

Annual Audit Report 2020 – Powys Teaching Health Board

Audit year: 2019-20

Date issued: May 2021

Document reference: 2161A2020-21

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Summary report

About this report

- 1 This report summarises the findings from my 2020 audit work at Powys Teaching Health Board (the Health Board) 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 Health Board, 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 Health Board 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 public bodies were responding to the unprecedented and ongoing challenges presented by the COVID-19 pandemic. Given its impact, I re-shaped my planned work programmes by considering how to best assure the people of Wales that public funds are well managed. I considered the impact of the current crisis on both resilience and the future shape of public services and aimed to ensure my work did not hamper public bodies in tackling the crisis, whilst ensuring it continued to support both scrutiny and learning. All on-site audit work was suspended whilst we continued to work and engage remotely where possible through the use of technology. This inevitably had an impact on the delivery of some of my planned audit work but has also driven positive changes in our ways of working.
- 4 The delivery of my audit of accounts work was not without its challenges, not only in how and where we undertook the work, but also in taking account of new considerations for financial statements arising directly from the pandemic. The success in delivering to the amended timetable reflects a great collective effort by both my staff and the Health Board's officers to embrace and enable new ways of working and remain flexible to and considerate of the many issues arising.
- 5 At the onset of the pandemic I suspended the publication of some performance audit reports nearing completion, reflecting the capacity of audited bodies to support remaining fieldwork and contribute to the clearance of draft audit outputs. I have also adjusted the focus and approach of some other planned reviews to ensure their relevance in the context of the crisis. New streams of work have been introduced, such as my review of the Test, Trace and Protect programme, and my local audit teams have contributed to my wider COVID-19 learning work.

- 6 This report is a summary of the issues presented in more detailed reports to the Health Board this year (see **Appendix 1**). I also include a summary of the status of planned work currently being re-scoped.
- 7 **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 2020 Audit Plan.
- 8 **Appendix 3** sets out the financial audit risks set out in my 2020 Audit Plan and how they were addressed through the audit.
- 9 The Chief Executive and the Director of Finance have agreed the factual accuracy of this report. We presented it to the Audit, Risk and Assurance Committee on 26 January 2021. The Board will receive the report at a later Board meeting and every member will receive a copy. We strongly encourage the Health Board 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.
- 10 I would like to thank the Health Board's staff and members for their help and co-operation throughout my audit.

Key messages

Audit of accounts

- 11 I concluded that the Health Board's accounts were properly prepared and materially accurate and issued an unqualified audit opinion on them. My work did not identify any material weaknesses in the Health Board's internal controls (as relevant to my audit). However, I placed two Emphasis of Matter paragraphs in my report to draw attention to disclosures in the accounts relating to Clinicians' pension tax contingent liabilities and the effects of COVID-19 on the estimation of valuations of land and buildings. I brought several additional issues to the attention of officers and the Audit, Risk and Assurance Committee which are set out in my detailed report below.
- 12 The Health Board achieved financial balance for the three-year period ending 31 March 2020, and had no other material financial transactions that were not in accordance with authorities nor used for the purposes intended, so I have issued an unqualified opinion on the regularity of the financial transactions within the Health Board's 2019-20 accounts.
- 13 As the Health Board achieved financial balance and had an approved three-year plan in place and there were no other issues which warranted highlighting, no substantive report was placed on the Health Board's accounts.

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

- 14 My programme of Performance Audit work has led me to draw the following conclusions:
- The Health Board maintained overall good governance during the COVID-19 pandemic
 - The Health Board adapted its financial control procedures to manage during COVID-19 but there is an increasing risk to financial balance at the end of 2020-21
 - Operational plans are informed by data modelling and demonstrate a clear commitment to staff wellbeing and, although progress and performance are monitored and reported, information on commissioned services is currently limited
 - The Health Board demonstrates a commitment to counter-fraud, has suitable arrangements to support the prevention and detection of fraud and is able to respond appropriately where fraud occurs
- 15 These findings are considered further in the following sections.

Detailed report

Audit of accounts

- 16 This section of the report summarises the findings from my audit of the Health Board's financial statements for 2019-20. These statements are how the organisation shows its financial performance and sets out its net assets, net operating costs, recognised gains and losses, and cash flows. Preparing the statements is an essential element in demonstrating the appropriate stewardship of public money.
- 17 My 2020 Audit Plan set out the financial audit risks for the audit of the Health Board's 2019-20 financial statements. **Exhibit 5** in **Appendix 3** lists these risks and sets out how they were addressed as part of the audit.
- 18 My responsibilities in auditing the Health Board's financial statements are described in my [Statement of Responsibilities](#) publications, which are available on the [Audit Wales website](#).

Accuracy and preparation of the 2019-20 financial statements

- 19 **I concluded that the Health Board's accounts were properly prepared and materially accurate and issued an unqualified audit opinion on them. My work did not identify any material weaknesses in the Health Board's internal controls (as relevant to my audit), however, I placed two Emphasis of Matter paragraphs in my report to draw attention to disclosures in the accounts relating to Clinicians' pension tax liabilities and the effects of COVID-19 on the estimation of valuations of land and buildings.**
- 20 We received the draft financial statements for the year ended 31 March 2020 on 21 May 2020, in line with the agreed timetable. The working papers were prepared to a high standard.
- 21 I must report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues to the Health Board's Audit, Risk and Assurance Committee on 25 June 2020. **Exhibit 1** summarises the key issues set out in that report.

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

Issue	Auditors' comments
Uncorrected misstatements	<p>We identified that the prescribing accrual for 2019-20 had been under accrued by £322,000 when compared to the actual amounts for March 2020. We do not consider that this represents a weakness in the Health Board's estimation methodology as this was consistent with previous years. An additional allocation for the value of £270,000 has been received against this amount and has therefore been corrected in the financial statements leaving an uncorrected amount of £52,000. If the £52,000 were to be adjusted, this would reduce the underspend against allocation from £55,000 to £3,000.</p> <p>We identified that an error had been made when entering a value for the impairment of assets. This error amounted to £314,000. If this error were to be adjusted, this would have a nil effect on the year-end position as this would result in an allocation adjustment to match this value.</p>
Corrected misstatements	<ul style="list-style-type: none"> • Additional narrative note to describe the potential impact of a decision to fund NHS Clinicians' pension tax liabilities. • Additional narrative note to describe the material uncertainty included in the valuer's report. • A small number of presentational and typographical errors were identified within the draft financial statements.
Other significant issues	None.

- 22 In addition, we identified some areas for improvement around journal procedures, classification of expenditure and year-end cut-off procedures to ensure expenditure and income are included in the correct year.
- 23 I also undertook a review of the Whole of Government Accounts return. I concluded that the counterparty consolidation information was consistent with the Health Board's financial position at 31 March 2020 and the return was prepared in accordance with the Treasury's instructions.

24 My separate independent examination of the charitable funds financial statements is substantially complete.

Regularity of financial transactions

25 **The Health Board achieved financial balance for the three-year period ending 31 March 2020 and had no other material financial transactions that were not in accordance with authorities nor used for the purposes intended, so I have issued an unqualified opinion on the regularity of the financial transactions within the Health Board's 2019-20 accounts.**

26 The Health Board's financial transactions must be in accordance with authorities that govern them. The Health Board 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 Health Board does not have the powers to receive or incur.

27 Where a Health Board does not achieve financial balance, its expenditure exceeds its powers to spend and so I must qualify my regularity opinion. The Health Board achieved financial balance in 2017-18, 2018-19 and 2019-20 as shown in **Exhibit 2**. The Health Board therefore met its statutory duty to break even over the three years.

Exhibit 2: financial position at year-end

Financial year	Financial position at year-end (£000)
2017-18	96
2018-19	65
2019-20	55

28 As the Health Board met both of its financial duties: to achieve financial balance (as set out above) and to have an approved three-year plan in place; and there were no other issues warranting report, I did not issue a substantive report on the accounts.

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

- 29 I have a statutory requirement to satisfy myself that the Health Board 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 Health Board over the last 12 months to help me discharge that responsibility. This work has involved:
- undertaking a structured assessment of the Health Board's corporate arrangements for ensuring that resources are used efficiently, effectively and economically; and
 - reviewing the effectiveness of the Health Board's counter-fraud arrangements.
- 30 My conclusions based on this work are set out below.

Structured assessment

- 31 My structured assessment work was designed in the context of the ongoing response to the pandemic. I ensured a suitably pragmatic and relevant approach to help me discharge my statutory responsibilities, whilst minimising the impact on NHS bodies as they responded to the next phase of the COVID-19 pandemic. The key focus of the work was on the corporate arrangements for ensuring that resources are used efficiently, effectively and economically. Auditors also paid attention to progress made to address previous recommendations where these related to important aspects of organisational governance and financial management especially in the current circumstances.
- 32 The structured assessment grouped our findings under three themes:
- governance arrangements;
 - managing financial resources; and
 - operational planning: to support the continued response to the pandemic balanced against the provision of other essential services.

Governance arrangements

- 33 My work considered the Health Board's ability to maintain sound governance arrangements while having to respond rapidly to the unprecedented challenges presented by the pandemic. My work found that **the Health Board maintained overall good governance during the COVID-19 pandemic.**
- 34 The Board adapted its governance arrangements to maintain openness and transparency, support agile decision-making and ensure effective scrutiny and leadership during the pandemic. The Board is committed to using learning to help

shape future arrangements. A strong and resilient Executive Team supported by the Board led the organisation during the COVID-19 response.

- 35 Essential systems of assurance were maintained during the COVID-19 response. The Health Board's risk management system ensured it was well placed to respond to COVID-19-related risks. The Health Board is strengthening quality assurance arrangements, including updating key policies and its commissioning assurance arrangements.

Managing financial resources

- 36 I considered the Health Board's financial performance, changes to financial controls during the pandemic and arrangements for monitoring and reporting financial performance. I found that **the Health Board adapted its financial control procedures to manage during COVID-19 but there is an increasing risk to financial balance at the end of 2020-21.**
- 37 The Health Board continued to meet its financial duties in 2019-20. It also delivered £3.7 million of savings in 2020-21, but COVID-19 is affecting its ability to achieve the £5.6 million savings target it set for 2020-21. It continues to forecast breakeven for 2020-21 on the assumption that additional COVID-19 expenditure is funded in full. The Health Board's assessment of the net financial impact of COVID-19 for the year is estimated at £20.1 million. Financial control procedures were adapted to manage during COVID-19 in line with Welsh Government guidance.

Operational Planning

- 38 My work considered the Health Board's progress in developing and delivering quarterly operational plans to support the ongoing response to COVID-19 and to provide other essential services and functions in line with Welsh Government planning guidance. At the time of our work, the focus was on essential services with the aim of restoring normal and routine activities when it is safe and practicable to do so. My work found that **operational plans are informed by data modelling and demonstrate a clear commitment to staff wellbeing. Although progress and performance are monitored and reported, information on commissioned services is currently limited.**
- 39 Quarterly plans reflected the requirements set out in the Welsh Government's Operating Framework. The Health Board revised its strategic priorities as part of its response to COVID-19, which included the identification of additional surge capacity as both a provider and commissioner of services.
- 40 Staff wellbeing is a high priority for the Health Board with focussed attention on protecting staff safety and in ensuring their wellbeing during the pandemic. Some workforce challenges were experienced as the pandemic progressed, but these were less severe than the original modelling has predicted.
- 41 There is good oversight and scrutiny of overall performance and operational plan delivery but the lack of performance information for commissioned services is

particularly challenging with providers largely focused on responding to the pandemic. The pandemic provides challenges to the existing arrangements, although the relationships developed with providers have helped to maintain communication and provide assurance.

Effectiveness of counter-fraud arrangements

- 42 In June 2019, I published an [overview for the Public Accounts Committee](#) describing counter-fraud arrangements in the Welsh public sector. My team then undertook a more detailed examination across a range of Welsh public sector bodies to examine how effective counter-fraud arrangements are in practice and to make recommendations for improvement. In July 2020, I published [Raising Our Game – Tackling Fraud in Wales](#) setting out a summary of my findings and seven 'key themes' that all public bodies need to focus on in raising their game to tackle fraud more effectively.
- 43 Whilst this work was not included in the Health Board's audit plan, I also published an additional report setting out the Health Board's specific arrangements for preventing and detecting fraud. I found that **the Health Board demonstrates a commitment to counter-fraud, has suitable arrangements to support the prevention and detection of fraud and is able to respond appropriately where fraud occurs.**

Appendix 1

Reports issued since my last annual audit report

Exhibit 3: reports issued since my last annual audit report

The following table lists the reports issued to the Health Board in 2020.

Report	Date
Financial audit reports	
Audit of Financial Statements Report	2 July 2020
Opinion on the Financial Statements	2 July 2020
Performance audit reports	
Structured Assessment 2020	October 2020
Effectiveness of counter-fraud arrangements	August 2020
Other	
2020 Audit Plan	March 2020

Exhibit 4: performance audit work still underway

There are a number of performance audits that are still underway at the Health Board. These are shown in the following table, with the estimated dates for completion of the work. These dates are subject to change as we adjust our work in response to the COVID pandemic.

Report	Estimated completion date
Orthopaedics	February 2021
Review of Welsh Health Specialised Services Committee	March 2021
Test, Trace and Protect	February 2021
Unscheduled care	Phase 1 – March 2021 Further work to be included as part of 2021 plan
Quality Governance arrangements	June 2021

Appendix 2

Audit fee

The 2020 Audit Plan set out the proposed audit fee of £262,655 (excluding VAT). My latest estimate of the actual fee, on the basis that some work remains in progress, is in keeping with the fee set out in the outline.

Appendix 3

Financial audit risks

Exhibit 5: financial audit risks

My 2020 Audit Plan set out the financial audit risks for the audit of the Health Board's 2019-20 financial statements. The table below lists these 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>My audit team 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>We completed the following audit work in relation to this risk:</p> <ul style="list-style-type: none">• tested the appropriateness of journal entries and other adjustments made in preparing the financial statements;• reviewed accounting estimates for biases; and• evaluated the rationale for any significant transactions outside the normal course of business. <p>We have raised a recommendation in relation to the journals. Our testing has not identified any other issues to bring to your attention.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>Healthcare commissioning contracts are a high value expenditure stream which could potentially be incorrectly stated resulting in a material misstatement with the greatest risk arising from variations that have not yet been settled in Q4.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • walk through 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; and • substantively test accruals. 	<p>We completed the following audit work in relation to this risk;</p> <ul style="list-style-type: none"> • undertaken a walkthrough of the controls; • substantively tested contract expenditure; • agreed NHS creditors, debtors, income and expenditure to balance agreements; • tested the year-end transactions to ensure that accruals are complete; and • substantively tested accruals. <p>During our testing we noted one contract that was unsigned.</p> <p>Our testing has not identified any other issues to bring to your attention.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>Impact of COVID-19 The COVID-19 national emergency may see a significant delay in the preparation and audit of accounts. There is a risk that the quality of the accounts and supporting working papers, eg around estimate and valuations, may be compromised leading to an increased incidence of errors. Quality monitoring arrangements may be compromised due to timing issues and/or resource availability.</p>	<p>We will discuss your closedown process and quality monitoring arrangements with the accounts preparation team and make arrangements to monitor the accounts preparation process. We will help to identify areas where there may be gaps in arrangements.</p>	<p>We received the majority of audit evidence in electronic format via the use of the Inflo portal. We have used various techniques to ensure its validity, such as the use of screen sharing via Microsoft Teams software to observe reports being run and observed these being uploaded directly in Inflo or attached to secure Mimecast emails.</p>



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