



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Annual Audit Report 2016 – Powys Teaching Health Board

Audit year: 2016-17

Date issued: January 2017

Document reference: 713A2016



This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at info.officer@audit.wales.

The team who delivered the work comprised Elaine Matthews, Barrie Morris, Gail Turner-Radcliffe and Jenny Trevor under the direction of Dave Thomas

Contents

Summary report	4
Detailed report	
About this report	7
Section 1: Audit of accounts	
I have issued an unqualified opinion on the 2015-16 financial statements of the Health Board, although in doing so, I have brought several issues to the attention of officers and the Audit and Assurance Committee and placed a substantive report alongside my audit opinion	8
Section 2: Arrangements for securing efficiency, effectiveness and economy in the use of resources	10
The Health Board has successfully delivered significant savings, but there is a need to further strengthen important aspects of financial management in order to comply with Standing Orders and to be well placed to respond to the challenging external financial environment	10
The Board and its committees are functioning well and planning processes are significantly improved, but key assurance requirements are still developing and some issues from previous structured assessments are yet to be fully addressed	12
Appendices	
Appendix 1 – reports issued since my last Annual Audit Report	14
Appendix 2 – audit fee	15
Appendix 3 – significant audit risks	16

Summary report

- 1 This report summarises my findings from the audit work I have undertaken at Powys Teaching Health Board (the Health Board) during 2016.
- 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 and Assurance 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 and Assurance Committee on 17 January 2017. 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).
- 5 The key messages from my audit work are summarised under the following headings.

Section 1: Audit of accounts

- 6 I have issued an unqualified opinion on the 2015-16 financial statements of the Health Board, although in doing so I have brought several issues to the attention of officers and the Audit and Assurance Committee. The key issue being the consistency over the treatment of management accounts estimates in relation to partially completed spells and dentist clawbacks.
- 7 In addition, I placed a substantive report on the Health Board's financial statements alongside my audit opinion. My report explains the two new financial duties introduced on 1 April 2014 by the NHS Finance (Wales) Act 2014, the Health Board's performance against them, and the implications for 2016-17.
- 8 I have also concluded that the Health Board's accounts were properly prepared and materially accurate. My work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts.
- 9 The Health Board achieved financial balance at the end of 2015-16. I set out more detail about the financial position and financial management arrangements in section 2 of this report.

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

- 10 I have reviewed the Health Board's arrangements for securing efficiency, effectiveness and economy in the use of its resources. This includes my Structured Assessment work which has examined the Health Board's financial management arrangements, its governance and assurance arrangements, and the progress made in relation to the improvement issues identified last year. This work has led me to draw the following conclusions:

The Health Board has successfully delivered significant savings, but there is a need to further strengthen important aspects of financial management in order to comply with Standing Orders and to be well placed to respond to the challenging external financial environment

- 11 The Health Board needs to strengthen its strategic financial planning so that the long term strategy of the Health Board can be achieved.
- 12 Arrangements for financial control and stewardship could be enhanced further to ensure that the Health Board continues to meet its financial duty.
- 13 Whilst strong financial monitoring arrangements are in place, financial reporting needs improvement to ensure that the Board receives timely information for decision making purposes.
- 14 The Health Board has delivered against its annual financial aims for 2015-16 and performance in the current year indicates that a balanced financial position will be achieved at the end of 2016-17.

The Board and its committees are functioning well and planning processes are significantly improved, but key assurance requirements are still developing and some issues from previous structured assessments are yet to be fully addressed

- 15 The Health Board successfully produced its IMTP for a second year and continues to strengthen planning processes, although monitoring and reporting on delivery needs further development.
- 16 Overall, the Health Board has made steady progress developing its board assurance framework and strengthening Board and committee effectiveness although issues with information governance have yet to be resolved.

- 17 The Health Board has strengthened its reporting arrangements on the implementation of recommendations. Actions to address the issues and recommendations identified in previous structured assessments are on track but not yet complete.
- 18 We gratefully acknowledge the assistance and co-operation of the Health Board's staff and members during the audit.

Detailed report

About this report

- 19 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 2015 and November 2016.
- 20 My work at the Health Board is undertaken in response to the requirements set out in the 2004 Act¹. 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.
- 21 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 assurance;
 - performance audit examinations undertaken at the Health Board;
 - the results of the work of other external review bodies, where they are relevant to my responsibilities; and
 - other work, such as certification of claims and returns.
- 22 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](#).
- 23 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
- 24 [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 2016 Audit Plan.
- 25 Finally, [Appendix 3](#) sets out the significant financial audit risks highlighted in my 2016 Audit Plan and how they were addressed through the audit.

¹ [Public Audit \(Wales\) Act 2004](#)

Section 1: Audit of accounts

- 26 This section of the report summarises the findings from my audit of the Health Board's financial statements for 2015-16. 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.
- 27 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.
- 28 In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).

I have issued an unqualified opinion on the 2015-16 financial statements of the Health Board, although in doing so, I have brought several issues to the attention of officers and the Audit and Assurance Committee and placed a substantive report alongside my audit opinion

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

- 29 We received the draft financial statements for the year ended 31 March 2016 on 29 April 2016, in line with the agreed deadline. The working papers were prepared to a high standard.
- 30 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 and Assurance Committee on 31 May 2016. **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
Consistent treatment of management accounts estimates	I noted two instances where there were misstatements in the estimation of debtors at the end of the year between 2014-15 and 2015-16. The first related to Partially Completed Spells whereby in 2014-15 an accrual was included but was not in 2015-16. This has resulted in an understatement of expenditure in 2015-16, although we note that it is generally accepted practice in the NHS in Wales to not account for partially completed spells. The second instance related to claw back of under activity from Dentists where no debtor had been included for either 2014-15 or 2015-16 due to staff absence.
Other issues	I also noted issues around: <ul style="list-style-type: none"> • cheques not being cancelled after six months; • journals not being authorised; • retention of journal working papers; • no network audit logs; and • no proactive reviews of user access.

- 31 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 2016 and the return was prepared in accordance with the Treasury's instructions; and
 - Annual Report – I concluded that the Annual Report was compliant with Welsh Government guidance.
- 32 My separate independent examination of the charitable funds financial statements is due to be concluded in December 2016.

My work did not identify any material weaknesses in the Health Board's internal controls

- 33 I reviewed the Health Board's internal controls that I considered to be relevant to the audit to help me identify, assess and respond to the risks of material misstatement in the accounts. I did not however consider them for the purposes of expressing an opinion on their operating effectiveness of internal control. My review did not identify any significant deficiencies in the Health Board's internal controls.

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

- 34 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 and assurance arrangements through my Structured Assessment work, including review of the progress made in addressing Structured Assessment recommendations made last year; and
 - assessing the progress the Health Board has made in addressing the issues identified by reviewing the Health Board's arrangements for tracking progress against external audit recommendations.
- 35 The main findings from this work are summarised under the following headings.

The Health Board has successfully delivered significant savings, but there is a need to further strengthen important aspects of financial management in order to comply with Standing Orders and to be well placed to respond to the challenging external financial environment

- 36 My structured assessment work in 2016 has considered the action that the Health Board is taking to achieve financial balance and create longer-term financial sustainability. I have 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 key findings are summarised below.

The Health Board needs to strengthen its strategic financial planning so that the long term strategy of the Health Board can be achieved

- 37 Arrangements for revenue and capital budget setting need to be strengthened in several important respects to ensure the Health Board complies fully with Standing Orders. Whilst financial planning roles and responsibilities are clear and understood with appropriate processes and budgetary activities documented in the

budgetary controls procedures, we identified a number of weaknesses which the Health Board needs to address.

- 38 Whilst the budgets are prepared to the same timescale as the IMTP, and therefore have links into it, they do not appear to be shaped by a long term strategy because budgets were not considered when drafting the delivery plans that are the foundation of the IMTP.

Arrangements for financial control and stewardship could be enhanced further to ensure that the Health Board continues to meet its financial duty

- 39 Roles and responsibilities for financial control and accountability are clear, although there was a two-month period when the Director of Finance role was vacant. This exposed the Chief Executive, as the Accountable Officer, to a risk that appropriate assurances were not being received. In the absence of an Assistant Director of Finance, short term measures were introduced to cover key aspects of the Director of Finance role by other members of the finance team although the planned review of succession planning arrangements needs to be completed.
- 40 The Health Board can strengthen financial controls by ensuring Standing Orders and Standing Financial Instructions are updated and reviewed periodically and by reviewing the financial control environment to ensure that appropriate processes in place are being adhered to.

Whilst strong financial monitoring arrangements are in place, financial reporting needs improvement to ensure that the Board receives timely information for decision making purposes

- 41 Each month there is a series of meetings between the Director of Finance and the Executive Leads where financial monitoring and savings plans are discussed. The output from these meetings is the financial monitoring report, which is produced to a good standard.
- 42 However, financial reporting needs to be enhanced to provide sufficient information to better inform service design and decision making. As there is no real time tracking of the delivery of savings plans, the Health Board needs to improve the reporting of the achievement of the saving plans.

The Health Board has delivered against its annual financial aims for 2015-16 and performance in the current year indicates that a balanced financial position will be achieved at the end of 2016-17

- 43 We found no evidence that organisational delivery or quality and safety of services could, or has been, compromised to achieve successful in-year financial performance, although Equality Impact Assessments have not always been completed on savings made.
- 44 Our conclusion on the delivery of financial performance is based on the following:

- there is a track record of delivery against budget since the Welsh Government addressed historical financial deficit and increased the Health Board's funding allocation. The Health Board has responded well to the new funding position and is forecasting to break even in 2016-17;
- we found no evidence that organisational delivery or quality and safety of services could, or has been, compromised to achieve successful in-year financial performance, although Equality Impact Assessments have not always been completed on savings made.

The Board and its committees are functioning well and planning processes are significantly improved, but key assurance requirements are still developing and some issues from previous structured assessments are yet to be fully addressed

45 My governance and assurance work has assessed the Health Board's strategic planning and reporting arrangements and the approach for developing and reviewing a board assurance framework. I have also considered the overall effectiveness of the board and its governance structures and the progress made in addressing previous structured assessment recommendations and improvement issues.

The Health Board successfully produced its IMTP for a second year and continues to strengthen planning processes, although monitoring and reporting on delivery needs further development

46 The IMTP was produced in the required timeframe, received board scrutiny and approval and was approved by the Welsh Government's Cabinet Secretary for Health, Well-being and Sport in July 2016. The Health Board has implemented a comprehensive strategic planning model and is taking steps to strengthen planning capability and capacity. There are effective and evolving assurance arrangements to monitor and report progress on the delivery of the IMTP although reports could make better use of summaries, milestones and forecasts. The Health Board is well placed to develop its longer term Health and Care Strategy.

Overall, the Health Board has made steady progress developing its board assurance framework and strengthening Board and committee effectiveness, although issues with information governance have yet to be resolved

47 In reaching this conclusion I found:

- while the process of developing a comprehensive board assurance framework has been prolonged, the Board now understands its assurance requirements and further work is in progress to finalise and effectively implement it;

- the Health Board has undertaken extensive work to strengthen its board and committee effectiveness, although more can be done to deliver effective counter fraud services and clinical audit; and
- information governance remains a concern although recent changes have strengthened strategy development, leadership and assurance arrangements.

The Health Board has strengthened its reporting arrangements on the implementation of recommendations. Actions to address the issues and recommendations identified in previous structured assessments are on track but not yet complete

- 48 My structured assessment work in 2016 has considered the progress made by the Health Board in addressing the 7 recommendations made last year and the 8 recommendations made in 2014. Out of a total of 15 recommendations, 7 have been completed while 8 are on track but not yet complete.
- 49 In addition to reviewing the actions taken to address my previous structured assessment recommendations, I also considered the effectiveness of the Health Board's wider arrangements to respond to my audit recommendations. I found that the Health Board has strengthened its reporting arrangements on the implementation of recommendations.

Appendix 1

Reports issued since my last Annual Audit Report

Exhibit 2: The following table lists the reports issued to the Health Board in 2016

Report	Date
Financial audit reports	
Audit of Financial Statements Report	May 2016
Opinion on the Financial Statements	June 2016
Independent Examination Report on Charitable Fund Account	December 2016
Performance audit reports	
Structured Assessment 2016	December 2016
Other reports	
2016 Audit Plan	March 2016
NHS External Performance Audit Work Protocol	May 2016

Exhibit 3: Performance audits still underway at the Health Board and their estimated completion date

Report	Estimated completion date
Emergency Ambulance Service Commissioning	January 2017
Arrangements for Securing NHS Consultant Services	March 2017
Review of Radiology Services	March 2017
Review of GP Out-of-Hours Services	April 2017
Review of Discharge Planning	July 2017

Appendix 2

Audit fee

The 2016 Audit Plan set out the proposed audit fee of £264,305 (excluding VAT). My latest estimate of the actual fee is in accordance with the fee set out in the outline.

Appendix 3

Significant audit risks

Exhibit 4: Significant audit risks for 2016 and 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"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business. 	Work completed: Review of entity controls; review of accounting estimates, judgments and decisions made by management; testing of journal entries; and review of unusual significant transactions. Key Findings: Our audit work has not identified any evidence of management override of controls. In particular, the findings of our review of journal controls and testing of journal entries has not identified any significant issues.
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.	Work completed: We have reviewed the Health Board's revenue recognition policies, and have carried out testing on material revenue streams (Revenue Resource Limit funding). Key findings: Our audit work has not identified any issues in respect of revenue recognition.
In all entities significant judgements and accounting estimates will be made at the year end. An example of these specific to the Health Board include continuing	My audit team will focus its testing on areas of the financial statements which could contain reporting bias.	Worked completed: Documentation of our understanding of processes and key controls over the transaction cycle; Estimates reviewed where applicable eg Depreciation, Indexation.

Significant audit risk	Proposed audit response	Work done and outcome
health care claims and primary and specialist health care expenditure.		<p>Review of estimates for reasonableness within Provisions and Health Care commissioning</p> <p>Key findings: Our audit work has not identified any additional significant issues in relation to the risk identified.</p>
Revaluation measurements not correct.	<p>My audit team will:</p> <ul style="list-style-type: none"> • Review the internal financial controls relating to PPE valuations; and • Review the accounting entries in respect of any revaluations to ensure these are fully and accurately reflected in the financial statements. 	<p>Work completed: We have reviewed Revaluations, Indexation and Impairments within the financial statements. We have also performed a walkthrough around the risk area.</p> <p>Key findings: Our audit work identified that indexation had been incorrectly calculated, this resulted in a material error. Management have amended for this error.</p>
Healthcare commissioning – Activity variation adjustments to expenditure not correct.	<p>My audit team will:</p> <ul style="list-style-type: none"> • Walkthrough the controls • Substantively test contract expenditure • Agree NHS creditors, debtors, income and expenditure to balance agreements • Test around the year end transactions to ensure that accruals are complete • Substantively test accruals 	<p>Work completed: We have completed a walkthrough for secondary healthcare information, and tested contract activity for Welsh and English authorities.</p> <p>Key findings: Our audit work identified an inconsistency in the approach/treatment for partially completed spells which has a value of £288,000.</p>

Significant audit risk	Proposed audit response	Work done and outcome
<p>Employee remuneration accruals understated (Remuneration expenses not correct).</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • Document our understanding of the processes and key controls over the transaction cycle • Walkthrough the key controls to assess whether those controls are designed effectively • Reconcile the payroll figure in the Statement of Comprehensive Net Expenditure (and supporting notes) to the general ledger and payroll subsidiary system • Undertake a trend analysis of monthly payroll data, to identify and unusual variances on which additional audit procedures may be required. • Review pensions disclosures and agree to underlying evidence for completeness and accuracy • Review senior managers remuneration, salary banding and exit packages disclosures, for completeness and accuracy 	<p>Work completed:</p> <p>Completion of Walkthrough and trend analysis around the completeness assertion for Employee Remuneration.</p> <p>Key Findings:</p> <p>Our audit work did not identify any significant issues in relation to the risk identified.</p>

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone : 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: post@archwilio.cymru

Gwefan: www.archwilio.cymru