

Annual Audit Report 2022 – Public Health Wales NHS Trust

Audit year: 2021-22

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Summary report

About this report

- 1 This report summarises the findings from my 2022 audit work at Public Health Wales NHS Trust (the Trust) undertaken to fulfil my responsibilities under the Public Audit (Wales) Act 2004. That Act requires me to:
 - examine and certify the accounts submitted to me by the Trust, and to lay them before the Senedd;
 - satisfy myself that expenditure and income have been applied to the purposes intended and are in accordance with authorities; and
 - satisfy myself that the Trust has made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources.
- 2 I report my overall findings under the following headings:
 - Audit of accounts
 - Arrangements for securing economy, efficiency, and effectiveness in the use of resources
- 3 This year's audit work took place at a time when NHS bodies continued to respond to the unprecedented and ongoing challenges presented by the COVID-19 pandemic. Health bodies were not only tackling the immediate challenges presented by the public health emergency but were also seeking to recover and transform services to respond to the significant numbers of people who are waiting for treatment and improve population health. My work programme, therefore, was designed to best assure the people of Wales that public funds are well managed. I have considered the impact of the current crisis on both resilience and the future shape of public services.
- 4 I aimed to ensure my work did not hamper public bodies in tackling the crisis, whilst ensuring it continued to support both scrutiny and learning. We largely continued to work and engage remotely where possible using technology, but some on-site audit work resumed where it was safe and appropriate to do so. This inevitably had an impact on how we deliver audit work but has also helped to embed positive changes in our ways of working.
- 5 As was the case in the previous two years, the delivery of my audit of accounts work has continued mostly remotely. The success in delivering it reflects a great collective effort by both my staff and the Trust's officers.
- 6 I have adjusted the focus and approach of my performance audit work to ensure its relevance in the context of the crisis and to enable remote working. I have commented on how NHS Wales is tackling the backlog of patients waiting for planned care. My local audit teams have commented on how governance arrangements have adapted to respond to the pandemic, and the impact the crisis has had on service delivery.

- 7 This report is a summary of the issues presented in more detailed reports to the Trust in 2022 (see **Appendix 1**). I also include a summary of the status of work still underway, but not yet completed.
- 8 **Appendix 2** presents the latest estimate of the audit fee that I will need to charge to cover the costs of undertaking my work, compared to the original fee set out in the 2022 Audit Plan.
- 9 **Appendix 3** sets out the audit of accounts risks set out in my 2022 Audit Plan and how they were addressed through the audit.
- 10 The Chief Executive, the Deputy Chief Executive and Director of Finance have agreed the factual accuracy of this report. We presented it to the Audit & Corporate Governance Committee on July 12. The Board will receive the report at a later Board meeting and every member will receive a copy. We strongly encourage the Trust to arrange its wider publication. We will make the report available to the public on the [Audit Wales website](#) after the Board have considered it.
- 11 I would like to thank the Trust's staff and members for their help and co-operation throughout my audit.

Key messages

Audit of accounts

- 12 I concluded that the Trust's accounts were properly prepared and materially accurate, and I issued an unqualified 'true and fair' opinion.
- 13 The Trust incurred expenditure on NHS Clinicians' pension tax liabilities, which I deem to be outside its powers to spend, so I issued a qualified opinion on the regularity of the financial transactions within the Trust's 2021-22 accounts, and I issued a substantive report setting out the details.
- 14 The Trust met its financial duties in 2021-22.

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

- 15 My programme of Performance Audit work has led me to draw the following conclusions:
- the Trust has a strong commitment to good governance but could tighten up its Board administration arrangements and strengthen its systems of assurance. Plans to review the long-term strategy present an opportunity to strengthen these arrangements by revisiting strategic risks and strengthening assurance frameworks to ensure they drive delivery of its strategic priorities.
 - the Trust is committed to improving its quality governance arrangements. Current arrangements are effective but could be better coordinated to ensure consistency and share learning. Better demographic information in GP records

could significantly improve the Trust's understanding of the equity of its screening services.

16 These findings are considered further in the following sections.

Detailed report

Audit of accounts

- 17 Preparing annual accounts is an essential part of demonstrating the stewardship of public money. The accounts show the organisation's financial performance and set out its net assets, net operating costs, gains and losses, and cash flows. My annual audit of those accounts provides an opinion on both their accuracy and the proper use ('regularity') of public monies.
- 18 My 2022 Audit Plan set out the key risks for audit of the accounts for 2021-22 and these are detailed along with how they were addressed in **Appendix 3 Exhibit 4**.
- 19 My responsibilities in auditing the accounts are described in my [Statement of Responsibilities](#) publications, which are available on the [Audit Wales website](#).

Accuracy and preparation of the 2021-22 accounts

- 20 I concluded that the Trust's accounts were properly prepared and materially accurate and issued an unqualified 'true and fair' audit opinion on them. However, I brought some issues to the attention of officers and the Audit Committee.
- 21 The regularity opinion for 2021-22 is qualified due to the accounts including expenditure and funding (£93,000) in respect of clinicians' pension tax liabilities, and a substantive report was placed alongside the audit report.
- 22 I must report issues arising from my work to those charged with governance (the Audit Committee) for consideration before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues on 14 June 2022. **Exhibit 1** summarises the key issues set out in that report.

Exhibit 1: issues reported to the Audit Committee

Issue	Auditors' comments
Uncorrected misstatements	There are no misstatements identified in the accounts, which remain uncorrected
Corrected misstatements	There were some misstatements in the accounts that have now been corrected by management. These were reported for information in an Appendix to the report.
Other significant issues	Administration and Governance of Human Resources The audit identified one senior staff member who had been paid less than their contractual salary during the 2021-22

Issue	Auditors' comments
	<p>financial year, but this had not been identified by the Trust. For another senior staff member who was on secondment there was a secondment agreement available which stated that the appointment was for 'an initial period of 6 months'. However, they were still in the role after 9 months with no documented extension to the secondment.</p> <p>There were no contracts of employment available for several staff members whose pay was tested during the audit. We identified one agency staff contract where the year-end accrual had been incorrectly calculated, due to the purchase order lines not being matched correctly to the invoices received.</p> <p>Additionally, we requested human resources information as part of the audit which we would expect to be readily available from an individual's personnel records. However, the Trust had to search to find information or obtain it afresh during the audit.</p> <p>Non-NHS Payables and Accruals</p> <p>Our initial testing of payables and accruals identified 2 errors (from a sample of 9) within non-NHS payables and accruals. We were unable to isolate these errors and had to extend our sample (of non-NHS balances) to give us a better idea of the number and value of potential errors. Our additional sample of 18 items identified a further 3 errors. Given the relatively large balances within non-NHS payables and accruals (they total approximately £20 million), we were unable to conclude that the balance was free from material error.</p> <p>Consequently, PHW finance staff undertook their own, much larger, exercise on the remaining balance. The exercise covered approximately £4.5 million of the balance. The audit team sample checked the work undertaken by PHW staff and we concluded that we now had reasonable assurance the balance was materially correct. The audit resulted in reduction in non-NHS payables and accruals of £366,000. It increased the Trust's reported in year surplus by £86,000. This has been amended in the final financial statements. The audit findings suggest that this is an area for the Trust to look to improve for future years.</p> <p>Recommendations for improvement were made and accepted by management on both issues above.</p>

Regularity of financial transactions

- 23 The Trust's financial transactions must be in accordance with the authorities that govern them. It must have the powers to receive the income and incur the expenditure. Our work reviews these powers and tests that there are no material elements of income or expenditure which the Trust does not have the powers to receive or incur.
- 24 The Trust met its financial duties in 2021-22.
- 25 The Trust incurred expenditure on NHS Clinicians' pension tax liabilities of £93,000, which I deem to be outside its powers to spend, so I issued a qualified opinion on the regularity of the financial transactions within the Trust Board's 2021-22 accounts.
- 26 The amounts are included following a Ministerial Direction issued on 18 December 2019 to the Permanent Secretary of the Welsh Government to proceed with plans to commit to making payments to clinical staff to restore the value of their pension benefits packages for additional work undertaken. If NHS clinicians opted to use the 'Scheme Pays' facility to settle annual allowance tax charges arising from their 2019-20 NHS pension savings (i.e., settling the charge by way of reduced annual pension, rather than by making an immediate one-off payment), then their NHS employers would meet the impact of those tax charges on their pension when they retire. The Ministerial Direction was required because the solution could be viewed by HMRC to constitute tax planning and potentially tax avoidance, hence making the expenditure irregular. Managing Welsh Public Money (which mirrors its English equivalent) specifically states that 'public sector organisations should not engage in... tax evasion, tax avoidance or tax planning'.
- 27 A Ministerial Direction does not make regular what would otherwise be irregular, but it does move the accountability for such decisions from the Accounting Officer to the Minister issuing the direction.
- 28 The solution applies only to annual allowance tax charges arising from an increase in the benefits accrued in the NHS Pension Scheme during the tax year ended 5 April 2020. For the tax year ended 5 April 2021, the Chancellor increased the thresholds for the tapered annual allowance and, as a result, it is anticipated that the risk to the supply of clinical staff has been mitigated.
- 29 The Trust received sufficient information during the year to calculate and recognise an estimate of the potential costs of compensating senior clinical staff for pension benefits that they would otherwise have lost, by using the 'Scheme Pays' arrangement. As a result, expenditure was recognised as a provision as shown in Note 23 of the Financial Statements.
- 30 All NHS bodies will be held harmless for the impact of the Ministerial Direction. However, in my opinion, the transactions included in the Trust's Financial Statements to recognise the liability were irregular and material by their nature. This is because the payments are contrary to paragraph 5.6.1 of Managing Public Money and constitute a form of tax planning which will leave the Exchequer as a

whole worse off. The Minister's Direction alone does not regularise the scheme. Furthermore, the arrangements are novel and contentious and potentially precedent setting. As a result, the 'regularity' opinion for 2021-22 was qualified.

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

- 31 I have a statutory requirement to satisfy myself that the Trust has proper arrangements in place to secure efficiency, effectiveness, and economy in the use of resources. I have undertaken a range of performance audit work at the Trust over the last 12 months to help me discharge that responsibility. This work has involved:
- undertaking a structured assessment of the Trust's corporate arrangements for ensuring that resources are used efficiently, effectively, and economically.
 - reviewing the effectiveness of the Trust's quality governance arrangements.
- 32 My conclusions based on this work are set out below.

Structured assessment

- 33 My 2022 structured assessment work took place at a time when NHS bodies were not only continuing to tackle the challenges presented by COVID-19 but were also seeking to recover and transform services to respond to the significant numbers of people who are waiting for treatment and improve population health.
- 34 My team focussed on the Trust's corporate arrangements for ensuring that resources are used efficiently, effectively, and economically, with a specific focus on the organisation's governance arrangements; strategic planning arrangements; financial management arrangements; and arrangements for managing the workforce, digital assets, the estate, and other physical assets. Auditors also paid attention to progress made to address previous recommendations.

Strategic planning arrangements

- 35 My work considered the Trust's strategic planning arrangements, with a particular focus on the organisation's:
- vision and strategic objectives;
 - Integrated Medium-Term Plan;
 - planning arrangements; and
 - arrangements for implementing and monitoring the delivery of corporate strategies and plans.

- 36 My work found that the Trust has good strategic planning arrangements and opportunities exist to strengthen these further through the refresh of its long-term strategy.
- 37 The Trust continues to have a clear vision, and long-term strategy which it is updating to reflect the impact of the pandemic and the cost-of-living crisis. The Trust has a Welsh Government approved Integrated Medium-Term Plan (IMTP) for 2022-2025 which was developed with good engagement from the board. Although the Trust has good internal arrangements for developing and aligning its corporate plans and strategies, there is scope to strengthen Board-level oversight of the Trust's strategic planning arrangements. The Trust has good arrangements for monitoring and scrutinising delivery of its corporate plans and strategies but needs to further consider how it can best measure and demonstrate the overall impact of its work and services.

Governance arrangements

- 38 My work considered the Trust's governance arrangements, with a particular focus on:
- key systems of assurance
 - Board and committee effectiveness; and
 - the extent to which organisational design support supports good governance.
- 39 My work found that the Trust's Board and committees' function well but there is scope to strengthen current systems of assurance. Refreshing the long-term strategy presents an opportunity to better align structures and systems of assurance to strategic priorities and risks.
- 40 Despite positive sources of assurance for performance, quality and information governance, the Trust could strengthen its systems of assurance by developing a comprehensive Board Assurance Framework. The review of the Trust's long-term strategy provides an opportunity to consider this.
- 41 The Board and its committees continue to operate well but there are opportunities to further improve transparency by ensuring up to date information is available on the Trust website, to enhance arrangements for hearing staff and user feedback, and to make greater use of a Board Assurance Framework to shape committee business. The Trust has good leadership arrangements and is continuing to develop its arrangements to support good governance across the organisation.
- 42 The Trust has good leadership arrangements and is continuing to develop its arrangements to support good governance across the organisation.

Managing financial resources

- 43 My work considered the Trust's arrangements for managing its financial resources, with a particular focus on the organisation's:
- arrangements for meeting key financial objectives;

- financial controls; and
 - arrangements for reporting and monitoring financial performance.
- 44 My work found that the Trust has good arrangements to manage its finances, but some administrative processes could be improved.
- 45 The Trust achieved its financial duties for 2021-22 and 2022-23 supported by clear financial objectives underpinning its IMTP. The Trust has good financial controls, but some financial policies are out of date and assurance should be provided to the Board on the actions being taken to address the issues identified in our audit of the 2021-22 accounts. The Trust has good arrangements to monitor and report its financial performance.

Managing the workforce, digital resources, the estate, and other physical assets

- 46 My work considered the Trust's arrangements for managing its wider resources, with a particular focus on the organisation's:
- arrangements for supporting staff well-being;
 - arrangements for managing its digital resources; and
 - arrangements for managing its estate and other physical assets.
- 47 My work found that the Trust could do more to assure its Board that it is managing staff well-being, its buildings, digital resources, and other physical assets effectively.
- 48 The Trust has good operational arrangements to manage its buildings and physical assets, and to engage with staff on well-being matters. The Trust also has clear ambitions for its use of digital technology and is developing its strategic approach to achieving them. However, there are opportunities to strengthen arrangements to demonstrate the impact of its staff well-being initiatives. In addition, the Trust could strengthen the assurance provided to the Board on its strategic approach to managing the estate and to indicate whether its assets are fit for purpose to enable delivery of its strategy.

Quality governance arrangements

- 49 My review examined whether the organisation's governance arrangements support delivery of high quality, safe and effective services. The review focused on both the operational and corporate approach to quality governance, organisational culture and behaviours, strategy, structures and processes, information flows and reporting.
- 50 My work found that that the Trust is committed to improving its quality governance arrangements. Current arrangements are effective but could be better coordinated to ensure consistency and share learning. Better demographic information in GP records could significantly improve the Trust's understanding of the equity of its screening services.

- 51 The Trust is committed to improving its approach to quality, safety and improvement and recognises it will need additional staff resources to deliver its ambitions. The Trust has good risk management arrangements but should ensure operational risks are reported consistently across the business to improve central oversight.
- 52 The Trust has embarked on an ambitious journey to embed quality and improvement across its services, programmes, and functions. Moving forward, it must ensure it has staff resources, integrated processes for clinical audit and quality improvement, and meaningful information about service users. The Trust should also prioritise improving compliance for staff appraisals and statutory and mandatory training and raise the profile of its raising concerns policy and Putting Things Right policy amongst staff.
- 53 The Trust's structures and processes generally support effective governance with plans for further improvement. There is clear information for scrutiny and assurance and good coverage of quality, safety, and improvement at operational, corporate and board level.

Appendix 1

Reports issued since my last annual audit report

Exhibit 2: reports issued since my last annual audit report

The following table lists the reports issued to the Trust since my last annual audit report.

Report	Date
Financial audit reports	
Audit of Financial Statements Report	June 2022
Opinion on the Financial Statements	June 2022
Performance audit reports	
Review of Quality Governance Arrangements	September 2022
Structured Assessment 2022	May 2023 ¹
Other	
2022 Audit Plan	April 2022

My wider programme of national value for money studies in 2022 included reviews that focused on the NHS and pan-public-sector topics. These studies are typically funded through the Welsh Consolidated Fund and are presented to the Public Accounts Committee to support its scrutiny of public expenditure. Reports are available on the [Audit Wales website](#).

¹ The Structured Assessment 2022 report was issued as draft in December 2022.

Exhibit 3: performance audit work still underway

There are several performance audits that are still underway at the Trust. These are shown in the following table, with the estimated dates for completion of the work.

Report	Estimated completion date
Workforce planning	July 2023
Review of screening recovery arrangements	June 2023

Appendix 2

Audit fee

The 2022 Audit Plan set out the proposed audit fee of £167,046 (excluding VAT). My latest estimate of the actual fee, on the basis that some work remains in progress, is keeping with the fee set out in the outline.

Appendix 3

Audit of accounts risks

Exhibit 4: accounts significant risks

My 2022 Audit Plan set out the risks for the audit of the Trust's 2021-22 accounts. The table below lists the significant risks and sets out how they were addressed as part of the audit.

Audit risk	Proposed audit response	Work done and outcome
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>We will:</p> <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. 	<p>As proposed.</p> <p>No issues identified.</p>
<p>NHS Trusts have a financial duty to break even over a three-year rolling period. Although the Trust is forecasting a break-even position for year-end, this duty increases the risk that management judgements and estimates included in the financial statements could be biased in an effort to achieve the financial duty.</p> <p>Where the Trust fails this financial duty, we will place a substantive report on the financial statements highlighting the failure.</p>	<p>We will focus our testing on areas of the financial statements which could contain reporting bias.</p>	<p>As proposed.</p> <p>No issues identified.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>The implementation of the 'scheme pays' initiative in respect of the NHS pension tax arrangements for clinical staff is ongoing. Last year we included an Emphasis of matter paragraph in the audit opinion drawing attention to your disclosure of the contingent liability. Applications to the scheme will close on 31 March 2022, and if any expenditure is made in-year, we would consider it to be irregular as it contravenes the requirements of Managing Welsh Public Money.</p>	<p>We will review the evidence one year on around the take-up of the scheme and the need for a provision, and the consequential impact on the regularity opinion.</p>	<p>As proposed.</p> <p>Regularity opinion qualified (see details in report above)</p>
<p>The Trust is proposing to write-off losses of some £3.5 million in relation to a contract to procure COVID-19 testing kits. The contract was established in April 2020 early in the COVID-19 pandemic. Following changes in science and policy, the testing kits are no longer required. There are risks that the loss is not appropriately approved and not appropriately accounted for in the financial statements.</p>	<p>We will review:</p> <ul style="list-style-type: none"> • the legal advice received by the Trust; • if all required procedures to approve the loss have been followed; and • the accounting entries made in the financial statements. 	<p>As proposed.</p> <p>No issues identified.</p>
<p>The Trust has purchased some £4.8m of Imaging Equipment which will not be delivered to the Trust by 31 March 2022. There are risks around the ownership and control of these assets and</p>	<p>We will review:</p> <ul style="list-style-type: none"> • the agreement between the supplier and the Trust to determine who has ownership and control of the equipment at year end; and 	<p>As proposed.</p> <p>No issues identified.</p>

Audit risk	Proposed audit response	Work done and outcome
the corresponding accounting.	<ul style="list-style-type: none"> the accounting entries made in the financial statements. 	



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