WALES AUDIT OFFICE
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# Annual Audit Report 2012

# Powys Teaching Health Board

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The team who delivered the work comprised Anthony Veale, Andrew Doughton, John Dwight and the Powys Teaching Health Board audit team

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# Summary report

**1.** This report summarises my findings from the audit work I have undertaken at Powys Teaching Health Board (the Health Board) during 2012.

**2.** The work I have done at the Health Board allows me to discharge my responsibilities under the Public Audit (Wales) Act 2004 (the 2004 Act) in respect of the audit of accounts and the Health Board's arrangements to secure efficiency, effectiveness and economy in its use of resources.

**3.** My audit work has focused on strategic priorities as well as the significant financial and operational risks facing the Health Board, and which are relevant to my audit responsibilities. More detail on the specific aspects of my audit can be found in the separate reports I have issued during the year. These reports are discussed and their factual accuracy agreed with officers and presented to the Audit Committee. The reports I have issued are shown in Appendix 1.

**4.** The key messages from my audit work are summarised under the following headings.

## Audit of accounts

**5.** I have issued an unqualified opinion on the 2011-12 financial statements of the Health Board, and in doing so I have brought some issues to the attention of officers and the Audit Committee. These relate to formal signing of agreements with other NHS providers, accounting for the costs of retrospective continuing health care claims, and developments relating to the Annual Governance Statement.

**6.** In addition, I placed a substantive report on the Health Board's financial statements alongside my audit opinion. My report draws attention to the additional funding received by the Health Board primarily to enable it to meet its financial targets.

**7.** The Health Board achieved financial balance at the end of 2011-12, because of additional, non-recurring funding from the Welsh Government of £3.9 million received in March 2012. The additional funding received was a draw forward of funding from 2012-13 and will be returned by reducing the funding allocated to that year by an equal amount.

**8.** I have also concluded that the Health Board's:

- internal control environment reduces the risk of material misstatement; and
- significant financial systems were appropriately controlled and operating as intended although there are some areas for improvement.

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

**9.** I have reviewed the Health Board's arrangements for securing efficiency, effectiveness and economy in the use of its resources. This work has involved:

- assessing the effectiveness of the Health Board's governance arrangements through my structured assessment work, with a particular emphasis on the robustness of the organisation's overall assurance framework;

- use of resources work both through the structured assessment, and my programme of local performance audit work; and
- 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.

**10.** This work has led me to draw the following conclusions.

**11.** The Health Board's overall approach to governance has developed during the year, but is not yet sufficiently robust to provide assurance that the strategic service changes required can be delivered effectively and within an appropriate timeframe:

- while governance and assurance arrangements have been enhanced over the last 12 months, there remains scope to strengthen them further; and
- although the Health Board's strategic management approach is improving, it is not yet effective enough to secure the changes required within the required timeframe.

**12.** The Health Board is strengthening its delivery arrangements, but modernisation and change is not keeping pace with the scale of pressures being faced:

- the Health Board's locality management model is its preferred option and should help enable improvement, but there are areas where greater empowerment and accountability may need to be devolved;
- there have been a number of improvements in the planning and delivery of services across the Health Board, but the pace of change needs to improve; and
- my performance audit work during the year has shown some positive developments, as well as some specific areas that need improvement.

**13.** The Health Board is unlikely to achieve a break-even position at the end of 2012-13 and plans to achieve longer-term financial sustainability are still being developed:

- the Health Board's financial reporting accurately reflects transactions during the year;
- the Health Board is unlikely to achieve a break-even position at the end of the year without receiving additional income or having a significant impact on the financial position of its provider health boards and trusts and, in the short term, on patient waiting times; and
- a large number of financial recovery plans have been registered as potential in-year savings but clear programmes to deliver these, to gain the longer-term benefits, are still being developed.

## The factual accuracy of this report has been agreed with the Executive Team

**14.** This report has been agreed for factual accuracy with the Chief Executive and the Director of Finance. It was presented to the Audit Committee on 4 December 2012 and will then be presented to a subsequent Board meeting and a copy provided to every member of the Health Board. I 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.wao.gov.uk).

**15.** The assistance and co-operation of the Health Board's staff and members during the audit is gratefully acknowledged.

# Detailed report

## About this report

**16.** This Annual Audit Report to the Board members sets out the key findings from the audit work that I have undertaken between December 2011 and October 2012.

**17.** My work at the Health Board is undertaken in response to the requirements set out in the 2004 Act. 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 to which the accounts relate has been incurred lawfully and is 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.

**18.** In relation to (c), I have drawn assurances or otherwise from the following sources of evidence:

- the results of audit work on the Health Board's financial statements;
- work undertaken as part of my latest structured assessment of the Health Board, which examined the arrangements for financial management, governance and accountability, and use of resources;
- the Health Board's self-assessment against the Governance and Accountability module of the Standards for Health Services in Wales;
- 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 data matching exercises and certification of claims and returns.

**19.** 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, together with the conclusions from my structured assessment work.

**20.** The findings from my work are considered under the following headings:

- audit of accounts; and
- arrangements for securing economy, efficiency and effectiveness in the use of resources.

**21.** Finally, 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 Outline of Audit Work 2012.

# Section 1: Audit of accounts

**22.** This section of the report summarises the findings from my audit of the Health Board's financial statements for 2011-12. 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.

## My responsibilities

**23.** 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 applicable 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.

**24.** In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).

**25.** In undertaking this work, I have also examined the adequacy of the:

- Health Board's internal control environment; and
- financial systems for producing the financial statements.

## I have issued an unqualified opinion on the 2011-12 financial statements of the Health Board, although in doing so, I have brought a small number of issues to the attention of officers and the Audit Committee and placed a substantive report alongside my audit opinion

## The Health Board's financial statements were properly prepared and materially accurate

**26.** I found the information provided to support the financial statements to be relevant, reliable and easy to understand. The good quality of the draft financial statements was maintained this year. There were a small number of amendments identified at an early stage during the audit, but to some extent, this is to be expected, given the increasingly challenging nature of submission deadlines.

**27.** I am required by ISA 260 to report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues to the Health Board's Audit Committee on 31 May 2012. 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 |
|---|---|
| Agreements with healthcare providers | There were a number of agreements with healthcare providers where one or both parties had not formally signed.<br>Whilst I acknowledge that the terms of the agreements are being met, there is a risk that any formal disputes may be difficult to resolve within a formal, signed agreement. |
| Provisions and contingent liability for retrospective continuing health care claims | The audit testing identified some inconsistencies between the central all-Wales project team and the Health Board's records.<br>Whilst I am satisfied that the overall movement in the provision and contingent liability balances was reasonable for 2011-12, the Health Board will need to address these inconsistencies during 2012-13. |
| Annual Governance Statement | The Annual Governance Statement was required for the first time in 2011-12, with guidance on the content included in the Welsh Government's Manual for Accounts and a model 'template' issued to assist NHS bodies in compiling the statement.<br>My review of the Health Board's statement confirmed that the contents are in line with the guidance issued. However, as the Health Board finalises its Board Assurance Framework, this will allow it to focus on how it gains assurance on the achievement of corporate objectives and provide a more evidenced approach to reviewing governance arrangements for future Annual Governance Statements. |

**28.** 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 2012 and the return was prepared in accordance with the Treasury's instructions; and
- Summary Financial Statements and Annual Report – I concluded that the summary statements were consistent with the full statements and that the Annual Report was compliant with Welsh Government guidance.

**29.** My separate independent examination of the Health Board's Charitable Funds financial statements was completed on 10 January 2013, with an unqualified examiner's report issued.

## The Health Board's internal control environment reduces the risks of material misstatements and its significant financial systems were appropriately controlled and operating as intended although there are some areas for improvement

**30.** My work focuses primarily on the accuracy of the financial statements, reviewing financial systems and internal controls to assess whether they provide assurance that the financial statements are free from material misstatement.

**31.** Exhibit 2 highlights the key areas of work and findings, which I have included in a number of different reports discussed with the Audit Committee.

### Exhibit 2: Financial systems and controls

| Area reviewed | Findings |
|---|---|
| Internal audit | The Health Board's internal audit service has complied with the aims of the Internal Audit Standards for the NHS in Wales but there are some key areas where improvements are required. In particular:<br>• develop an internal audit charter;<br>• review links between the Head of Internal Audit, Accountable Officer and the Board to ensure that arrangements meet the expectations of the standard; and<br>• finalise the Board Assurance Framework, which can then be used as the main focus for directing future internal audit risk assessments and reviews. |
| Budgetary control | Budgetary control is effective, with satisfactory budget setting and effective monitoring and reporting arrangements. Internal audit recommendations relating to control over budget virements will need to be addressed. |
| Main accounting system | The design and operation of controls within the main accounting system are sufficient to allow us to place reliance on them. There are, however, areas where improvements were recommended in the Internal Audit report on *Budgetary Control & General Ledger*. In particular:<br>• authorised signatory lists need to be up to date;<br>• unused ledger codes need to be removed; and<br>• control account reconciliations should have clear evidence of checking and review. |
| IT general controls | I have identified no issues within the IT infrastructure likely to result in a material misstatement in any dependent systems. However, there are some significant issues that should be addressed in order to minimise the risk of future failures, which are still being addressed following the November 2011 report – *Review of Information, Communication and Technology (ICT) Disaster Recovery and Business Continuity Arrangements*. |

| Area reviewed | Findings |
|---|---|
| Significant financial systems | Internal controls in the financial systems are adequate and the Health Board is responding to internal audit recommendations. However, an improved approach is required to assessing and accounting for the costs of retrospective Continuing Health Care claims |
| Prevention and detection of fraud and corruption | The Health Board's arrangements for the prevention of fraud in high-risk areas are satisfactory. |
| Contractor services | I was able to confirm that health board auditors can place assurance on the suitability, design and operating effectiveness of controls, subject to some additional work relating to the dental system in North Wales.<br>Controls are generally operating effectively but there are some risks that the NHS Wales Shared Services Partnership (NWSSP) will need to consider in relation to the NHAIS (information technology) system. My report has been forwarded to the Velindre NHS Trust audit team to follow up now that the services has been transferred to NWSSP. |
| Policies and procedures | The Health Board's corporate risk register and work undertaken by both internal and external audit highlight the need to review, update and approve a number of policies and procedures. Many are now past their specified review date and it is essential that these reviews be completed as soon as possible. |

The Health Board achieved financial balance at the end of 2011-12, but only as a result of year-end additional non-recurring funding from the Welsh Government; as a result I placed a substantive report alongside my audit opinion

**32.** For the 2011-12 financial year, the Health Board incurred net expenditure of £252.556 million. The final resource limit was £252.586 million, which included an additional £3.9 million agreed in March 2012. This meant that the Health Board would have exceeded its resource limit had it not received the additional resource of £3.9 million from the Welsh Government in order to prevent such a breach occurring. In effect, the Welsh Government increased the resource limit in March 2012 to match the net annual expenditure of the Health Board.

**33.** Whilst the Health Board has avoided a qualification of my regularity opinion in 2011-12, it now faces an even tougher financial challenge in 2012-13. The 2012-13 allocation is £3.9 million lower than it would otherwise have been and consequently the Health Board will need to generate additional savings to bridge the gap between its resource allocation and its underlying expenditure pattern. The Health Board's 2012-13 interim financial plan in April 2012 forecasts a £8.1 million funding gap (including the impact of the early draw forward of 2012-13 funding in March 2012).

# 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 reviews at the Health Board over the last 12 months to help me discharge that responsibility.

**35.** This work has involved:

- assessing the effectiveness of the Health Board's governance arrangements through my structured assessment work with a particular emphasis on the robustness of the overall assurance framework;
- use of resources work both through the structured assessment, and my programme of local performance audit work; and
- 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.

**36.** The main findings from this work are summarised under the following headings.

## The Health Board's overall approach to governance has developed during the year, but is not yet sufficiently robust to provide assurance that the strategic service changes required can be delivered effectively and within an appropriate timeframe

### While governance and assurance arrangements have been enhanced over the last 12 months, there remains scope to strengthen them further

**37.** Since my structured assessment work last year, the Health Board has streamlined its committee structure to one that is more proportionate to the size and complexity of the organisation. In the fullness of time, this should help the co-ordination, alignment and flows of assurance to the Board.

**38.** In addition, the key committees have either taken steps to strengthen their effectiveness, or are in the process of doing so. For example, the Quality and Safety Committee has resolved its issue of inquorate meetings, and has also completed an assurance planning exercise to develop a work plan that links to the Health Board's annual plan. The Quality and Safety Committee maintains an appropriate oversight of clinical incident management, and identifies where it needs further improvements in clinical assurance.

**39.** The Audit Committee undertakes annual assessments of effectiveness and will shortly be undertaking a further review to ensure it meets current organisation requirements and the requirements of the revised Audit Committee Handbook. The self-assessment and work-planning exercises should result in improved assurance to the Board for ongoing and operational risks.

**40.** While these developments help strengthen the overall framework for Board assurance, governance arrangements relating to the Health Board's change agenda are not yet sufficiently developed. Explicitly linked to this is the need to maintain oversight of the growing financial challenge, service modernisations and further strengthening of the Health Board's position on commissioned services.

**41.** For all health boards in Wales, the next three to five years bring with them a broad need for change. Governance arrangements need to adapt to these changes, and the Health Board needs to ensure that there is an appropriate governance mechanism to support, challenge, and provide assurance on its programmes of change, modernisation and longer-term priorities. As it stands, the Health Board's governance arrangements are not sufficiently robust to provide assurance that the required pace of improvement is being achieved and that there are appropriate arrangements in place to achieve longer-term financial sustainability.

**42.** Health boards are now required to prepare and publish an Annual Governance Statement. This brings with it a need to adopt a revised approach to governance. There are three significant changes of emphasis between the former statement on internal control and the annual governance statement requirements:

- the defined governance and assurance requirements should be based on an organisational assessment of threats and barriers to achieve corporate objectives, aims and priorities;
- the range of assurance providers will extend beyond traditional and formal forms of assurance and may, for example, include the work of other experts, consultants or review bodies; and
- the preparation of an annual governance statement should be an ongoing process and not a year-end exercise; it should be a tool to help delivery of and provide assurance on the risks and progress in delivering corporate objectives, priorities and aims.

**43.** The Health Board has produced its annual governance statement and reported this in its 2011-12 Annual Report. The requirement to publish an annual governance statement was communicated by Welsh Government at relatively short notice, which meant that it was difficult for the Health Board to significantly amend the existing processes that had been used to generate the statement on internal control. However, in future the Health Board would benefit from adopting an ongoing approach which links its annual governance statement more closely to corporate priorities and the risks and barriers that present a threat to their achievement. This is an important part of a Board Assurance Framework. We recommended last year that the Health Board needed to implement an Assurance Framework, but there has been little progress.

**44.** Risk management arrangements at the Health Board have historically had some areas of weakness. The work by internal audit published earlier this year identified a number of improvement areas which the Health Board needs to address. My structured assessment work this year has primarily considered the Health Board's strategic risk management arrangements.

**45.** I have identified improvements to strategic risk management in the form of:

- clearer lines of accountability of the Risk Management Committee, which now reports to the Board of Directors;
- improving risk ownership;
- better processes for risk management and mitigation; and
- a more succinct corporate risk register that helps the Board focus on key risk areas

**46.** However, there are no specific risk assessments against delivery of corporate objectives, and this is an area that needs attention in order to help identify and remove barriers that impede the delivery of organisational aims.

**47.** The Health Board recognises there's a continuing need to ensure risk management arrangements are fit for purpose. I note that Internal Audit will be following up their work as part of their current audit plan, to determine progress made in more detail.

**48.** As part of this year's work, I have assessed the use of management information by the Board and its committees. My findings (detailed in Appendix 3) indicate that for the purposes of discharging its governance responsibilities, management information is broadly used effectively. However, there is scope for improvement in some key areas, most notably in generating management information that focuses more explicitly on progress in the effective delivery of local strategic aims.

Although the Health Board's strategic management approach is improving, it is not yet effective enough to secure the changes required within the required timeframe

**49.** Last year I reported on the importance of the formal appointment of the Chief Executive following the previous interim arrangements. Since this time, the Health Board has substantively appointed a number of other executive posts. This includes the Director of Nursing, Director of Therapies, Medical Director and Director of Workforce and Organisational Development.

**50.** However, the Health Board has not yet appointed the integrated post of Director of Planning and Public Health. An interim Director of Public Health and an interim Director of Planning are currently covering this important post, which needs to be filled as a matter of urgency. The Health Board is now in the process of recruiting to this post.

**51.** The Health Board approved its annual plan at the Board meeting on 18 April 2012. This plan is an improvement over previous years in that it provides clearer short-term delegation of actions for executive directors. However, corporate planning now needs to develop to a point where the Executive team provide the framework for improvement, but the localities and directorates design the plan.

**52.** My view is that in future the Executive Team will need to distinguish more clearly between its:

- strategic, collective Executive Team responsibilities;
- health professional responsibilities, where there is a health profession leadership role for some executive directors; and
- executive directors' roles in supporting locality and directorate managers to deliver their programmes of change.

**53.** Exhibit 3 highlights matters that the Health Board needs to address.

Exhibit 3: The strategic management approach; matters the Health Board needs to consider

| Matters to be considered | |
|---|---|
| Strategic design | The Health Board has created the locality management arrangement to strengthen delivery. In making this commitment, executive directors now need to fully delegate appropriate accountability to locality general managers.<br>The Health Board needs to take a longer-term strategic outlook, set outcomes, develop its framework and focused corporate priorities and then provide the appropriate mechanism to hold localities and directorates to account, enabling and supporting their improvement. |
| Strategic planning | An annual plan is too short-term to provide the necessary strategic framework for the service changes that are required. There is a need to move to a longer-term strategic planning because:<br>• capital programmes are rarely delivered in a single year;<br>• service modernisation projects often take a number of years, with upfront investment in one year leading to long-term sustained savings in following years;<br>• the annual plan which is executive led may inhibit delegation of responsibility and accountability and measured risk-taking, because localities will have a better understanding of local service and change risks; and<br>• it does not help enable a coordinated programme and project approach. |
| Change management framework | The Health Board only has the beginnings of a programme methodology and programme office support. Because of this, it may be difficult to implement the required programme of work, and also to gauge the pace, cost and effectiveness of changes made. The Executive team recognises the need for a programme management approach and will be in the process of introducing this over the next 12 months. |

## The Health Board is strengthening its delivery arrangements, but modernisation and change is not yet keeping pace with the scale of pressures being faced

### The Health Board's locality management model should support service improvement, providing there is an appropriate and clear devolution of responsibilities to the localities

**54.** The Health Board has now fully committed to a three-locality model, which splits Powys into three 'business units' for north, middle and south Powys. Alongside these localities the Health Board has two directorates, one for Women and Children's Services and the other for Mental Health Services.

**55.** Given the size of Powys and the varying geographical patient pathways and providers, a locality based model should provide a strong foundation to manage both the business and the effectiveness of patient care. It is accepted that it may take some time for the localities' structure, capability and capacity to reach maturity.

**56.** However, if this structure is to work, the Health Board will need to ensure that there is an appropriate devolution of responsibility and autonomy to the localities, with clear lines of accountability back to the main Board. The Health Board will also need to monitor whether having separate directorates alongside its localities is the best way of delivering its aims, or whether integration of the directorates' functions into the three localities is a more appropriate model. At present, the structure can result in inter-departmental barriers to improvement.

### There have been a number of improvements in the planning and delivery of services across the Health Board, but the pace of change needs to improve

**Service changes**

**57.** There are some good signs of action being taken by the Health Board to influence and change activity and referral patterns so that services are more accessible and sustainable. For example:

- podiatric services are expanding in Llandrindod Wells, creating fewer requirements for costly out-of-county care;
- plans are developing for outpatient and day case surgery - orthopaedics, ophthalmology, low-risk general surgery and rheumatology; and
- new renal services are available in the North Locality.

**58.** However, the pace of service transformation is not yet sufficient to contain the growth in financial pressures or meet patient healthcare demand. This may result in the Health Board not meeting financial break-even targets without additional funding. The financial position may also mean that the Health Board will need to take tough decisions on service delivery performance.

**59.** Change and investment at the locality level is fundamental to achieve longer-term efficient and sustainable services. The key to making this effective is getting better information, clear prioritisation, and good internal and external engagement at a local level. At present, the Health Board does not routinely have all these enablers in place.

**60.** The Health Board needs to be able to fund service change projects where the investment made in one year will enable real cash savings to be made in future years. The Welsh Government's Invest To Save scheme provides this flexibility and is being used in service modernisation projects by other public bodies.

### Change management

**61.** I have identified change management as a risk area in my two previous structured assessment reviews, and it is a positive sign that the Health Board is starting to create some structure in its approach to managing change. The work I have undertaken this year has shown that the areas of change management that the Health Board need to focus on are:

- strengthening programme and project skills, capability and ownership in the localities and directorates;
- facilitating the development of locality/directorate programmes and developing robust planning that sets out project outcomes, pathway design with defined service models, stakeholder engagement needs, responsibilities, actions, costs, patient benefits, financial benefits and a realistic timeframe for delivery;
- facilitating the development of a model for executive strategic programme oversight, challenge and support; and
- creating a governance framework to provide assurance to the Board on the effectiveness and pace of change, as previously identified.

**62.** The Health Board is starting to focus on change models using programme and project management arrangements, but needs to ensure that in the next 12 months, the arrangements sufficiently mature and become embedded throughout the organisation. The Health Board is now introducing a programme management office; however, with only one substantive member of staff it is not clear how well this initiative will support improvement.

### Workforce planning

**63.** There have been noticeable improvements in the Health Board's workforce planning. When I undertook my work last year, workforce planning was developing at a corporate level with good corporate-wide analysis. At that time however, the plans lacked the depth of knowledge of future service models and clear action plans.

**64.** This year's workforce planning has become more localised and has started to better anticipate future service workforce needs. This is an improvement.

**65.** Powys is a teaching Health Board and the management team has discussed the focus and approach to teaching and development. The Health Board stands somewhat more isolated from busy urban centres and education centres and it is potentially harder for staff to access some aspects of professional development and experience. The Health Board has the potential to become an agile organisation that can adapt to its challenging and changing environment. To achieve this, the Health Board needs to develop and invest in its workforce in a way that ensures staff become levers and leaders of improvement. This is likely to require development of professional experience and skills, business management skills as well as leadership and change management skills.

### Consultation and engagement

**66.** My previous structured assessment work identified that the engagement of stakeholders and partners was crucial to the successful implementation of the Health Board's plans. This was important then, when the organisation was developing its vision, and it is even more important now when the Health Board is designing and developing pathways and services that are reliant on others.

**67.** The Health Board recognises the risks and the challenges it faces, such as:

- out-of-county acute healthcare providers prepare for changes in their own health care models, which will impact on Powys population's pathways;
- new and proposed repatriated services in Powys which require commitment by neighbouring health boards and trusts for providing outreach services and clinical governance arrangements; and
- pressures and changes in Powys County Council and third sector organisations.

**68.** The Health Board recognises these strategic risks and is proactive in its approach to engagement both for internal services, and also as part of other Health Board's consultation exercises.

**69.** The Health Board is currently in formal consultation on services in South East Powys. While the consultation represents a small change in services, it is important to the community and partners that the process of consultation is open and responsive. The Health Board's current approach on local engagement for local communities is likely to be the most effective.

**70.** It is too early to comment on the effectiveness of the consultation approaches taken by the Health Board, but it is positive to note that the Health Board has assessed itself as fully compliant against Welsh Government consultation guidance.

## My performance audit work during the year has shown some positive developments, as well as some specific areas that need improvement

**71.** Exhibit 4 highlights the key findings from performance audit work completed during the year.

### Exhibit 4: performance audit reviews

| 2012 performance audit reviews |
| --- |
| **Chronic conditions management and unscheduled care**<br>*The Health Board has seen some positive developments but further action in a number of key areas is going to be needed to secure a fundamental transformation of services which will reduce the reliance on the acute sector* |
| Although the strategic vision for chronic conditions and unscheduled care is articulated and is supported by high-level workforce plans, the Health Board lacks robust financial and planning arrangements for these services. In particular:<br>• achievement of the Health Board's vision for chronic conditions and unscheduled care services will require improvements in planning and management arrangements;<br>• the management structures and a lack of comprehensive information weaken the Health Board's arrangements to deliver improvements in chronic conditions and unscheduled care; and<br>• there are positive arrangements for engaging GPs and other stakeholders both internally and externally although greater engagement is needed from consultants and wider NHS partners. |
| **Data quality**<br>*From a low baseline, the Health Board has improved arrangements for ensuring data is valid and accurate, but it needs to become more formalised and include approaches to provide assurance.* |
| Health boards rely on information to both support delivery services and to determine how well they are providing or commissioning services. Data quality is important to ensure that information used by the Health Board is fit for purpose. Our review of the Board's data quality arrangements identified:<br>• senior management demonstrates a commitment to improve data quality but governance and data quality assurance need to be further developed;<br>• there are adequate data quality procedures and processes but policy needs to be formalised, and review and audit arrangements strengthened; and<br>• the quality of key operational datasets is adequate and this has improved over the previous 12 months, but there are some areas for improvement. |
| **Commissioning**<br>*The Health Board is committed to improve commissioning and is becoming more outcome focused* |

## 2012 performance audit reviews

My previous Structured Assessment highlighted that the Health Board's approach to delivering its vision for service modernisation is developing and leading to improvement.

In March 2012, the Wales Audit Office independently facilitated a workshop attended by members of the Executive Board.

The result from that session identified that the information to support effective commissioning needed to be improved, there is stronger recognition that commissioning is a means of developing outcomes, designing pathways and securing outcomes for patients, and that contracting services is just a part of this wider process. The Executive team is currently undertaking additional work to define the commissioning function and improvement actions.

### Information and technology (IM&T) services

*The Health Board has had longstanding issues with the effectiveness of its IM&T services, but the introduction of a Section 33 agreement with Powys County Council should provide more resilience and a better foundation for future development*

The Health Board is making progress implementing our previous recommendations on IM&T services. However, progress is slow and this will limit the extent to which technology can be used to enable modern, efficient healthcare services:

- the Health Board has introduced new IM&T governance and strategic decision-making arrangements and strategy but independent oversight and scrutiny for IM&T remains inadequate;
- although IM&T funding has been increased, it is still not aligned with strategic plans to deliver sustainable IM&T services and support health service improvements; and
- IM&T programme and project management arrangements are developing but operational staff resources are insufficient to support sustainable improvement.

Since the follow-up work, reported in March 2012, the Health Board and Powys County Council have committed to a legally binding partnership agreement, which includes the introduction of an integrated Information Technology department. The Health Board and Council formally approved the agreement in July 2012.

The partners have now created pooled and lead budgets and there is a clear and focused programme of work to build the foundations of an integrated ICT department as well as a small number of infrastructure projects.

There has been progress in a number of areas, but also delays in areas such as team integration. At the time of the review, the governance function of the Section 33 agreement (the joint partnership board) had only met at inauguration of the Section 33 arrangement, and we cannot yet comment on the effectiveness of the new ICT governance arrangements.

### Caldicott arrangements

*Arrangements are not fully in place to ensure that the Health Board complies with the information confidentiality requirements as set out in the Caldicott manual, but is working to address shortcomings*

The Health Board has some weaknesses in its caldicott arrangements but is putting in place the required management and planning to meet caldicott requirements. Processes and policies are in place to help with compliance of caldicott principles, but training and adherence to policy needs to develop further. There is limited independent oversight of caldicott arrangements, but executives have clear responsibilities and are keen to improve arrangements. The information governance subcommittee will need to provide assurance to the Board on progress made.

## The Health Board is unlikely to achieve a break-even position at the end of 2012-13 and plans to achieve longer term financial sustainability are still being developed

### The Health Board's financial reporting accurately reflects transactions during the year

**72.** The Health Board is required to submit monthly monitoring returns to the Welsh Government that report its financial position each month, with a projection of the likely position at the end of the year. The financial position is also reported to each Board meeting.

**73.** Budgetary control work over recent years confirms that both the monthly monitoring returns and Board reports accurately show the income and expenditure transactions during the year.

### The Health Board is unlikely to achieve a break-even position at the end of the year without receiving additional income or having a significant impact on the financial position of its provider health boards and trusts and, in the short term, on patient waiting times

**74.** The 2012-13 interim financial plan prepared for approval by the Board in April 2012 identified a number of financial challenges for the year. These were:

- a rollover of a £2.9 million financial planning gap not resolved in 2011-12;
- removal of savings of £1.7 million, which were achieved in 2011-12, but which were 'one-off' in-year savings;
- the costs of growth in activity in 2011-12, of £5.5 million which were not included in the original budgets for that year; and
- new year costs pressure of £5.1 million.

**75.** In addition, the early draw down on £3.9 million in 2011-12 had to be deducted from the 2012-13 resource allocation, giving a total financial challenge amounting to £19.1 million. Initial financial recovery plans of £11.0 million were identified, leaving a £8.1 million funding gap.

**76.** The Board considered a revised financial plan in June 2012, where further potential savings within a range of between £1.5 and £5 million. If the full potential of these savings were achieved, the result would be a year-end deficit position of £3.1 million.

**77.** The month 6 financial report showed an overspend against budget costs (including the financial recovery plan savings) of £5.2 million for the first six months of the year, with a 'span' of risks within the financial full-year position of between a £5.0 and £13.0 million deficit. The forecast was for a year-end out-turn deficit of £8.8 million.

**78.** There are now limited options in the short term that will create the savings required to break-even in 2012/13.

**79.** The Board in September 2012 considered accelerating some of its strategic plans and using flexibility within the maximum patient waiting times target, although the financial benefits of these actions will not been seen until later in the year. Increasing patient waiting times is a short-term measure only, as the treatment costs will still need to be met at some point in the future.

**80.** Whilst there is scope to make changes to primary care and 'in-house' services, nearly half the costs are incurred in purchasing health care from others. Of the Health Board's expenditure in 2011-12, 23 per cent is spent on primary care (much of which is based on nationally agreed contract terms), 28 per cent on its own hospital and community services (of which 74 per cent is staff costs) and 49 per cent is paid to external providers of health care for Powys patients.

**81.** Another important strand to achieving an improved financial position depends on negotiations with the Welsh health boards and English NHS trusts that provide a significant element of health care to Powys patients. There are clear differences between the costs of patients being treated by English providers and Welsh providers, and between the different health boards in Wales. The analysis the Health Board has undertaken indicates the Welsh framework contracts are:

- more expensive than healthcare commissioned from English providers; and
- are less clear, which means it is harder to hold Welsh providers to account.

**82.** If the lowest charges were applied to all providers, there is scope for a significant reduction in costs, but this then has a knock-on effect on the financial position of those other health care providers. Firm negotiations with service providers will be required if the Health Board is to successfully deliver these cost reductions. However, getting agreement in the current financial climate will be difficult as reduced income from Powys will have a detrimental effect on other health boards' ability to achieve financial break-even.

**83.** The Health Board may also need to consider the future for its estate where it:

- has opportunities to use current or modified facilities available within the county to repatriate services;
- does not lead to the best possible outcomes for patient;
- has significant backlog in maintenance or significant future maintenance costs;
- presents health and safety risks to patients and staff; and
- is inefficient and does not represent value for money for the taxpayer.

## A large number of financial recovery plans have been registered as potential in-year savings but clear programmes to deliver these, to gain the longer-term benefits, are still being developed

**84.** In preparing its annual plan, the Health Board establishes a range of financial recovery (savings) plans. For 2012-13, just over 100 different schemes have been identified, with the potential savings profiled over the current financial year to reflect when the savings are likely to materialise.

**85.** Aspirational financial targets and schemes are set, often based on a high-level view of savings potential, but sometimes these schemes lack ownership or are unachievable, particularly within a narrow window of a financial year. In addition, many of the schemes are for low-value amounts (half are for £50,000 or lower). Low-value savings schemes may require disproportionate effort to achieve small reward.

**86.** Nevertheless, there are some clear signs that the Health Board has made changes (as reported earlier) and that these are resulting in some reductions in costs.

**87.** The requirement to deliver an annual plan does mean that much of the financial recovery requirements are driven more by the need to achieve annual financial balance rather than to create a long-term financially sustainable future.

**88.** The Health Board's strategic approach is to provide safe and appropriate care closer to home, with an emphasis on influencing referral patterns and pathways of care that meet this approach. The benefits of these should lead to reduced costs.

**89.** The financial strategy is based on a range of actions, including:

- care pathway development and management;
- repatriation of services into Powys (and other Welsh providers);
- maximising operational efficiency; and
- improving 'back office' functions.

**90.** We highlighted the requirement for medium term financial planning in our structured assessment report last year. Whilst the Health Board has clarified its financial strategy, the financial impact of changes to be made to service delivery programmes have yet to be modelled and costed in terms of volume of activity and workforce requirements over the medium term. The Health Board aims to conclude this by the end of December 2012.

**91.** The Health Board recognises that it needs to take a programme approach that will integrate combined aims of service modernisation and long-term financial sustainability.

# Appendix 1

## Reports issued since my last Annual Audit Report

| Report | Date |
|---|---|
| **Financial audit reports** | |
| Internal audit review | April 2012 |
| Audit of Financial Statements Report | May 2012 |
| Opinion on the Financial Statements | June 2012 |
| Contractor services | June 2012 |
| Financial systems and controls | July 2012 |
| **Performance audit reports/outputs** | |
| Information management and technology (IM&T) governance – follow-up | March 2012 |
| Data quality | March 2012 |
| Commissioning care for patients | March 2012 |
| Transforming unscheduled care and chronic conditions management | June 2012 |
| **Other reports** | |
| Outline of Audit Work 2012 | February 2012 |
| Contractor services – audit assurance to Health Board auditors | January 2012 |
| Audit Committee progress update reports | For every audit committee meeting |

There are also a number of performance audits that are still underway at the Health Board. These are shown below, with estimated dates for completion of the work.

| Report | Estimated completion date |
|---|---|
| Adult mental health follow-up | November 2012 |
| Workforce development | February 2013 |
| GP prescribing | April 2013 |
| Orthopaedics | April 2013 |

# Appendix 2

## Audit fee

The Outline of Audit Work for 2012 set out the proposed audit fee of £256,162 (excluding VAT). My latest estimate of the actual fee, on the basis that some work remains in progress is in accordance with the fee set out in the outline.

The audit work undertaken in respect of the shared services provided to the Health Board by Contractor Services of £3,072 is included in the fee reported above.

# Appendix 3

## Management information module of the structured assessment

**In undertaking board and committee observations, I have identified some strengths and some areas to consider:**

- board and committee members are effective interpreting information and providing scrutiny and challenge based on the information presented to them;
- board members challenge the quality and reliability of information on between 10-20 per cent of agenda items;
- board members request additional information on around 10% of the agenda items;
- board members demonstrate they triangulate information with their own experience and take opportunity to visit different sites and talk to a range of stakeholders;
- we observed open and frank discussions with appropriate verbal presentation by management.
- board and committees are well chaired; and
- the role and function of the integrated governance committee and the information it receives needs to be reviewed.

**In undertaking a survey of Board members I have identified:**

- board members feel well informed about operational performance, risks and matters relating to quality and that information is timely;
- board members feel less well informed about what users think of services;
- board members do not always have the necessary information to be able to compare the Health board with peers;
- board members aren't always in the position to influence the content of information received by the Board; and
- some board members believe there is too much detail in the information they receive.

**In undertaking a document review of information received by board and committees:**

- Board papers clearly state the purpose, required action of board or committee but can be too long or detailed.
- There are gaps in performance reporting relating to achievement of outcomes, progress in delivery of the strategy programme, cross-sector provider performance, quality and safety, patient experience, and efficiency. In my previous structured assessment, I recommended a number of improvements, but the Health Board has not yet fully responded to these. The Health Board recognises it needs to develop performance information, which links more to local objectives, and is in the process of addressing these issues. At present, the performance reporting is unlikely to fully meet the needs of the Health Board, but it is encouraging that the focus is increasing on outcomes.
- There is reasonable contextual analysis of issues in Board reports.
- Board agenda would benefit by shifting balance toward local priorities, objectives and outcomes.
- The Board and committees do not receive, in an effective manner, information that enables good quality challenge, support and oversight of the programme of change.

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