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Annual Audit Report 2016 – **Aneurin Bevan University Health Board**

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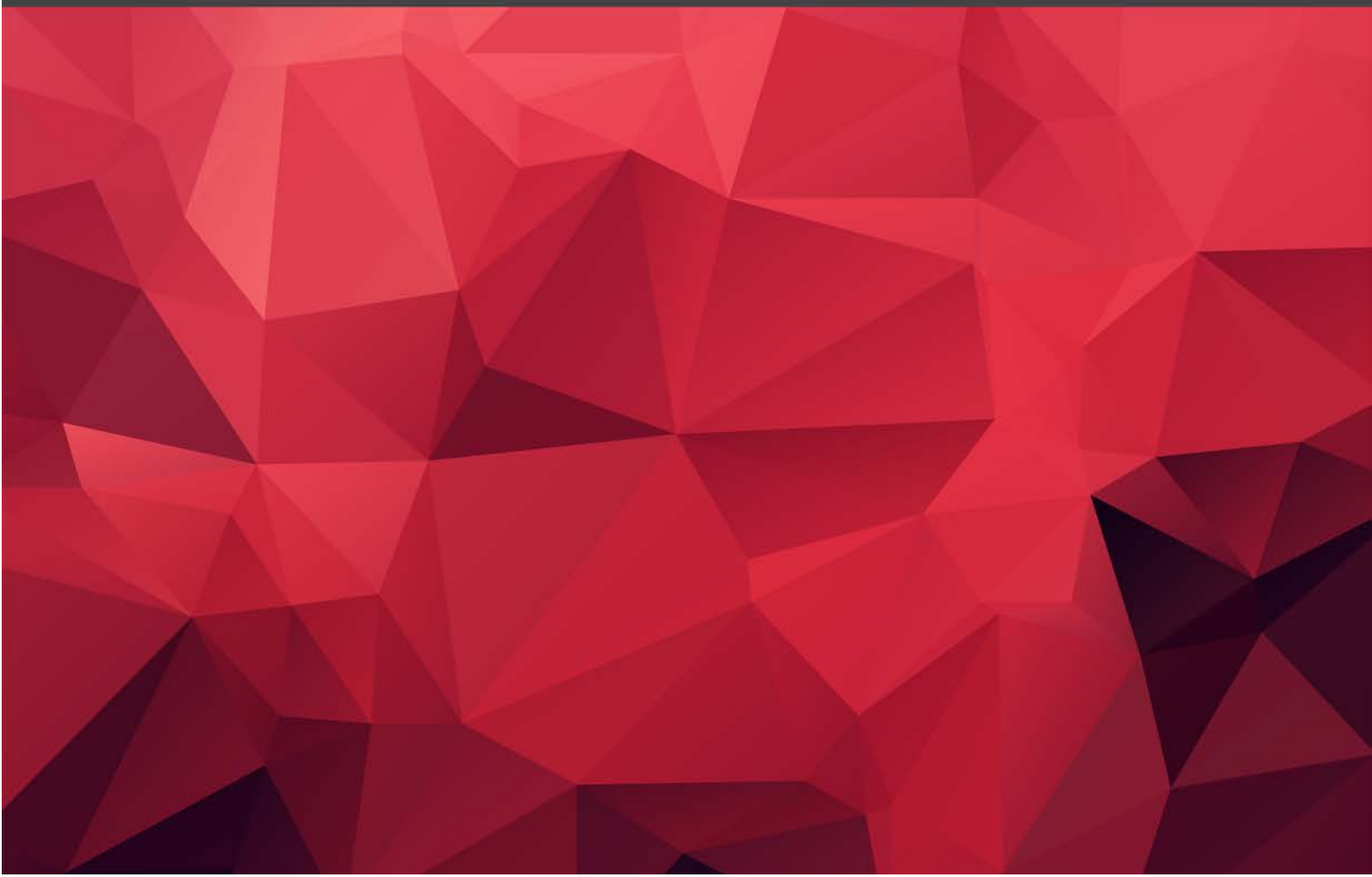

The team who helped me prepare this report comprised John Herniman, David Thomas, Claire Worrall, Gareth Lucey and Andrew Doughton.

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Summary report

Summary

1 This report summarises my findings from the audit work I have undertaken at Aneurin Bevan University Health Board (the Health Board) during 2016.

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

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

4 This report has been agreed for factual accuracy with the Chief Executive and the Director of Finance. It was presented to the Board on 25 January 2017 and a copy provided to every member of the Board. We strongly encourage wider publication of this report by the Health Board. Following Board consideration, the report will also be made available to the public on the Wales Audit Office website.

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

Section 1: Audit of accounts

6 I have issued an unqualified opinion on the 2015-16 financial statements of the Health Board, although in doing so I have brought several issues to the attention of officers and the Audit Committee. These relate to corrected misstatements, matters discussed with management during the financial statements audit and an issue relating to the oversight of the financial reporting process. My work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts.

7 In addition, I placed a substantive report on the Health Board's financial statements alongside my audit opinion. My report explains the two new financial duties introduced on 1 April 2014 by the NHS Finance (Wales) Act 2014, the Health Board's performance against them, and the implications for 2016-17.

8 The Health Board achieved financial balance at the end of 2015-16. I set out more detail about the financial position and financial management arrangements in Section 2 of this report.

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

9 I have reviewed the Health Board's arrangements for securing efficiency, effectiveness and economy in the use of its resources. This includes my structured assessment work which has examined the Health Board's financial management arrangements, its governance and assurance arrangements, and the progress made in relation to the improvement issues identified last year. Performance audit reviews have also been undertaken on specific areas of service delivery. These areas include: use of temporary staff, Gwent Frailty partnership governance arrangements and follow-up of my previous reports on the consultant contract. This work has led me to draw the following conclusions.

The Health Board continues to control budgets and monitor the delivery of savings plans effectively but the scale of the financial pressures may lead to an unsustainable financial position

10 I considered, as part of my work on financial management, how health bodies planned their finances in the short and medium term. I found that financial planning roles and responsibilities are clear, understood, and involve the management and clinical leads in divisions. The Health Board has a clear framework of roles and responsibilities, alongside appropriate control activities and processes. The Internal Audit service continues to undertake reviews on core financial systems each year, with no major issues reported during 2015-16.

11 I have considered the Health Board's approach for financial reporting. This work indicates that there is a track record of monthly monitoring reports reflecting an honest financial position and management reports to the Board show the action the Health Board is taking on the financial position and other financial risks.

12 The Health Board has a track record on delivery of its cost improvement plans and budget. This includes setting stretching financial savings targets to meet service pressures but even in doing so, this still resulted in a budget that was in a deficit position at the beginning of the year. While the Health Board is developing additional financial recovery plans, there remains a risk that the Health Board will not contain spending within its allocation without additional funding.

The Health Board's planning arrangements are positively shaping the organisation and its committees operate effectively, but independent member turnover poses continuity risks and programme management arrangements need further development

13 My work has found that over the last three years, there have been improvements in the function of the Health Board's planning arrangements. This includes expanding the role of the central planning team and ensuring a better balance of executive accountability for developing plans and monitoring delivery against them.

14 I also found that overall arrangements for monitoring, reporting and challenging progress of delivery of the Integrated Medium Term Plan (IMTP) have improved in the past 12 months. The early approval of the IMTP and the recent announcement regarding the approval of the business case for the Specialist Critical Care Centre (SCCC) are evidence of this. However, the Health Board could still do more to demonstrate the degree of progress against the original expectations in Service Change Plans, to provide a better view on progress over time.

15 There are further opportunities for the Health Board to adopt approaches for supporting and enabling change. Given that the SCCC and IMTP have recently been approved, the Health Board will need to review its capability and capacity to manage the capital programme, and wider implementation of related service changes.

16 The Board and its committees operate effectively with a good focus on service quality although the Health Board has needed to make changes to its committee structure to address new assurance needs and shortfalls in independent member capacity. The need for a Board Assurance Framework is currently being explored. In general terms, the Board and its committees will need to ensure they adapt to a range of risks including independent member turnover, performance pressures, and the opportunities and challenges of its ambitious change agenda.

My performance audit work has identified opportunities to strengthen controls and secure better use of resources in a number of key areas

17 My work programme has included reviews of temporary staffing with a specific focus on agency use, progress of the Gwent Frailty Partnership, a follow-up of my previous consultant contract reviews, and assessment of Health Board recommendation monitoring arrangements. My conclusions are set out below.

- The Health Board is taking steps to reduce the demand, use and cost of temporary staff, but it is too early to determine if this will lead to sustained improvement, and there is a need to strengthen arrangements for providing the Board with assurance on quality and safety issues associated with the use of temporary staff.
- The Gwent Frailty Programme has demonstrated positive regional cross-sector partnership working to tackle growing community-based needs, but my work identified some weaknesses in the Programme's governance arrangements and it has yet to evidence tangible improvements in outcomes.
- The Health Board has more to do to embed its consultant job planning processes across the organisation, to secure the intended benefits of the consultant contract, and to implement all of my previous national and local recommendations.

- The Health Board has improved its approach for monitoring progress against external audit recommendations but there is more to do to ensure that all recommendations are fully addressed in a timely way.

18 We gratefully acknowledge the assistance and co-operation of the Health Board's staff and members during the audit.

Detailed report

About this report

19 This Annual Audit Report 2016 to the board members of the Health Board sets out the key findings from the audit work that I have undertaken between December 2015 and November 2016.

20 My work at the Health Board is undertaken in response to the requirements set out in the 2004 Act[1]. That act requires me to:

a) examine and certify the accounts submitted to me by the Health Board, and to lay them before the National Assembly;

b) satisfy myself that the expenditure and income to which the accounts relate have been applied to the purposes intended and in accordance with the authorities which govern it; and

c) satisfy myself that the Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

- the results of audit work on the Health Board's financial statements;
- work undertaken as part of my latest structured assessment of the Health Board, which examined the arrangements for financial management, governance and assurance;
- performance audit examinations undertaken at the Health Board;
- the results of the work of other external review bodies, where they are relevant to my responsibilities; and
- other work, such as certification of returns.

22 I have issued a number of reports to the Health Board this year. The messages contained in this annual audit report represent a summary of the issues presented in these more detailed reports, a list of which is included in Appendix 1.

23 The findings from my work are considered under the following headings:

- Section 1: Audit of accounts
- Section 2: Arrangements for securing economy, efficiency and effectiveness in the use of resources

24 Appendix 2 presents the latest estimate on the audit fee that I will need to charge to cover the actual costs of undertaking my work at the Health Board, alongside the original fee estimate that was set out in the 2016 Audit Plan.

25 Finally, Appendix 3 sets out the significant financial audit risks highlighted in my 2016 Audit Plan and how they were addressed through the audit.

[1] Public Audit (Wales) Act 2004

Section 1: Audit of accounts

26 This section of the report summarises the findings from my audit of the Health Board's financial statements (accounts) for 2015-16. These statements are the means by which the organisation demonstrates its financial performance and sets out its net operating costs, recognised gains and losses, and cash flows. Preparation of an organisation's financial statements is an essential element in demonstrating appropriate stewardship of public money.

27 In examining the Health Board's financial statements, I am required to give an opinion on:

- whether they give a true and fair view of the financial position of the Health Board and of its income and expenditure for the period in question;
- whether they are free from material misstatement – whether caused by fraud or by error;
- whether they are prepared in accordance with statutory and other requirements, and comply with all relevant requirements for accounting presentation and disclosure;
- whether that part of the remuneration report to be audited is properly prepared; and
- the regularity of the expenditure and income.

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

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

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

29 The tight timetable for the production of annual financial statements that are materially correct and well supported, is a challenge for the Board and its finance team. In line with previous years, the Board's finance team prepared a detailed closedown plan for 2015-16. The plan identified responsible officers and key deadlines and included time for review of the financial statements by management and the Audit Committee and production of working papers in time for audit. This systematic approach helped the process and ensured that the financial statements were ready to meet the tight clearance timetable. We will continue to work with finance staff to review the process and experiences this year to identify any areas where improvements can be made for 2016-17.

30 I am required to report issues arising from my work to those charged with governance before I issue my audit opinion on the financial statements. My report was considered by the Audit Committee on 31 May 2016 and Board on 2 June 2016 in time for the submission of the financial statements to the Welsh Government by the deadline. 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	The statutory duty to meet an aggregated three-year resource limit means we will be collating uncorrected misstatements from the audits of 2014-15, 2015-16 and 2016-17 and considering their cumulative impact on the Health Board's performance against the duty when it is measured at the end of 2016-17. We have reviewed the unadjusted errors that we reported last year and have confirmed that in all but one case the Health Board has corrected them. There are no misstatements identified in the 2015-16 financial statements which remain uncorrected.
Accounting Practices and Financial Reporting	**Public Sector Payment Performance** Note 7 to the accounts states that the Health Board met the Welsh Government Public Sector Performance Policy (PSPP) target for paying 95% of non-NHS creditors within 30 days of delivery; 95.6% of bills were paid within this target. The PSPP continues to be potentially misstated due to the way the Health Board reports invoices in dispute. Some invoices in dispute are incorrectly assumed to have been paid within 30 days' which overstates performance.
Accounting Practices and Financial Reporting	**Technical Accounting Adjustment – Accrual for Unpaid Staff Enhancement Costs** The Director of Finance reported to the Audit Committee meeting of 12 May 2016 that an accrual of £3.6 million had been included in the accounts for the first time in 2015-16. The accrual relates to a change in the method of accounting for unpaid staff enhancement costs to account for them on an accruals basis rather than a cash basis. This has the effect of increasing total expenditure incurred by the Health Board by £3.6 million this year, in comparison with 2014-15 when there was no such accrual included. We have reviewed the calculation of the accrual and we are satisfied that it is reasonable. This accrual is a one-off change in accounting treatment and these costs will need to be treated the same way in future years.

Issue	Auditors' comments
Accounting Practices and Financial Reporting	**Accounting for Continuing Healthcare Cost uncertainties** Note 18 to the financial statements reports that over 200 continuing healthcare 'Phase 3' claims have been received by the Health Board for which the assessment process remains incomplete. The Powys Teaching Health Board is reviewing these cases on behalf of all NHS Wales organisations. However, progress to review individual cases is slow. Noting that the claims may result in significant additional costs to each of the NHS Wales organisations, it is of concern that the cases are not yet reviewed sufficiently to allow an assessment of possible costs to be made. Aneurin Bevan Health Board should work with Powys Teaching Health Board to increase the pace at which the cases are reviewed so that potential liabilities can be quantified.
Matters discussed and corresponded upon with management	There was one significant matter discussed and corresponded upon with management during the financial statements audit. In the Remuneration Report, the salary disclosed for the Director of Public Health included £2,000 that relates to Public Health Wales duties and a potential overpayment of some £8,000 – the treatment of which was being considered by the Health Board. Both these items were adequately disclosed in the Remuneration Report.
Other matters significant to the oversight of the financial reporting process	New reporting arrangements for 2016-17 will require the Health Board to produce an accountability report and performance report to an earlier timetable than in previous years. Work is therefore needed in advance of producing the draft accounts to prepare, review and approve these new documents. This will need to be built into the accounts closedown process and monitored by the Audit Committee.

31 On 1 April 2014 the NHS Finance (Wales) Act 2014 amended the NHS (Wales) Act 2006 and required health boards to meet two new statutory financial duties. I issued a narrative report alongside my audit certificate to explain the new duties, the Health Board's performance against them, and the implications for 2016-17.

- The first financial duty gives additional resource flexibility to health boards by allowing them to balance their income with their expenditure over a three-year rolling period, replacing the duty to balance their books over a one-year period. The first three-year period under this duty is 2014-15 to 2016-17, so health boards' performance against this duty will not be measured until 2016-17. Where an LHB does not balance its books over a rolling three-year period, any expenditure over the spending limit set for those three years

exceeds the Health Board's authority to spend and is therefore 'irregular'. In such circumstances, I am required to qualify my 'regularity opinion' irrespective of the value of the excess spend.

- The second financial duty requires health boards to prepare, and have approved by the Welsh Ministers, a rolling three-year IMTP. This duty is an essential foundation to the delivery of sustainable quality health services and delivery of the first financial duty.
  A health board will be deemed to have met this duty for 2015-16 if it submitted a 2015-16 to 2017-18 plan approved by its Board to the Welsh Ministers who had then approved it by the date that the Accountable Officer signed the 2015-16 Financial Statements.
- The Health Board's IMTP for 2015-2018 received Ministerial approval on 2 June 2015. Despite a planned deficit of £19.7 million for 2015-16 (as identified in the Health Board's IMPT), notes 2.1 and 2.2 to the Financial Statements show that the Health Board operated within both its annual revenue and capital resource allocations. Additional Welsh Government funding of £16.8 million announced in December 2015 and successful achievement of its £13 million cash releasing savings plans contributed to the Health Board meeting its targets.

32 As part of my financial audit, I also undertook the following reviews:

- Whole of Government Accounts return – I concluded that the information was consistent with the financial position of the Health Board at 31 March 2016 and the return was prepared in accordance with the Treasury's instructions;
- Remuneration Report – I concluded that the Remuneration Report had been properly prepared in accordance with the National Health Service (Wales) Act 2006 and directions made thereunder by Welsh Ministers; and
- Summary Financial Statements and Annual Report – Changes to the Companies Act means that a separate audit opinion on the consistency of 'Summary Financial Statements' where issued with annual reports instead of full financial statements is no longer required. In any event, the Health Board decided not to issue summary financial statements this year. I concluded that other information available after the audit certificate and report date was not materially inconsistent with the full financial statements.

33 My separate audit of the Charitable Funds financial statements is completed and I issued an unqualified audit opinion on 28 November 2016. I am required to report issues arising from my work to those charged with governance before I issue my audit opinion and my report was considered by the Health Board on 23 November 2016, prior to approval of the statements.

My work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts.

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

35 There were, however, a number of issues arising from my audit work, including the matters referred to in Exhibit 1, and these were reported to the Audit Committee in June 2016.

36 Internal Audit reviews of the Health Board and NWSSP managed financial systems confirmed that a generally sound system of internal financial control is in place. Seven of the eight financial audit reviews during the year including budgetary control and financial planning providing reasonable assurance and one restricted scope review on Charitable Funds (regarding Raffles) providing limited assurance that the internal controls are suitably designed and applied effectively.

37 Internal Audit identified some weaknesses in compliance with policies and procedures in some divisions of the Health Board. Internal Audit's findings require ongoing management action and action plans have been developed to strengthen the control weaknesses identified, and progress is continuing to be scrutinised by the Audit Committee.

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

38 I have a statutory requirement to satisfy myself that NHS bodies have proper arrangements in place to secure efficiency, effectiveness and economy in the use of their resources. I have undertaken a range of performance audit work at the Health Board over the last 12 months to help me discharge that responsibility. This work has involved:

- reviewing the Health Board's financial management arrangements, including the progress being made in delivering cost saving plans and their contribution to achieving financial balance;
- assessing the effectiveness of the Health Board's governance and assurance arrangements through my structured assessment work, including review of the progress made in addressing structured assessment recommendations made last year;
- specific local audit reviews, which include use of temporary staffing and a review of Gwent frailty services phase 2; and
- reviewing the Health Board's arrangements for tracking progress against external audit recommendations.

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

The Health Board continues to control budgets and monitor the delivery of savings plans effectively but the scale of the financial pressures may lead to an unsustainable financial position

40 My structured assessment work in 2016 has considered the action that the Health Board is taking to achieve financial balance and create longer-term financial sustainability. I have assessed the financial position of the organisation, the approach to financial planning, financial controls and stewardship, and the arrangements for financial monitoring and reporting. My key findings are summarised below.

Operational financial planning and budget setting arrangements are effective but longer-term financial plans do not yet demonstrate a sustainable position

41 I considered as part of my work on financial management how health bodies planned their finances in the short and medium term. I found that financial planning roles and responsibilities are clear, understood, and involve both the management and clinical leads in divisions. In addition, the Health Board has appropriate processes for establishing a financial plan as part its IMTP.

42 The 2016-2019 IMTP received Cabinet Secretary approval in June 2016 on the condition that the Health Board actively manages the £12.8 million financial risk outlined in the plan. The Health Board has indicated that further work is required to determine how service and workforce plans will deliver within the resources available. Welsh Government funding settlements are forecast to be less generous after 2016-17, which may place significantly greater pressure on the financial position of the Health Board.

In-year controls operate effectively and ensure appropriate financial stewardship

43 The Health Board has a clear framework of roles and responsibilities, alongside appropriate control activities and processes. The Internal Audit service continues to undertake reviews on core financial systems each year, with no major issues reported during 2015-16. The Health Board's Audit Committee also plays an active part in the control framework, identifying new assurance requirements through a continuous risk assessment process. The Committee regularly reviews Internal Audit reports and monitors recommendations for improvement to identify any further areas of risk.

Financial reporting is sufficient to inform decisions where corrective action is required

44 I have considered the Health Board's approach for financial reporting to the Board. This work indicates that monthly monitoring reports reflect an honest position. Reports to the Board are clear enough to inform readers on the extent of action the Health Board is taking on the financial position and other financial risks. However, the current reporting format does not clearly highlight the underlying reasons behind movements in financial position. In response to financial reports received this year, the Health Board is developing additional in-year financial recovery plans to address additional financial pressures experienced during the year. This helps to demonstrate a responsiveness to financial risks and new pressures.

45 There have been few ad hoc financial reports submitted to the Board or Audit Committee and no significant year-end adjustments to the financial position for several years, offering further assurance over the Health Board's financial monitoring and reporting processes.

The Health Board successfully managed its 2015-16 spend within the revenue resource limit, but was reliant on additional in-year Welsh Government funding and its current financial position remains a risk

46 The Health Board has a track record on delivery of its cost improvement plans and budget and sets stretching financial savings targets but, even in doing so, resulted in a budget that was in a deficit position at the beginning of the year. The Health Board generally maintains the financial position during the year without significant unexpected cost growth.

47 Despite a planned deficit of £19.7 million for 2015-16 identified in the Health Board's IMTP, the Health Board operated within both its annual revenue resource allocation and annual capital resource allocation. Additional Welsh Government funding of £16.8 million announced in December 2015 and successful achievement of its £13 million cash releasing savings plans contributed to the Health Board meeting its targets.

48 The current year forecast is a deficit of £4.1 million at December 2016. While the Health Board is developing additional financial recovery plans to manage its financial risks, there remains a risk that the Health Board will not contain spending within its allocation without additional funding.

The Health Board's planning arrangements are positively shaping the organisation and its committees operate effectively, but independent member turnover poses continuity risks and programme management arrangements need further development

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

The Health Board continues to strengthen strategic planning but it needs to further develop its change management capacity to ensure it achieves the benefits set out in its key strategic programmes and specialist critical care centre programme

50 The findings underpinning this conclusion are based on my review of the Health Board's approach to strategic planning[2], and the arrangements that support delivery of strategic change programmes underpinning the IMTP. My work has found that over the last three years, there have been improvements in the function of the Health Board's planning arrangements. This includes expanding the role of the central planning team and ensuring a better balance of executive accountability for developing plans and monitoring delivery against them.

51 I also found that overall arrangements for monitoring, reporting and challenging progress of delivery of the IMTP have improved in the past 12 months. The Health Board continues to improve the way it describes its change expectations in the IMTP through a number of defined service change plans contained within it. However, the Health Board could still do more to demonstrate the degree of progress against the original expectations in service change plans, to provide a better view on progress over time.

52 There are further opportunities for the Health Board to adopt approaches for supporting and enabling change. I found that the Health Board has made a significant effort in rolling out IQT[3] skills training which supports operational quality improvement. However, the Health Board has not yet effectively adopted a formal change management approach for programme and project management nor is there a formal programme management office. The specialist critical care centre and IMPT has recently been approved. In light of this, the Health Board will need to review its capability and capacity to manage its capital programme, related service changes and wider implementation of the clinical futures programme.

The Board and committees operate effectively, but there are risks to the continuity of independent membership and board assurance framework arrangements need to better link to longer-term achievement of objectives

53 In reaching this conclusion I found:

- the Health Board has made changes to the design of its assurance arrangements driven by new assurance needs and independent member capacity and it is starting to explore the need for a Board Assurance Framework; and

[2] Audit work has not duplicated the Welsh Government's IMTP scrutiny work, but has considered actions taken by NHS bodies in response to any Welsh Government feedback on the plan or plan approval conditions.

[3] Improving Quality Together website

- the Board and its committees continue to conduct themselves in an appropriate and quality focussed manner, and will need to ensure they adapt to a range of risks including member turnover, performance pressures, and the opportunities and challenges of its ambitious change agenda.

54 Board assurance frameworks and assurance mapping are formal arrangements to help organisations to design assurance requirements and processes in a way that helps them to deliver against their objectives. The Health Board has started to discuss how formal board assurance frameworks might benefit the organisation with an initial session facilitated by external consultants. While there is no formal assurance mapping process, the Health Board has arrangements to help determine its assurance requirements and systems of assurance. This includes use of the healthcare standards governance and accountability self-assessments, committee self-assessments and board development sessions. The results of the facilitated session have helped the Health Board to form a view on additional work required and which forms part of the ongoing improvement approach, led by the Chief Executive and the Board Secretary.

55 During the year, the Health Board changed its committee structur, in part because of a shortfall in independent member capacity. A shortfall of independent members emerged over the past 12 months and while some appointments have been made, the Health Board continues to experience capacity risks as a number will be reaching the end of their term during 2017. I understand that once the Board returns to complement, it has opportunity to reassess the scope and function of committees to ensure they meet the evolving needs of the Board.

56 Where my auditors have attended and observed at committees, they have observed good interoperability between committees and between a committee and the Board. This has included escalation of issues and matters for board attention, delegation of issues identified at board to a committee for further investigation, and transfer of concerns from one committee to another. Board meetings continue to operate effectively with a quality-focussed approach that uses patient stories to help to centre the meeting on patient care and experience.

The Health Board is making reasonable progress to address the issues identified in last year's structured assessment

57 My review of progress on previous structured assessment recommendations identified that the Health Board is making progress in a number of areas. Of the 15 recommendations made in 2014 and 2015, three are complete, 11 are on track but still in progress and one is showing insufficient evidence to indicate progress. The Health Board is making a considerable effort to fully address remaining issues and it is recognised that many of the issues covered by the recommendations are complex and challenging.

My performance audit work has identified opportunities to strengthen controls and secure better use of resources in a number of key areas

58 This section provides a summary on my local and mandated performance audit work programme that I have reported over the last 12 months. This includes reviews of temporary staffing with a specific focus on agency use, progress of the Gwent Frailty Partnership, a follow-up of my previous consultant contract reviews, and assessment of Health Board recommendation monitoring arrangements.

The Health Board is taking steps to reduce the demand, use and cost of temporary staff, but it is too early to determine if this will lead to sustained improvement, and there is a need to strengthen arrangements for providing the Board with assurance on quality and safety issues associated with the use of temporary staff

59 My work on the Health Board's use of temporary staff has identified that it has good information to help it understand its demand for temporary staff, which is mainly driven by vacancy, sickness, maternity, and training/study leave absence. The issue of workforce demand, nurse agency and locum agency usage and spend is regularly discussed and challenged at the Board and in a number of its committees.

60 In response to increasing staffing pressures, the Health Board has introduced a range of controls to reduce demand for agency staffing, but it is too early to determine whether these controls will result in a sustained reduction in demand in the longer term. The measures it has taken have included increasing bank staff remuneration rates to attract more staff to the pool of bank workers, activity to improve retention, and local and international recruitment exercises.

61 The Health Board has a good understanding of temporary staffing costs at a high level to support scrutiny and decision-making, and more detailed financial information to support operational management. In total across all divisions in the Health Board, spend on nursing agency in 2015-16 was £10.2 million. While monthly 2015-16 costs for agency medical staffing generally have been lower than the nursing agency costs, medical and dental locum agency costs for December and March showed peaks in spend. We are aware of increasing pressure on the medical workforce that is resulting in increased use of agency staffing.

62 Around 90% of the expenditure on agency nursing during 2015-16 was with an agency supplier for which the Health Board has no contract. The Health Board's use and reliance on 'off-contract' agency had incrementally increased over time and has been driven by high demand, combined with a low supply from contract framework agencies. This influenced its use of more expensive agency suppliers. The Health Board has now put in place mechanisms to limit the use of expensive 'off-contract' nursing agencies and it is understood that the actions taken have

significantly reduced use of off-contract suppliers since the beginning of the 2016-17 financial year.

63 The Health Board has good arrangements to detect and respond to temporary staffing related fraud. It is working with the Local Counter Fraud team to raise awareness amongst staff of whistle-blowing mechanisms, and is actively investigating and taking action, as appropriate, on a small number of cases. The Health Board recognises, however, that fraud incidence is negligible for agency staff and that most cases identified relate to the Health Board's substantive staff.

64 The Health Board is taking reasonable measures to assure the quality of temporary staff before and during their employment. But it does not have fully effective arrangements for inducting and training its temporary workforce or sufficient information to enable it to understand patterns of adverse incidents related to temporary staff use. There is room to strengthen the assurance that committees receive to help identify any quality and safety concerns relating in general to the use of temporary workforce. The Health Board does, however, respond to and address individual issues as they arise.

The Gwent Frailty Programme has demonstrated positive regional cross-sector partnership working to tackle growing community-based needs, but my work identified some weaknesses in the Programme's governance arrangements and it has yet to evidence tangible improvements in outcomes

65 My work on the Gwent Frailty Programme identified that it successfully brought together partners who invested time and resources with the aim of improving outcomes for frail elderly people. However, the financial aims of the programme were not achieved, and positive outcomes for individuals remain difficult for partners to evidence.

66 I considered the partnership's governance arrangements, effectiveness of engagement of partners in key decisions and the transparency of the business of the partnership over the lifetime of the programme. In particular, I found that the governance arrangements provided for timely decision-making but partner organisations were not always kept adequately informed of important issues affecting the Programme, such as the emerging large underspend. In general, financial reporting arrangements within the Programme were adequate but performance reporting was not fit for purpose. Public transparency and decision recording started well but became weaker over time and routine scrutiny of decisions by the Gwent Frailty Committee was not robust, although most partners reported annually through their own scrutiny arrangements.

67 I also considered the extent that partners are committed to the programme and some of the risks and opportunities going forward. I found that the Programme has benefited from a strong commitment from the partner organisations but this needs to be re-confirmed in the context of the financial and operational challenges facing the individual organisations. In addition, at the time of my work, the future direction of the Programme was unclear, and the partnership was at a pivotal point and

partners were yet to agree a clear vision, which needed measurable outcomes and benefits.

The Health Board has more to do to embed its consultant job planning processes across the organisation, to secure the intended benefits of the consultant contract, and to implement all of my previous national and local recommendations

68 The Health Board has established some good arrangements for annual job plan reviews, but further work is needed to address previous audit recommendations. The amended NHS Wales Consultants' Contract (the contract) came into effect on 1 December 2003 and it states that a consultant's job plan should be reviewed at least annually to ensure that job plans take account of changing patterns of service delivery. 99% of consultants have a job plan, but only around half are reviewed annually. To support the job planning process, the Health Board has developed good guidance and training materials, however, attendance at job plan meetings does not consistently follow the arrangements set out in the national guidance and annual appraisal and job planning could be better aligned.

69 The contract is clear that consultants should agree an appropriate set of outcomes, relevant to the speciality, that are challenging, transparent, and innovative. While some specialties in the Health Board have made progress, more work is needed to embed the setting and monitoring of appropriate outcomes across the organisation.

70 The Health Board could also do more to secure the benefits from the contract, particularly in using job planning to support service improvement, promote outcome setting, and monitor excessive hours. A key aim of the contract is to facilitate closer working between health managers and consultants to enhance the quality of service and benefit patients. Job planning is used to support service improvement in some clinical services in the Health Board, but more work is needed to ensure it is used to engage consultants in the process of service modernisation. In addition, supporting professional activities include training and teaching the next generation of doctors, carrying out research, clinical audits and clinical governance. Job planning approaches in the Health Board includes the type and number of supporting professional activities sessions required, but more work is needed to promote outcome setting and monitoring to ensure the benefits of these activities are maximised.

71 The contract also states that a working week for a full-time consultant will comprise of ten sessions each nominally lasting three to four hours. As at March 2015, the proportion of consultants at the Health Board working more than 12 sessions in the Health Board reached 27%. This may bring risks to the well-being of staff involved and also to the safety of services provided. The Health Board needs to ensure it monitors excessive hours, adequately recognises on-call arrangements in job plans, and makes better use of team job planning to help manage those risks.

The Health Board has improved its approach for monitoring progress against external audit recommendations but there is more to do to ensure that all recommendations are fully addressed in a timely way

72 In addition to reviewing the actions taken to address my 2014 and 2015 structured assessment recommendations, I also considered the effectiveness of the Health Board's wider arrangements to monitor progress against my audit recommendations more generally. I found that the Health Board has introduced an approach for tracking external audit recommendations. The Audit Committee now tracks progress in response to external audit recommendations but there is more to do to ensure that all recommendations are fully addressed in a timely way.

Appendix 1

Reports issued since my last annual audit report

Exhibit 2: Reports issued since my last annual audit report

Report	Date
Financial audit reports	
Audit of Financial Statements Report	June 2016
Opinion on the Financial Statements	June 2016
Audit of the Charitable Funds financial statements	November 2016
Performance audit reports	
Follow-up Review of Consultant Contract	September 2016
Structured Assessment 2016	December 2016
Review of Gwent Frailty – phase 2	October 2016
Review of temporary staffing	November 2016
Other reports	
2016 Audit Plan	April 2016

Exhibit 3: Performance audit work still underway

There are also 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.

Report	Estimated completion date
Review of Radiology Services	March 2017
Review of GP Out-of-Hours Services	April 2017
Review of Discharge Planning	July 2017
Follow-up outpatients – progress update	March 2017
Strategic workforce planning – support and challenge (output may not take the form of a formal written audit report).	June 2017

Appendix 2

Audit fee

The 2016 Audit Plan set out the proposed audit fee of £417,992 (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.

Appendix 3

Audit risks

Exhibit 5: Audit risks

My 2016 Audit Plan set out the audit risks for 2016. 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
The Health Board has a duty to ensure that robust accounting records and internal controls are in place to ensure the regularity and lawfulness of transactions.	My audit team will test accounting records and internal controls in place that are relevant to the audit to ensure accuracy, regularity and lawfulness of transactions.	Accounting records and internal controls tested as planned and found to be robust. No evidence found of irregular or unlawful transactions.
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	My audit team will: • 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.	Audit work carried out as planned and no evidence found of management override of controls.

Audit risk	Proposed audit response	Work done and outcome
There is a risk that the Health Board will fail to meet its annual revenue resource allocation. The month 9 position showed a year-to-date deficit of £5.4 million but forecasts a year-end breakeven position. The current financial pressures on the Health Board increase the risk that management judgements and estimates could be biased in an effort to achieve the resource limit. I may choose to place a substantive report on the financial statements explaining the Board's performance against its statutory financial duties under the NHS Finance (Wales) Act 2014.	My audit team will focus its testing on areas of the financial statements which could contain reporting bias.	Audit work confirmed that the Health Board met its annual revenue resource allocation for 2015-16. I issued a narrative report alongside my audit certificate to explain the new duties, the performance of the Health Board against them, and the implications for future years.
There is a risk that the Health Board will face severe pressures on its cash position at year-end. The month 9 monitoring report forecasts a cash shortfall at year-end of £5.9 million. A shortfall of cash is likely to increase creditor payment times and impact on Public Sector Payment Policy (PSPP) performance. Public Sector payment policy and disclosures remain a risk area given concerns last year that Welsh Government guidance had not been complied with and the target was not met. We note that PSPP disclosures for 2015-16 will exclude Primary Care payments in accordance with updated Welsh Government requirements.	My audit team will audit the PSPP bearing in mind the cash pressures and the administrative target on the Health Board.	Audit work carried out as planned and the results were reported to those charged with governance in the Audit of Financial Statements report in June 2016. The Health Board met its administrative target in 2015-16.

Audit risk	Proposed audit response	Work done and outcome
The timetable for producing and certifying the annual accounts is demanding. A new three-part Annual Report is to be produced for 2015-16 of which the accountability report section is to be produced alongside the financial statements in June. The performance report section will be produced by September. The Health Board will need to put in place appropriate arrangements to prepare the accountability report at the same time as the financial statements and ensure adequate working papers are provided for audit on a timely basis.	My audit team will work closely with Health Board staff to monitor progress, and seek to resolve any issues of timing as soon as possible so that the accounts certification timetable can be met.	The audit team worked with Health Board staff as planned to meet the submission timetable for the financial statements and accountability report in 2015-16.
The annual accounts are compiled under International Financial Reporting Standards (IFRS) and NHS Manual for Accounts. The Health Board must have a full understanding of these requirements, keeping up to date with changes and ensuring that risks and issues are identified and dealt with appropriately. Specific risk areas include: • estimates, particularly for the continuing health-care provision, primary care expenditure and specialised services; • significant transactions with related parties; and • accuracy and completeness of the Remuneration Report, given a number of changes in Executive and Non-Officer Members during the year.	My audit team will audit the financial statements with particular focus on these risk areas, by undertaking focused testing.	Focused audit testing carried out as planned on the relevant areas of the financial statements. One issue was reported to those charged with governance in the Audit of Financial Statements report in June 2016. We will follow up progress as part of our next audit.

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