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Auditor General for Wales



WALES **AUDIT** OFFICE  
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## Annual Audit Report 2015

# **Powys Teaching Health Board**

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# Status of report

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The team who assisted me in the preparation of this report comprised Dave Thomas, Anthony Veale, Jason Garcia, and Elaine Matthews.

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# Summary report

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1. This report summarises my findings from the audit work I have undertaken at Powys Teaching 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. It was presented to the Audit Committee on 12 January 2016. It will then be presented to a subsequent Board meeting 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](http://www.audit.wales)).
5. The key messages from my audit work are summarised under the following headings.

## Section 1: Audit of accounts

I have issued an unqualified opinion on the 2014-15 financial statements of the Health Board, although in doing so, I have brought a number of issues to the attention of officers and the Audit Committee and placed a substantive report alongside my audit opinion to explain the two new statutory duties.

6. My substantive report explains the two new financial duties introduced on 1 April 2014 by the NHS Finance (Wales) Act 2014, the local Health Board's performance against them, and the implications for 2015-16.
7. I have also concluded that:
  - the Health Board's accounts were properly prepared and materially accurate;
  - the Health Board had an effective control environment to reduce the risk of material misstatements to the financial statements although there are some specific areas where improvements can be made; and
  - the Health Board's significant financial and accounting systems were appropriately controlled and operating as intended.
8. The Health Board achieved financial balance at the end of 2014-15. I set out in more detail about the financial position and financial management arrangements in [Section 2](#) of this report.

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

9. 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:

Following the injection of funding, the Health Board is likely to achieve financial balance in 2015-16 with good in-year management and scrutiny of performance. The Health Board needs to strengthen strategic financial planning to address the challenging financial environment

10. In 2014-15, the Health Board operated within its annual revenue and capital resource allocation.
11. At the end of September 2015, the Health Board was forecasting a balanced year-end outturn position against its annual revenue resource allocation although the financial environment remains challenging.
12. The additional £25 million allocation for the life of the three year integrated medium term plan (IMTP) requires the Health Board to adopt a more innovative and transformational approach to service and financial delivery. Continued focus is also needed to manage risks associated with the delivery of savings plans and ensuring that the core governance arrangements supporting financial management are fully embedded and maintained.

The Board has set a clear vision, strengthened Executive capacity, and made improvements to governance arrangements. The challenge going forward is to further refine, sustain and embed these arrangements throughout the organisation

13. Planning arrangements have improved, as evidenced by Ministerial approval of the IMTP. The NHS Wales Planning Framework 2016-17 requires an update of the existing approved IMTP by 29 January 2016. The Health Board's IMTP requires a refresh to address the Welsh Government's requirements and strengthen it to ensure a focus on outputs and outcomes. The Board has established a thorough process with an annual planning model and cycle to meet the requirements of the NHS Wales Planning Framework. The IMTP sets a clear vision although there is scope to sharpen its content in the next iteration.

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14. A comprehensive Governance Improvement Programme, strengthened Executive team and revised Executive portfolios better position the Health Board to deliver its strategic objectives. The challenge is now to ensure there is sufficient resilience, capacity and experience within the Executive team to maintain a sustainable pace of change, strengthen operational management capacity, and to ensure that it has the correct balance between locality specific and Powys-wide delivery arrangements.
  15. The Board has made good progress strengthening its overall effectiveness with strengthened committee arrangements, improvements to internal controls and performance information that supports effective scrutiny and decision making. Further refinement is needed to assurance mechanisms with particular focus on risk management and embedding the quality assurance framework.
  16. The Health Board has strengthened its information governance arrangements with an updated strategy and implementation plan and its Information Governance Committee is functioning more effectively although more pace is required to address persistent high risk issues.

**My performance audit work has identified good progress in a number of key areas to secure better use of resources**

17. 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 has set an ambitious change agenda and is working to strengthen its arrangements for communications, engagement and partnership working to support transformation but significant risks remain with the estate.
18. The Health Board has articulated key elements of its transformation programme and is aware that the challenge now is to ensure that it can drive the necessary changes to service delivery.
19. The Health Board has made considerable progress to address the challenges with its estate and estates function although extensive further work is required to address the poor condition of the estate.
20. Partnership working with the local authority is progressing apace, communications with the public are becoming more transparent, but much more remains to be done to gather and learn from patient experience.
21. My performance audit work has also included examinations of specific areas of service delivery within the Health Board. The key conclusions from that work were:
  - The Health Board is in a good position to introduce a comprehensive medicines management service in its community hospitals with a clear strategy and funding to support expansion of the workforce. Further work is, however, required to improve the supply and storage of medicines, strengthen medicines management processes and to monitor and improve performance.

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- The Health Board has good arrangements for managing local delayed follow-up outpatient appointments and arrangements to support service transformation, but must do more to assess clinical risks, improve Board scrutiny and understand the situation for the majority of Powys patients who are treated out of county.
  - The Health Board has made good progress in addressing recommendations to improve catering and nutrition services. More work is needed to strengthen some aspects of the mealtime experience, to control costs more effectively and to improve performance reporting.
- 22.** More broadly, the Health Board has made progress in addressing recommendations from previous audit work although important actions remain outstanding in a few key areas.
- 23.** We gratefully acknowledge the assistance and co-operation of the Health Board's staff and members during the audit.

# Detailed report

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## About this report

- 24.** 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 December 2014 and November 2015.
- 25.** My work at the Health Board is undertaken in response to the requirements set out in the 2004 Act<sup>1</sup>. That act requires me to:
- a)** examine and certify the accounts submitted to me by the Health Board, and to lay them before the National Assembly;
  - b)** satisfy myself that the expenditure and income to which the accounts relate have been applied to the purposes intended and in accordance with the authorities which govern it; and
  - c)** satisfy myself that the Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 26.** 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.
- 27.** 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](#).
- 28.** 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
- 29.** [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 2015 Audit Plan.
- 30.** Finally, [Appendix 3](#) sets out the significant financial audit risks highlighted in my 2015 Audit Plan and how they were addressed through the audit.

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<sup>1</sup> Public Audit (Wales) Act 2004



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## Section 1: Audit of accounts

- 31.** This section of the report summarises the findings from my audit of the Health Board's financial statements for 2014-15. These statements are the means by which the organisation demonstrates its financial performance and sets out its net operating costs, 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.
- 32.** 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.
- 33.** In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).
- 34.** In undertaking this work, auditors have also examined the adequacy of the:
- Health Board's internal control environment; and
  - financial systems for producing the financial statements.

**I have issued an unqualified opinion on the 2014-15 financial statements of the Health Board, although in doing so, I have brought a number of issues to the attention of officers and the Audit Committee and placed a substantive report alongside my audit opinion to explain the two new statutory financial duties**

**The Health Board's accounts were properly prepared and materially accurate**

- 35.** As in previous years, the Health Board's unaudited accounts were submitted on time, in good quality and were supported by clear working papers.
- 36.** I am required by 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 Audit Committee on 2 June 2015. **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
Audit opinion and report on the accounts	As reported above, I have issued an unqualified opinion on the Health Board's financial statements. I also issued a substantive report alongside my audit certificate.
Corrected misstatements	During the audit there were some corrected misstatements made to the draft financial statements, arising from matters identified from our audit testing. However, these did not impact on the reported outturn position of the Health Board.
Uncorrected misstatements	<p>Our work identified that the pharmacy contract accrual was overstated by £142,000.</p> <p>There were also a small number of minor uncorrected misstatements that were reported to the Audit Committee. These were minor isolated errors and did not arise as a result of any failures in the Health Board's financial statements closedown arrangements.</p>
Remuneration report	The Health Board submitted the remuneration report to Welsh Government and for audit by the agreed deadline. Our audit identified a number of amendments and additional disclosures which were required to the remuneration report. We recommend that following the completion of the remuneration report by Finance, the disclosures are then checked and agreed with HR prior to the report being circulated to directors and Independent Members for their review.
Public sector payment policy	Although the financial statements reported the Health Board's failure to meet the target of paying 95 per cent of non-NHS creditors within 30 days, the system used to generate payment information in respect of primary care contractors did not provide sufficient statistical information to substantiate that primary care payments were made within 30 days. It was therefore not possible to quantify the impact of this issue on the reported performance. The Health Board will need to look at this all-Wales issue in 2015-16.
Asset existence	The Health Board's processes and procedures for confirming asset existence and reviewing assets for impairment could be more robust. We recommended that formal processes are introduced requiring all asset owners to complete annual declarations confirming they have considered all assets under their stewardship for existence and impairment.

Issue	Auditors' comments
Long term agreements with English health providers	A number of service level or long-term agreements were signed late for 2014-15. This remains a risk, particularly where the Health Board has challenged the costs or level of services being provided under these agreements.

- 37.** 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 the Health Boards' performance against this duty will not be measured until 2016-17. In respect of 2014-15 the Health Board operated within its annual revenue resource allocation and capital resource allocation.
  - The second financial duty is a new duty requiring Health Boards to prepare and have approved by the Welsh Ministers a rolling IMTP. The Health Board did not meet its second financial duty to have an approved IMTP in place for the period 2014-15 to 2016-17. I set out more detail about the financial position and the financial management arrangements in section 2 of this report.
- 38.** As part of my financial audit, I also undertook the following reviews:
- 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 2015 and the return was prepared in accordance with the Treasury'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 there under by Welsh Ministers; and
  - 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.
- 39.** My separate independent examination of the Health Board's charitable funds financial statements has been completed and approved by the Board on the 9th December 2015. There were no issues arising as a result of my work.

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The Health Board had an effective control environment to reduce the risks of material misstatements to the financial statements although there are some specific areas where improvements can be made

40. There are a number of specific areas I have considered during the year including the work of Internal Audit. We report these where you are not already aware of them or where they may be symptomatic of broader weaknesses in the overall control environment.
41. The Head of Internal Audit Annual Report highlights a number of specific weaknesses that the Health Board is continuing to address. In terms of internal control, the Report concludes that reasonable assurance can be taken for the primary assurance over domains of financial governance and management and clinical governance quality and safety corporate governance, risk management and regulatory compliance, together with financial governance and management. However, the domain of corporate governance, risk management and regulatory compliance is rated as limited assurance. In addition three other domains are rated as limited assurance.
42. Our audit work has not identified any additional matters that are material to the accuracy and completeness of the financial statements.

The Health Board's significant financial and accounting systems were appropriately controlled and operating as intended

43. My work focuses primarily on the accuracy of the financial statements, reviewing the internal control environment to assess whether it provides assurance that the financial statements are free from material misstatement whether caused by error or fraud. This includes a review of the main accounting system, budgetary control and closedown processes and includes an assessment of the computer-based infrastructure and application controls. I also consider the work and role of internal audit as part of this assessment. I did not identify any material weaknesses in the Health Board's internal control environment.
44. There were also a number of issues referred to in our Financial Statements Memorandum which was presented to the Audit Committee in November 2015. These included a number of recommendations in respect of financial management, financial reporting and wider governance arrangements.

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

45. 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 a review of Section 33 arrangements – Information and communications technology (ICT) partnership jointly with Powys County Council (the Council) and a data backup and computer suite review; and
  - assessing the progress the Health Board has made in addressing the issues identified by previous audit work on catering and patient nutrition and reviewing the Health Board's arrangements for tracking external audit recommendations.
46. The main findings from this work are summarised under the following headings.

Following the injection of funding, the Health Board is likely to achieve financial balance in 2015-16 with good in-year management and scrutiny of performance. The Health Board needs to strengthen strategic financial planning to address the challenging financial environment

In 2014-15, the Health Board operated within its annual revenue and capital resource allocation

47. On 31 March 2014, the Health Board submitted a three year plan running from 2014-15 to 2016-17 that showed expenditure to be significantly in excess of the anticipated resource limit over the three years. In May 2014, the Welsh Government confirmed that it was unable to approve the Health Board's plan on a medium-term basis and required the Health Board to set out clear deliverables and actions for 2014-15. For 2014-15, a one year 'delivery agreement' plan was subsequently developed.
48. At the start of 2014-15, the Financial and Budget Strategy identified an initial 2014-15 financial gap of £27.2 million. During the year the Health Board had good in-year budgetary control and by year end 90 per cent of the savings targets were achieved.

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49. The Health Board received an additional in-year revenue resource allocation of £25m in December 2014. In May 2015, the Welsh Government confirmed that the Health Board was not required to recover the £19.264m deficit incurred in 2013-14. As at the 31 March 2015, the Health Board reported that it had operated within its annual revenue and capital resource allocation.

At the end of September 2015, the Health Board was forecasting a balanced year-end outturn position against its annual revenue resource allocation although the financial environment remains challenging

50. The NHS Finance (Wales) Act 2014 has introduced a more flexible finance regime. It provides a new legal financial duty for local health boards to break even over a rolling three financial years rather than each and every year. The act allows local health boards to focus their service planning, workforce and financial decisions and implementation over a longer, more manageable, period and moves away from a regime which encourages short-term decision making around the financial year. The financial flexibilities are, however, contingent upon the ability of NHS bodies to prepare suitably robust integrated medium term plans, and the formal approval of those plans by Welsh Ministers.
51. The Health Board approved its three year plan 2015-16 to 2017-18 at its Board Meeting on 19 March 2015. The three year plan was subsequently submitted to Welsh Government on the 27 March 2015. The three year plan 2015-16 to 2017-18 is a balanced plan in respect of its revenue allocation and its planned net expenditure. However, on submission of its three year plan to Welsh Government, the Health Board highlighted a number of challenges and risks associated with the delivery of the plan. The three year plan 2015-16 to 2017-18 ultimately received Ministerial approval in June 2015.
52. As at month 6 (September 2015), the Health Board is reporting a balanced position for the year to date and is forecasting a balanced year-end outturn position against its annual revenue resource allocation.
53. The Health Board is broadly on track to achieve its savings programme scheme targets at year end. Savings targets totalling £6.688 million have been built into the 2015-16 financial plan. The Health Board was reporting a small underachievement of its savings plans at month 6.
54. The additional £25 million allocation for the life of the IMTP requires the Health Board to adopt a more innovative and transformational approach to service and financial delivery. Historically, financial management at the Health Board has needed to focus heavily on securing financial balance. Whilst making savings will need to remain a priority, the Health Board will also need to ensure that it has the necessary capacity and skill sets to support the more strategic financial planning that will be necessary as part of the transformational change set out in the IMTP.

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55. Continued focus is needed to manage risks associated with the delivery of savings plans and ensuring that the core governance arrangements supporting financial management are fully embedded and maintained. Continued focus is required on managing demand with English-based NHS Trusts; agency spend, which is at its highest level; manage the risk of delivering referral to treatment times (RTT); and delivering improvements in continuing NHS healthcare.
56. The Finance and Performance Committee is working more effectively to scrutinise and oversee core issues. The Committee is much stronger than in 2014, with a good level of challenge from new Independent Members. The officers provided good written and verbal summaries of agenda items and responded well to challenge and questions. The Committee successfully balanced financial challenges with quality, safety and patient dignity. The Integrated Performance Report (IPR) does not include financial reporting although work is underway to address this.

**The Board has set a clear vision, strengthened Executive capacity, and made improvements to governance arrangements. The challenge going forward is to further refine, sustain and embed these arrangements throughout the organisation**

57. This section of the report considers my findings on governance and board assurance, presented under the following themes:
- strategic planning;
  - organisational structure and leadership;
  - Board assurance and internal controls; and
  - information governance.

**Planning arrangements have improved, as evidenced by Ministerial approval of the IMTP. The IMTP sets a clear vision with scope to sharpen its content in the next iteration**

58. As indicated above the Board scrutinised and approved the IMTP before 1 April 2015 and the IMTP received Ministerial approval June 2015. The NHS Wales Planning Framework 2016-17 requires an update of the existing approved IMTP by 29 January 2016. The Health Board's IMTP requires a refresh to address the Welsh Government's requirements and strengthen it to ensure a focus on outputs and outcomes. The Board has established a thorough process with an annual planning model and cycle to meet the requirements of the NHS Wales Planning Framework.
59. On approving the IMTP in June 2015, the Welsh Government indicated it had minor requirements around the need for the Health Board to produce the suite of NHS Wales Service Delivery Plans that link in with the IMTP. Progress developing responses to the national delivery plans started slowly. The Board accepted that the Health Board needed to prioritise the development of the most important plans due to limited resources within the planning and performance team. Without these in place, there is a risk that the Health Board is not keeping its service planning relevant and up to date.

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60. The Health Board has to understand and influence the large number of plans providers are developing for commissioned services in surrounding areas in both Wales and England. The Strategic Planning Report to Board in August 2015 shows that the Health Board has a good understanding of these challenges. English providers have their own problems with particular concerns with Wye Valley NHS Trust which is in special measures. These will need to be kept in view to monitor the risks to service delivery and quality of care. A further specific challenge for the Health Board is that meaningful engagement with all providers absorbs significant resources.
  61. The Annual Plan 2015-16 was approved in April 2015. It is clearly structured around the six locally agreed aims. For each of these, the Board has determined key strategic priorities for 2015-16. Each priority will be supported by a number of operational objectives, measures, outcomes and will link back to national and local targets or drivers. Reports to Finance and Performance Committee and the Board on delivery against the annual plan objectives are comprehensive and clear enough to support challenge. However, it is not clear how the Health Board is monitoring and reporting progress against the individual tasks in the IMTP as these are not all set out in the current annual plan. The Annual Plan for 2016-17 is in development and the Health Board has indicated that it intends to ensure full alignment with the refreshed IMTP.
  62. The Director of Planning and Performance left in May 2015. An interim was appointed quickly but the post has not yet been filled permanently. Work is ongoing to strengthen the Planning and Performance Directorate within the existing establishment. The new team should be in place by April 2016.
  63. More robust IMTP monitoring arrangements are in place through the Finance and Performance Committee.

A comprehensive Governance Improvement Programme, strengthened Executive team and revised Executive portfolios better position the Health Board to deliver their strategic objectives. The challenge is now to ensure there is sufficient resilience, capacity and experience within the Executive team to maintain a sustainable pace of change, strengthen operational management capacity, and to ensure that it has the correct balance between locality specific and Powys-wide delivery arrangements

64. The Chief Executive was appointed as interim in February 2015 and then substantively in March 2015. This provided stability and minimised the disruption that could have followed the departure of the previous Chief Executive in January 2015. The Chief Executive strengthened her Executive Team during the year, making permanent appointments with redefined roles, remits and responsibilities and changes in portfolios. Executives have clear annual objectives and clarity over their individual roles and responsibilities. Despite efforts from the Health Board, appointing a Medical Director has proven to be difficult although interim appointments have been made. While critical areas such as revalidation are covered, there was a lack of momentum across this portfolio area.



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65. The Chief Executive has introduced more rigour into Executive accountability. This includes monthly Executive Delivery and Performance meetings. This is helping to ensure greater focus on progress against NHS outcomes, savings plans and the need to drive improvement by responding to recommendations from reports from auditors and other regulators. Small Executive team carry large portfolios. The challenge is now to ensure there is sufficient resilience, capacity and experience within the Executive team to maintain a sustainable pace of change.
66. The Health Board has also undertaken necessary changes to the leadership and management structures for its Localities and Directorates under the Director of Primary and Community Care. This reduces the number of localities to two: the North and South (including the former Mid Locality). Learning Disability services continue to be managed across Powys while Children's services are managed via the North Locality. However, the balance of responsibilities between the centre and the localities is not yet clear and requires further attention.

The Board has made good progress strengthening its overall effectiveness with strengthened committee arrangements, improvements to internal controls and performance information that supports effective scrutiny and decision making. Further refinement is needed to assurance mechanisms with particular focus on risk management and embedding the quality assurance framework

67. The Chair has been in post just over a year and is making good progress to address deficiencies in governance arrangements highlighted in last year's structured assessment. The Governance Improvement Programme 2015-16 – 2016-17, approved in October 2015, sets a clear and appropriate programme of work to address the weaknesses in governance arrangements highlighted in my Annual Audit Report 2014. Development of an Integrated Governance Handbook will improve clarity of governance arrangements across the organisation.
68. Significant work has been undertaken to produce a range of assurance frameworks to underpin the governance arrangements:
- Board assurance system approved December 2014;
  - risk assurance framework approved June 2015;
  - performance assurance framework approved June 2015;
  - values and behaviours framework approved June 2015; and
  - quality assurance framework for provided and commissioned services is in development and will in use from January 2016.
69. Further work is required to ensure that the assurance frameworks work in practice and link together appropriately. In particular, the Risk Management Strategy and Policy need to be updated following a limited assurance internal audit report in May 2015, whilst the mechanism for escalating risks from the operational risk register to the Board needs to be clarified. Further work is also ongoing to understand the organisation's risk appetite. This will be important to fully inform the Health Board's approach to risk management.

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70. Internal controls are generally effective with a much improved counter fraud service that has higher visibility within the organisation. This has resulted in greater staff confidence to report concerns and an increase in investigative work.
  71. Work is also underway to implement and embed the new Health and Care Standards. In April 2015 a paper announcing the launch of the new standards was presented to the Board. In June a paper to the Board reported further work was underway to take forward and embed the new standards, which are used to underpin the work of Healthcare Inspectorate Wales. A steering group is taking this work forward and a clear plan is in place. Positively, the Health and Care Standards are now a standing item on the Quality and Safety Committee agenda.
  72. There was a significant change in Board personnel between late 2014 and the end of 2015 with five new Independent Members as their predecessors had completed their terms of office. Recruitment was managed well and has resulted in a smooth transition to a refreshed Board. New Board members have undergone a comprehensive induction programme which has resulted in a smooth transition to a refreshed Board and is supporting them to quickly understand the organisation and how to fulfil their role. In December 2015 Independent Board members were allocated lead roles or 'champions' as required by Welsh Government. Board members demonstrate a clear commitment to openness and quality improvement with a noticeable step up in the level of challenge and debate at both Board and committees. A Board Development Programme has been established with sessions to provide continuing support to Independent Members to enable them to fulfil their role.
  73. The Health Board has a clinical audit plan to support its improvement agenda. The plan reported to Quality and Safety in June 2015 provides clear information on progress in delivering the range of local clinical audits and All-Wales National Audit and Outcome Reviews. The Clinical Audit Strategy 2013-14 – 2015-16 was approved in 2013. Further work is underway to review and develop this strategy. Clinical audit is not yet playing a full role for quality improvement and its contribution to Board assurance is not established. In reviewing the clinical audit strategy the Health Board should consider how clinical audit links to strategic risks and objectives.
  74. Changes to the structure, function and membership of Board committees means that they better support the Board in delivering its strategic objectives. Terms of reference for committees have been recently refreshed although the Charitable Funds Committee terms of reference have not been reviewed since April 2010 and should be reviewed to ensure it meets current regulations.
  75. The October 2015 IPR shows significant improvements in performance reporting since 2014. In particular the IPR supports a full discussion of performance issues at every Board meeting; much clearer than the previous versions and easier to quickly assess overall performance against key measures, with less clutter; report provides good mix of narrative, information and data; wide use of graphics, colour coding and trend information; narrative content against each measure provides an overview of key issues variation and progress to date; narratives often identify corrective actions and sometimes who is responsible; and the IPR is in line with the structure of the IMTP and NHS Outcomes Framework.

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76. However, the IPR is still work in progress with further work required to address some gaps in coverage; a more insightful summary; further work needed on benchmarking with other organisations and use of forecasting; responsibility for performance domains are aligned to lead executive portfolios but are not assigned to named staff or specific committees; making explicit what additional actions are required, and by whom, to improve where targets have slipped; concerns about data quality underpinning the IPR; and commissioned services not adequately reported.
77. 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 the Health Board has made a commitment to review and address outstanding audit recommendations made by both internal and external audit. The Audit Committee is keen to ensure that progress is made and reviews the audit recommendation tracking log at each meeting.

The Health Board has strengthened its information governance arrangements with an updated strategy and implementation plan and its Information Governance Committee is functioning more effectively although more pace is required to address persistent high risk issues

78. The Information Governance Committee is beginning to work more effectively and it has met regularly in 2015. It now has a work plan in place describing the sources of assurance. The Health Board has made improvements to its scrutiny of information governance issues. This includes a stronger focus on key assurances and managing risks. However, there remain some persistent areas where progress is slow. The Committee now needs to ensure that scrutiny focuses on the areas of high risk and that traction is gained in addressing persistent issues.
79. In July 2012, the Council and the Health Board entered into a formal partnership (the partners) to information and communications technology (ICT) services from a joint team formed by the integration of the ICT teams from both organisations. The partners employed a section 33 agreement<sup>2</sup> as a mechanism to create pooled revenue and capital funding. The section 33 agreement provides a formal basis for partnership working into which individual partnership schemes slot. The first scheme to enter into the agreement was the ICT scheme, which became operational from 1 July 2012. The Council is the host of the ICT joint service and the agreement. The host's financial management and financial accounting rules apply.

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<sup>2</sup> Section 33 agreement of the National Health Service (Wales) Act (2006) Part 3, Section 33  
[http://www.legislation.gov.uk/ukpga/2006/42/pdfs/ukpga\\_20060042\\_en.pdf](http://www.legislation.gov.uk/ukpga/2006/42/pdfs/ukpga_20060042_en.pdf)

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- 80.** A review of the section 33 arrangements relating to the ICT partnership was included in my programme of external audit work at both the Council and the Health Board. In overall terms my work found that the Powys ICT partnership has improved service resilience and reduced IT risk, and section 33 arrangements provide a good basis for integrated working. More specifically, I found that:
- the section 33 ICT partnership has delivered against most of its agreed objectives, but there are greater challenges where improvements depend on a third party;
  - the ICT partnership is set up effectively to deliver annually agreed services and to support continuous improvement; and
  - there are good approaches for developing ICT strategy, but there remain opportunities for using technology to support wider service efficiency.
- 81.** The Health Board has made good progress mitigating the significant risks that I previously identified in backup arrangements and computer rooms, and while further improvements are ongoing, the pace of these is limited by the capacity and resource in the ICT team. In 2012 we identified some concerns relating to the previous portakabin based ICT facilities. The Health Board has made good progress in mitigating many of these risks by relocating to a new computer suite on the same site at Bronllys.
- 82.** In 2013 a short diagnostic was completed to identify whether further work was required to review the Welsh NHS organisations' information backup arrangements in more detail, making a number of recommendations, which were due for implementation during the first half of 2014. In general, appropriate backup arrangements are in place to meet the Health Board's needs. Work to review and improve these arrangements is ongoing with the development of an IT assurance plan and risk arrangements. The pace of improvements is limited by the capacity and resource in the ICT team. Backup controls are operating in the Health Board and further improvement measures have been achieved following the implementation of the new computer suite. Backup equipment has been refreshed with monitoring and reporting arrangements improved.

### **My performance audit work has identified good progress in a number of key areas to secure better use of resources**

- 83.** 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 has set an ambitious change agenda and is working to strengthen its arrangements for communications, engagement and partnership working to support transformation but significant risks remain with the estate.
- 84.** Key findings are summarised in [Exhibit 2](#).

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

Issue	Summary of findings
Change management capacity	<p><b>The Health Board has articulated key elements of its transformation programme and needs to ensure that can drive the necessary changes to service delivery.</b></p> <p>The Transformation Programme now has clear Executive leadership and is providing focus to deliver its constituent parts. The approach to transformation is relatively new within the Health Board and many of the programme boards have only recently been established. Further work is needed to ensure that these programmes can start to deliver at the necessary pace. Also required is sufficient linkage between annual savings plans, the IMTP and the transformation programme.</p> <p>The Values and Behaviours Framework was approved by Board in June 2015. The Framework 'will be a key enabler in developing a culture of continuous improvement required in order to become a high performing organisation'. Chat to Change and other organisational development initiatives are preparing staff for changes ahead. The values are being incorporated into the refresh of the IMTP.</p>

Issue	Summary of findings
Estates	<p><b>The Health Board has made considerable progress to address the challenges with its estate and estates function although extensive further work is required to address the poor condition of the estate.</b></p> <p>While there are longstanding significant estates and assets risks relating to health and safety compliance, the Health Board is starting to make inroads to address fire, asbestos and electrical compliance. £3 million capital funding was approved in January 2015 which included the discretionary capital allocation plus additional Welsh Government funding for specific projects and these were completed by year-end. Further compliance works have been identified in 2015-16. A Business Justification Case has been submitted to Welsh Government to request funding to address compliance and health and safety risks. There is a significant risk to the estate if this funding is not granted. If funding is granted, there is a risk around delivery as there are capacity gaps within the estates department.</p> <p>In October 2015, the Q2 capital report highlighted the extent of the estates and compliance works required at an estimated value of £68.5 million. The Health Board's Strategic Outline Programme addresses the compliance works in the short to medium term. Going forward, there is a need to develop a longer term estates strategy to set out how estates and assets will be designed to meet future care pathway models. Improvements to the estate on this scale will not be possible without a comprehensive estates strategy.</p>

Issue	Summary of findings
Stakeholder engagement and partnership working	<p><b>Partnership working with the local authority is progressing apace, communications with the public is becoming more transparent, but much more remains to be done to gather and learn from patient experience.</b></p> <p>There is tangible progress with the One Powys strategy and Transformation Board activities. Work has been undertaken on revising governance structures; leadership, management and team development and joint vision for staff engagement; and two integrated care teams for older people. The risks to the Health Board with the integration agenda are high. The Health Board needs to ensure the governance and performance arrangements to underpin any future integration activities are robust.</p> <p>The Health Board has made good progress with its communications including approval of an updated Communications Strategy in October 2015. The strategy aims to raise awareness and understanding of the work of the Health Board by ensuring clear, effective and timely engagement with staff, patients, the public and stakeholders. Investment in communications is helping to address weaknesses highlighted by an independent review of communications in 2014.</p> <p>The External Stakeholder Engagement Strategy was approved in August 2015. The aim of this strategy is to provide a clear, high level and enduring framework within which the Health Board can develop increasingly effective and appropriate means of engaging with its many and varied stakeholders. This will support the delivery of the change agenda. However, there is no stakeholder reference group.</p> <p>There are good examples of improvements to the approach to capturing and sharing patient stories. However, the Health Board needs to undertake more work before this is a comprehensive and sustainable approach. It is essential that the Health Board improves learning from patient experience through the agreement and implementation of a Patient Experience Strategy. A Patient Experience Strategy exists in draft format and a workshop is planned for February 2016.</p>

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The Health Board is in a good position to introduce a comprehensive medicines management service in its community hospitals with a clear strategy and funding to support expansion of the workforce. Further work is required to improve the supply and storage of medicines, strengthen medicines management processes and to monitor and improve performance

85. 'Medicines management' covers much more than the purchase of drugs. The term covers all the processes and behaviours that influence the clinical and cost-effective use of medicines as well as positive outcomes for patients. Patients' medicines need to be managed well to ensure their treatment and recovery are optimised and to ensure value for money is secured from their medication.
86. For many years, the community hospitals in Powys have obtained their medicines management and pharmacy dispensing services from hospitals in two neighbouring Health Boards under a Service Level Agreement (SLA). Services are changing rapidly in the Health Board because the Welsh Government recently awarded £407,000 of Invest to Save funding to provide a comprehensive pharmacy and medicines management service to the community hospitals. My team carried out the fieldwork before the funding was awarded but where appropriate my work referred to the opportunities that this funding will bring.
87. My work found that there is a clear strategy and funding to change the pharmacy service model although until now the service has not been tightly managed and has not had a high profile at Executive level.
88. The pharmacy service at community hospitals has been minimal until now. New Invest to Save funding should allow more multidisciplinary working, better out-of-hours access and a stronger focus on training.
89. Supply of medicines to community hospitals has been satisfactory but changes to the current arrangements present risks and opportunities. There is scope to improve storage of medicines on the wards and auditing the preparation of injectable medicines.
90. The Health Board has some good processes but there are issues with medicines reconciliation, quality and timeliness of discharge information, antimicrobial stewardship and supporting patients to take their medicines properly.
91. The Health Board needs to strengthen its monitoring of medicines management in community hospitals to better understand its performance and address the issues with medication-related incidents and adverse reactions.



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The Health Board has good arrangements for managing local delayed follow-up outpatient appointments and arrangements to support service transformation but must do more to assess clinical risks, improve Board scrutiny and understand the situation for the majority of Powys patients who are treated out of county

92. Outpatient services are complex and multi-faceted and perform a critical role in patient pathways. The performance of outpatient services has a major impact on the public's perception of the overall quality, responsiveness and efficiency of health boards. They form a critical first impression for many patients, and their successful operation is crucial in the delivery of services to patients.
93. Since 2013, the Chief Medical Officer and Welsh Government officials have worked with health boards to determine the extent of the volume of patients who are overdue a follow-up appointment (referred to as 'backlog') and the actions being taken to address the situation.
94. The Health Board has particular operational service delivery arrangements which can be summarised as:
  - provider services – these are services that are provided locally by the Health Board; and
  - commissioned services – these are services commissioned from other Welsh health boards and English NHS trusts and are provided out of county.
95. In 2014-15 there were some 99,000 outpatient follow-up attendances of which 83,000 (approximately 83 per cent) were seen 'out of county' ie, by commissioned health providers. My work refers to services provided directly by the Health Board unless specifically stated otherwise.
96. My work found that the Health Board has a systematic approach to identifying the volume of local follow-up outpatients but needs to assess the clinical risks associated with delayed follow-up appointments and needs to better understand the situation for Powys patients treated out of county.
97. The Health Board is successfully reducing the number of patients delayed who are treated locally but could improve reporting and assurance arrangements for all Powys patients.
98. Short-term operational arrangements are in place to help reduce delayed follow-ups and recently adopted programme management arrangements should support longer-term service transformation.

The Health Board has made good progress in addressing recommendations to improve catering and nutrition services. More work is needed to strengthen some aspects of the mealtime experience, to control costs more effectively and to improve performance reporting

99. Hospital catering services are an essential part of patient care given that good-quality, nutritious meals play a vital part in patients' rehabilitation and recovery. Effective catering services are dependent on sound planning and co-ordination of a range of processes involving menu planning, procurement, food production and distribution of meals to wards and patients. Good communication is also required across the range of

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staff groups involved, including managers, catering staff, dieticians, nurses, support staff and porters.

- 100.** Patients' nutritional status needs to be properly assessed and monitored, and arrangements put in place to help patients enjoy their meals in an environment conducive to eating. The desired outcome should be a flexible, cost-effective catering service that provides a good choice of nutritious meals that can accommodate patients' specific dietary requirements.
- 101.** In 2010, we undertook local hospital catering and patient nutrition audits across Wales, to follow up work previously carried out by the Audit Commission in 2002. In March 2011, the Auditor General published a report<sup>3</sup>, which summarised the findings from this work.
- 102.** In autumn 2011, the Welsh Government published the All Wales Nutrition and Catering Standards for Food and Fluid Provision for Hospital Inpatients. NHS bodies were required to be fully compliant with the standards by April 2014. To support the implementation of the standards, caterers and dieticians across Wales worked together to produce the All Wales Hospital Menu Framework, which was launched at the end of January 2014.
- 103.** The Public Accounts Committee has maintained a keen interest in the issues highlighted by the Auditor General's work, taking evidence from witnesses and publishing its own report in February 2012. In 2014, the Auditor General gave a commitment to the Public Accounts Committee that he would undertake appropriate follow-up work to monitor how NHS bodies have taken forward his national and local recommendations. This commitment included taking account of the findings of any subsequent follow-ups undertaken in NHS bodies since 2010.
- 104.** Between March and June 2015, we undertook follow-up work at the Health Board to assess the extent to which it had implemented the Auditor General's national recommendations. We also assessed the extent to which the Health Board had addressed the recommendations made as part of the local audit in 2010 and again in 2014.
- 105.** We concluded that the Health Board has made good progress in addressing recommendations to improve catering and nutrition services. More work is needed to strengthen some aspects of the mealtime experience, to control costs more effectively and to improve performance reporting. We reached this conclusion because:
  - arrangements for meeting patients' dietary and nutritional needs are improving but compliance with recommended beverage rounds needs to improve;
  - there is still scope to improve mealtime experiences for patients;
  - the cost of patient catering services is increasing despite reductions in meal orders and the gap between non-patient catering costs and income is still too big; and
  - arrangements for reporting on hospital catering and nutrition need to improve.

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<sup>3</sup> Wales Audit Office, *Hospital Catering and Patient Nutrition*, March 2011

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The Health Board has made progress in addressing recommendations from previous audit work although important actions remain outstanding in a few key areas

- 106.** In addition to reviewing 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, made as part of my nationally mandated and local programme of audit work, my work has found that while good progress has been made addressing my recommendations, there are eight recommendations from three audits still outstanding. The earliest are from 2012. These recommendations are complex to deliver and are in progress with anticipated dates for completion in 2016-17.
- 107.** Earlier in 2015, as part of our 2014 Annual Audit Report and structured assessment, we issued a number of recommendations to the Health Board. We did so with an expectation that many recommendations would take more than six months to address and embed new working arrangements, because of the complexity of the required action. We have provided our commentary on progress made in my Structured Assessment report. The Health Board has demonstrated good progress in a number of areas, but there remains more to do to address last year's recommendations in full.

# Appendix 1

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## Reports issued since my last Annual Audit Report

Report	Date
<b>Financial audit reports</b>	
Audit of Financial Statements Report	June 2015
Opinion on the Financial Statements	June 2015
Whole of Government Accounts return	July 2015
Summary Financial Statements and Annual Report	September 2015
Financial Statements Memorandum	November 2015
Independent examination of the Health Board's charitable funds financial statements	Scheduled for December 2015
<b>Performance audit reports</b>	
Data Backup and Computer Suite Review	February 2015
Section 33 arrangements – ICT Partnership Powys County Council and Powys teaching Health Board	April 2015
Review of Follow-up Outpatient Appointments	September 2015
Review of Medicines Management	September 2015
Follow-up Review of Hospital Catering and Patient Nutrition	October 2015
Structured Assessment 2015	December 2015
<b>Other reports</b>	
2015 Audit Plan	May 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
Review of Medical Staffing	June 2016
Review of Radiology Services	September 2016

## Appendix 2

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### Audit fee

The 2015 Audit Plan set out a proposed audit fee of £158,227 for Financial accounts work (which includes £1,650 for the independent examination of the Charitable Fund). Whilst some work remains in progress, my latest estimate of the actual fee is in accordance with the fee set out in the 2015 Audit Plan.

The 2015 Audit Plan set out a proposed audit fee of £106,078 for Performance Audit work. Whilst some work remains in progress, my latest estimate of the actual fee is in accordance with the fee set out in the 2015 Audit Plan.

# Appendix 3

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## Significant audit risks

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

Significant audit risk	Proposed audit response	Work done and outcome
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	My audit team will: <ul style="list-style-type: none"><li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li><li>• review accounting estimates for biases; and</li><li>• evaluate the rationale for any significant transactions outside the normal course of business.</li></ul>	Work completed as part of our audit testing. We specifically reported our work on accounting estimates in our 'Audit of Financial Statements Report' presented to the Audit Committee in June 2015. No significant issues arising as a result of our work.
In all entities there is a risk of material misstatement due to fraud in revenue recognition and as such is treated as a significant risk [ISA 240.26-27].	Whilst the majority of the Health Board's income is defined in terms of value and the accounting period it applies to, my audit team will evaluate which types of revenue give rise to such a risk and, where appropriate, focus testing on the timing and value of these transactions.	Income subject to substantive audit testing. No significant issues arising as a result of our work.

Significant audit risk	Proposed audit response	Work done and outcome
<p>There is a risk that the Health Board will fail to meet statutory financial duties. However it is unclear at this stage what those statutory financial duties will be. Guidance is due to be issued by Welsh Government shortly.</p> <p>The month 10 position showed a year-to-date deficit of £16.7m and forecast a year-end deficit of £21.2m (of which £19m relates to the historic brought forward overspend from 2013-14).</p> <p>I may choose to place a substantive report on the financial statements explaining any failures and the circumstances under which they arose.</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 any financial duties set.</p>	<p>My audit team will focus its testing on areas of the financial statements which could contain reporting bias. In particular these relate to significant judgements and accounting estimates at the year-end, including continuing health care claims and primary and specialist health care expenditure.</p>	<p>Work on accounting estimates reported in our 'Audit of Financial Statements Report' presented to the Audit Committee in June 2015. No significant issues arising as a result of our work.</p> <p>Financial duties reported within our substantive report issued alongside our 2014-15 audit opinion.</p>
<p>As part of our 2013-14 audit work, we noted that two executive directors were paid above the salary bands as notified by Welsh Government. Subsequently, the Health Board received retrospective approval for these salary levels.</p>	<p>My audit team will review any changes to executive director remuneration (including new executive directors appointed during the year) to ensure that remuneration levels are in line with Welsh Government notifications.</p>	<p>No significant issues arising as a result of our work. However, we have made a recommendation which was included within our Audit of Financial Statements Report' presented to the Audit Committee in June 2015.</p>

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