

Annual Audit Report 2020 – Betsi Cadwaladr University Health Board

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Contents

Summary report	
About this report	4
Key messages	5
Detailed report	
Audit of accounts	7
Arrangements for securing efficiency, effectiveness and economy in the use of resources	9
Appendices	
Appendix 1 – reports issued since my last annual audit report	14
Appendix 2 – audit fee	16
Appendix 3 – financial audit risks	17

Summary report

About this report

- 1 This report summarises the findings from my 2020 audit work at Betsi Cadwaladr University 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 Committee on 17 December 2020. 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 my work did not identify any material weaknesses in the Health Board's internal controls (as relevant to my audit). I have therefore issued an unqualified opinion on their preparation. However, I placed an Emphasis of Matter paragraph in my report to draw attention to disclosures in the accounts relating to a Ministerial Direction to fund NHS clinicians' pension tax liabilities in respect of the 2019-20 financial year. My opinion was not modified in respect of this matter.
- 12 The Health Board did not achieve financial balance for the three-year period ending 31 March 2020 and so I have issued a qualified opinion on the regularity of the financial transactions within the Health Board's accounts.
- 13 Alongside my audit opinion, I placed a substantive report on the Health Board's financial statements to highlight the failure to achieve financial balance and to have an approved three-year plan in place.

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 a good overall focus on governance, risk and quality during its response to the first phase of the pandemic;
 - reasonable financial arrangements were put in place to respond to COVID-19, and until the recent additional financial allocation announced in November, there were significant risks to the Health Board's financial position;
 - the Health Board's quarterly operational plans are helping it to respond to a range of complex service risks, but there is a need for a strategy to recover services to help ensure they provide sustainable capacity and improvements in productivity;
 - 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;
 - overall, I found that the interim appointments were made in accordance with SFIs but that the daily rate paid to the Interim Recovery Director was above most of the benchmark comparators;
 - the refurbishment of Ysbyty Glan Clwyd successfully removed the asbestos and created better facilities for patients, but there were several weaknesses in the governance and management of the project, which resulted in significant cost growth; and
 - I found that weaknesses in governance and oversight have led to inefficiencies, variation and tensions in the management of continuing healthcare, but the Health Board has been developing an ambitious plan for improvement.
- 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 4** 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 an Emphasis of Matter paragraph in my report to draw attention to disclosures in the accounts relating to a Ministerial Direction to fund NHS clinicians' pension tax liabilities in respect of the 2019-20 financial year.
- 20 We acknowledge the significant achievement of the Finance team in preparing the financial statements to a good standard, in the face of the challenges posed by the pandemic.
- 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 Committee on 29 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	There were no uncorrected misstatements.
Corrected misstatements	There were several corrected misstatements which corrected classification errors or provided additional narrative disclosure.
Other significant issues	The accounts were amended to include a contingent liability arising from a Ministerial Direction to fund NHS clinicians' pension tax liabilities in respect of the 2019-20 financial year. My audit report includes an Emphasis of Matter in respect of this.

- 22 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 as at 31 March 2020 and the return was prepared in accordance with the Treasury's instructions.
- 23 My separate audit of the Charitable Funds financial statements is almost complete, and I anticipate that the accounts will be approved by the Charitable Funds Committee on 8 December 2020, following consideration of my report on the financial statements, and the audit opinion will be issued shortly afterwards.

Regularity of financial transactions

- 24 The Health Board did not achieve 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 not used for the purposes intended, so I have issued a qualified opinion on the regularity of the financial transactions within the Health Board's 2019-20 accounts.
- 25 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.
- 26 Where a Health Board does not achieve financial balance, its expenditure exceeds its powers to spend and so I must qualify my regularity opinion. For the three-year

period ending 31 March 2020, the Health Board exceeded its cumulative revenue resource limit of £4,566 million by £118.813 million and therefore did not meet its financial duty.

- 27 I have the power to place a substantive report on the Health Board's accounts alongside my opinions where I want to highlight issues. Due to the Health Board's failure to meet its financial duties I issued a substantive report setting out the factual details: it failed its duty to achieve financial balance (as set out above) and it does not have an approved three-year plan in place and is operating under annual planning arrangements.

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

- 28 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;
 - reviewing the effectiveness of the Health Board's counter-fraud arrangements;
 - examining arrangements for making Interim Senior Staff Appointments;
 - reviewing the Refurbishment of Ysbyty Glan Clwyd project; and
 - assessing the management arrangements that support delivery of Continuing Healthcare.
- 29 My conclusions based on this work are set out below.

Structured assessment

- 30 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.

- 31 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

- 32 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 in overall terms, the Health Board maintained a good overall focus on governance, risk and quality during its response to the first phase of the pandemic.**
- 33 The Health Board revised its governance and management arrangements in response to the significant challenges presented by COVID-19. The command and control and cabinet supported agile decision making and effective scrutiny. However, I found scope to improve emergency planning to strengthen resilience arrangements in the future. During the first wave of the pandemic, the Board took steps to conduct its business with transparency and demonstrated good leadership, but the pressures remain, and so there is a need to ensure the resilience of the senior management.
- 34 The Health Board developed specific arrangements for managing risks in relation to COVID-19 alongside continuing preparations to implement its new risk management strategy. My work also recognised some progress in strengthening organisational structures, particularly in acute services but at the same time there are also some concerns in specific areas such as the Mental Health division.

Managing financial resources

- 35 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 **reasonable financial arrangements were put in place to respond to COVID-19, and until the recent additional financial allocation announced in November, there were significant risks to the Health Board's financial position.**
- 36 The Health Board has long-standing financial challenges and has continued to fail to meet its financial duties in 2019-20. Whilst the Health Board delivered slightly more savings than were planned, at just over £35 million, at the time of the audit there were significant financial risks to achieving the Health Board's planned deficit for 2020-21. These risks have since been reduced somewhat through Welsh Government financial allocation to support COVID-19 expenditure and additional funding to support performance improvement, announced in November.

- 37 Building on work started in 2019, the Health Board has continued to improve financial management arrangements and controls, progressing well with recommendations made by external financial consultants. My work also found that key financial controls have operated throughout the pandemic, and the Health Board is undertaking further work to provide the Board with assurance.

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 the Health Board's quarterly operational plans are helping it to respond to a range of complex service risks, but there is a need for a strategy to recover services to help ensure they provide sustainable capacity and improvements in productivity.**
- 39 Like other health bodies in Wales, the Health Board has adopted a shorter-term planning process to help respond to the rapidly changing environment as a result of COVID-19. My work has found that the quarterly planning process is improving, but plans need earlier scrutiny and greater explanation on risks to successful delivery. There also needs to be a stronger explanation of the impact and outcomes expected within the quarterly plans. This should help to ensure that progress monitoring can better assess the benefits achieved by delivery of those plans.
- 40 COVID-19 has exacerbated what was an already challenging position in respect of waiting times for elective treatment. To address this, the Health Board may need to be ambitious in the way it creates the necessary service capacity, engaging internal and external stakeholders in the process, to help shape a sustainable approach to recovery. The Health Board developed change management arrangements necessary to respond to the pandemic, adapted its capacity to meet the expected demand, responded well to its workforce challenges and risks, implemented the rainbow hospitals and progressed with some significant digital developments. The overall response to COVID-19 demonstrated that the Health Board can deliver complex change with pace and it should seek to build on the strengths of those arrangements for the future.

Effectiveness of counter-fraud arrangements

- 41 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, 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.

- 42 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.

Arrangements for Interim Senior Staff Appointments

- 43 [My review](#) examined the process followed by the Health Board in appointing five interim senior staff between February and October 2019, including the Interim Recovery Director. Overall, I found that the interim appointments were made in accordance with SFIs but that the daily rate paid to the Interim Recovery Director was above most of the benchmark comparators.
- 44 My review indicated that all the interim appointments were made using firms listed on approved framework agreements. This is consistent with the provisions set out in the Health Board's Standing Financial Instructions and Procurement Guidance for Staff. The Welsh Government agreed to contribute £350,000 towards the cost of the Interim Recovery Director, but played no part in the appointment itself, which was made by the Health Board before this funding had been confirmed. My work also found that whilst the Health Board asserts that competitive rates were negotiated for the appointment, I found that the £1,890 daily rate being paid by the Health Board for the Interim Recovery Director post is higher than most of the benchmark comparators that were used by officials during the appointment process.

The Refurbishment of Ysbyty Glan Clwyd

- 45 [My report](#) set out a factual account of the key matters contributing to the significant increase in the cost of the Ysbyty Glan Clwyd refurbishment project from that agreed in 2012. The refurbishment resulted in the successful removal of some 300,000 tonnes of contaminated waste from the site of a busy hospital. At the same time, the project has enhanced facilities that will provide patients and staff with a better experience and environment.
- 46 My review of the management of the programme of asbestos removal and refurbishment works at the hospital found weaknesses in the preparation of the business cases, deficiencies in the Health Board's governance and management of this project. The refurbishment was completed broadly on time in February 2019. Overall, there was an increase in project cost which resulted in the Welsh Government contributing £53.2 million and the Health Board contributing £7.2 million more than the £110.4 million funding originally awarded. Both the

Health Board and the Welsh Government have taken action to strengthen their respective future approaches to managing and approving capital projects.

Continuing Healthcare arrangements

- 47 My work assessed the Health Board's management of Continuing Healthcare. I found that weaknesses in governance and oversight have led to inefficiencies, variation and tensions in the management of continuing healthcare, but the Health Board has been developing an ambitious plan for improvement.
- 48 In 2018, the Health Board altered the structure of its Continuing Healthcare team to help create local ownership for service delivery. The restructure created six sub-teams covering geographical areas (East, Central and West), specialist teams and also a corporate management team. However, while solving one issue, the new structure weakened the capacity for central co-ordination and management of continuing healthcare. These weaknesses have meant that services evolved in an unplanned way and led to some inefficiencies and occasional tensions between different teams. I also found opportunities to develop more consistent financial reporting, better utilise the IT systems and improve performance measurement and management.
- 49 More positively, since the autumn of 2019, the Health Board has been developing an ambitious improvement programme which should address many of the issues I identified in the review.

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 Health Board in 2020.

Report	Date
Financial audit reports	
Audit of Financial Statements Report	June 2020
Opinion on the Financial Statements	July 2020
Performance audit reports	
Structured Assessment 2020	October 2020
Effectiveness of counter-fraud arrangements	September 2020
Arrangements for Interim Senior Staff Appointments	March 2020
The Refurbishment of Ysbyty Glan Clwyd	July 2020
Continuing Healthcare arrangements	November 2020
Other	
2020 Audit Plan	March 2020

Exhibit 3: audit work still underway

There are a number of 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.

Report	Estimated completion date
Audit of the Charitable Funds Financial Statements Report	November 2020
Opinion on the Charitable Funds Financial Statements	December 2020
Orthopaedics	December 2020
Review of Welsh Health Specialised Services Committee	December 2020
Test, Trace and Protect	December 2020
Unscheduled care	Phase 1 – February 2021 Further work to be included as part of 2021 plan
Quality Governance arrangements	April 2021
Review of Ophthalmology (deferred with a view to replacement)	

Appendix 2

Audit fee

The 2020 Audit Plan set out the proposed audit fee of £407,921 (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 4: 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>On a sample basis we tested both journal entries and accounting estimates and found no evidence of the management override of controls.</p> <p>We were satisfied that the accounts were free from material error.</p>
<p>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].</p>	<p>My audit team will consider the completeness of miscellaneous income.</p>	<p>As part of our audit testing, we carried out work to provide assurance over the completeness of miscellaneous income, including third party verification. We were satisfied that it was materially stated.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>The Board will once again fail to meet its first financial duty to break even over a three-year period. The position at month 10 shows a year-to-date deficit of £34.3 million and a forecast year-end deficit of £41 million. This, combined with the outturns for 2017-18 and 2018-19, predicts a three-year deficit of £121.1 million. As a result, I will be qualifying my regularity audit opinion and placing a substantive report on the financial statements highlighting the failure.</p> <p>The current financial pressures on the Board increase the risk that management judgements and estimates could be biased to ensure the forecast deficit does not worsen further.</p>	<p>My audit team will focus its testing on areas of the financial statements which could potentially contain reporting bias.</p>	<p>We undertook a range of audit work to provide assurance over the risk of bias to ensure that the actual deficit position did not worsen from the forecasted position. This included:</p> <ul style="list-style-type: none"> • detailed sample testing of transactions either side of the year-end to ensure that they were recorded in the correct accounting period. This was focussed on the areas of greatest risk. • ensuring that accounting estimates were prepared on a reasonable basis and were supported by appropriate accounting judgements. <p>We were satisfied that the accounts were free from material error. However, I qualified the regularity audit opinion.</p>
<p>On 18 December 2019 the First Minister issued a formal Ministerial Direction to the Permanent Secretary requiring her to implement a 'scheme pays' initiative in respect of the NHS pension tax arrangements for clinical staff.</p>	<p>We are considering the accounting treatment and audit implications of the direction (the first in Wales since 1999) in conjunction with the National Audit Office which is currently addressing the same issue in NHS England.</p>	<p>We satisfied ourselves that the contingent liability disclosure made in the accounts was appropriate. An Emphasis of Matter in respect of this matter was contained in the audit report.</p>
<p>Introduction of IFRS 16 Leases in 2020-21 may pose implementation risks.</p>	<p>My team will undertake some early work to review preparedness for the introduction of IFRS 16 Leases.</p>	<p>As a result of the COVID-19 pandemic, the implementation of IFRS 16 was delayed into 2021-22. We will undertake this work next year.</p>



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