly the performance management and information governance frameworks.
 - there is a recommendation tracker in place which tracks internal and external (Wales Audit Office) audit recommendations but it does not track recommendations for legislative or regulatory compliance. Generally reasonable progress has been made on the learning points raised in our baseline review.

A clear vision and strategic objectives are in place with plans for Integrated Medium Term Plan production but supporting operational plans and monitoring IMTP delivery are areas for further work

- 24 My structured assessment work examined how the Board engages partners and sets the strategic direction for the organisation. I also assessed how well the Authority plans the delivery of its objectives and how it monitors progress in delivering the plans. My findings are set out below:
- there is a clear vision underpinned by strategic objectives and a continuous learning and engagement approach to IMTP development. The vision and objectives were developed with input from the Board, staff and stakeholders.
 - the strategic planning approach has strengthened with the aim of developing an approvable IMTP for 2020-2023, although timescales are tight to ensure required resources are fully understood and enabler plans are aligned

- there is now a performance report and dashboard in place but KPIs are still in development and documentation of arrangements for oversight and scrutiny of performance against strategic objectives are recommended.

Financial controls and policies are in place, refinements to financial reporting continue and work to strengthen asset and contract management is underway

25 My structured assessment work examined the actions the Authority 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:

- the early staffing issues have been resolved, with key financial controls, policies and financial management having been prioritised are in place;
- good financial planning arrangements have been established with financial plans developed for a 5 year period within the IMTP to be submitted;
- further work is being taken around asset and contract management to facilitate good planning, governance and use of assets;
- reporting and scrutiny arrangements have improved during the year with more detailed timely financial information now being provided to the Board and areas for further improvement being taken forward; and
- the Authority achieved break-even in 2018-19 and is forecasting a break-even position for the year ended 31 March 2020.

Excellent staff engagement has helped drive a positive culture and there are plans in place to improve workforce management arrangements

26 My structured assessment work examined the actions that the Authority 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:

- there is a strong focus on organisational culture, values and behaviours, staff engagement and staff wellbeing, with low sickness rates;
- the job evaluation backlog has now been cleared and strategies are in place to manage vacancies, though. there is scope to strengthen the workforce performance metrics currently reported in this area; and
- training and development plans are progressing, with a values-based appraisal scheme introduced, and plans are in place to improve recorded levels of staff appraisal and completion of statutory and mandatory training rates.

Appendix 1

Reports issued during 2019

Exhibit 2: reports issued during 2019

The following table lists the reports issued to the Authority in 2019.

Report	Date
Financial audit reports	
Audit of Financial Statements Report	May 2019
Opinion on the Financial Statements	June 2019
Management Letter	June 2019
Performance audit reports	
Structured Assessment 2019	December 2019
Other	
2019 Audit Plan	February 2019

Appendix 2

Audit fee

The 2019 Audit Plan set out the proposed audit fee of £175,000 (excluding VAT).

The fee for financial accounts work included within this total is £95,000. The skills mix required to deliver the accounts work in the Authority's inaugural year was higher than anticipated, and so we have agreed with the Interim Director of Finance an additional fee of £5,970.

The fee for performance audit work included within this total is £80,000. My latest estimate is that the actual fee will match this.

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