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Annual Audit Report 2015

Cwm Taf University Health Board

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Status of report

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The team who assisted me in the preparation of this report comprised Mike Jones, Jackie Joyce, Derwyn Owen and Dave Thomas.

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Summary report

1. This report summarises my findings from the audit work I have undertaken at Cwm Taf University Health Board (the Health Board) during 2015.
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 Audit Committee on 18 January 2016. It will then be presented to a subsequent Board meeting and a copy provided to every member of the Health 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's own website (www.audit.wales).
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 2014-15 financial statements of the Health Board, although in doing so I have brought some issues to the attention of officers and the Audit Committee. These relate to accounting for the disposal of assets, and also the number of overpayments of salary made to staff.
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 2015-16.
8. I have also concluded that:
 - the Health Board's accounts were properly prepared and materially accurate;
 - the Health Board had an effective control environment to reduce the risk of material misstatements to the financial statements; and
 - the Health Board's significant financial and accounting systems were appropriately controlled and operating as intended.
9. The Health Board achieved financial balance at the end of 2014-15. 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

10. 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, the adequacy of its governance 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. This work has led me to draw the following conclusions.

The Health Board continues to monitor savings plans effectively, and has a good record of achieving financial balance, but whilst it again forecasts a break-even position for 2015-16, it faces significant financial challenges and needs to manage risks relating to planned savings and directorate sign-up to budgets

11. The Health Board achieved financial balance in 2014-15, as in previous years. We reported last year that the process established for identifying and delivering savings was sound, but internal stakeholder engagement in signing up to saving plans could be improved, and that this would be key to sustainable and recurring efficiencies going forward.
12. In 2015-16 the Health Board is currently reporting that it will break even assuming the additional funding contained within its three-year Integrated Medium Term Plan (IMTP) is received. However, it is unlikely to deliver all of its £14.6 million savings targets, and to date only about half of directorate budget plans have been signed off by the Clinical/Executive Director. This again suggests that improvement has been slower than anticipated in getting internal stakeholder 'buy-in' to the savings process.

The Board has set a clear vision and continues to strengthen its governance arrangements, although its challenge is to further improve some supporting governance arrangements, address internal control weaknesses and develop a performance management framework

13. My structured assessment work in 2014 indicated that while governance and use of resources arrangements were broadly sound, they needed further development. During 2015, the Health Board made good progress in addressing 2014 structured assessment recommendations, in particular, developing a Board Assurance Framework, reviewing committee structures and ensuring that all sub-committees undertook a self-assessment.
14. During 2015, Healthcare Inspectorate Wales (HIW) undertook a follow-up review to check on the progress made on recommendations identified in its original review of governance in 2012. HIW stated: 'Overall, HIW is pleased and encouraged with the progress that has been made by the health board since the initial review in 2011.'

15. My structured assessment work in 2015 found:

- The Health Board's three-year strategic plan (IMTP) sets out a clear vision. The approach to strategic planning combined with the creation of the Programme Management Office (PMO) provides a sound basis for taking the organisation forward and supporting improvement activity, however, progress reporting against plan could be strengthened.
- The Board demonstrates good strategic leadership, good conduct, effective administration and a commitment to openness and quality improvement.
- The sub-committee structure covers the Health Board's business and supports governance requirements but the Health Board recognises there is scope to improve arrangements in specific areas, in particular governance arrangements supporting the Quality and Safety Committee.
- Overall the Board receives adequate information and is further strengthening and refining management information to support effective scrutiny and decision making, however, the information presented to the Board shows that it faces challenges in meeting some key national performance targets.
- Internal controls are generally effective in meeting current assurance requirements but some aspects, including controlling overpayments to staff, control over disposal of assets, and data used to calculate Continuing Healthcare provisions, require improvement.

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

16. As part of my structured assessment I have reviewed a number of key enablers of effective use of resources, whilst my wider performance audit work has examined a number of specific areas of service delivery. The key messages from these pieces were as follows:

- My Structured Assessment work in relation to key enablers identified;
 - the Health Board has adequate change management arrangements in place to underpin the IMTP but the approach to benefit realisation needs to be strengthened; and
 - the level of investment and commitment to ICT in the Health Board is not effectively supporting the delivery of healthcare, and addressing previous recommendations has been slow.
- My review of district nursing services focussed on whether or not the Health Board was planning and utilising its district nursing resources effectively as part of its wider approach to delivering care in the community. My review found that while there was a high-level vision for the district nursing services, further work was required to strengthen service planning and performance monitoring, and to improve the understanding of demand and staff deployment.

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- During 2011, work at the Health Board by the Welsh Government's Delivery and Support Unit (DSU) identified anomalies between planned elective activity and the actual numbers of patients on the waiting list. Given the seriousness of the issues identified, I decided that audit work was needed to assess if the Health Board demonstrated due diligence in investigating the anomalies and whether appropriate action has been taken to prevent similar problems recurring. My review found that whilst the Health Board responded appropriately to concerns about waiting list data anomalies several aspects of its investigation were unsatisfactory. My report highlighted the importance of capturing the learning from the investigation processes to ensure that the problems that were encountered are not repeated in the future. The Health Board has introduced a number of procedures to address recommendations arising from my report.
 - My medicines management review looked at whether or not there were safe, efficient and effective arrangements for inpatient medicines management at acute hospitals. Findings from my review indicated that overall corporate arrangements were strong, working relationships between pharmacy staff and ward staff were good but opportunities existed to strengthen some medicines management processes including the transfer of information between primary and secondary care, increase the use of technology, address some facilities issues and broaden performance monitoring.
 - During 2013, I undertook a review of orthopaedic services across Wales¹ which included a range of data to understand the performance of orthopaedic services within each health board. An analysis of the efficiency, effectiveness and economy of orthopaedic services provided by the Health Board found that although there was a good level of investment in primary care and referrals for orthopaedic services appeared to be reducing, many referrals were being routed through physiotherapy services, which were unable to cope with demand. Once on the orthopaedic pathway, both outpatient and inpatient services were generally inefficient and there were mixed outcomes for patients.
 - I undertook a review of outpatient follow-up appointments to determine if they were being managed effectively. My review found that the Health Board was improving the accuracy of its follow-up waiting list but the number of patients delayed was increasing and further action was needed to assess clinical risks, improve administrative processes and address follow-up delays.
 - Given the increasing pressure on revenue and capital funds allocated to NHS bodies, I carried out a high-level diagnostic review of ICT capacity and resources to provide an indication as to how well existing ICT resources across Wales were supporting the delivery of healthcare, and to identify areas where greater focus is needed. My diagnostic review was based upon an analysis of comparative data and the views of a sample of staff who use clinical ICT systems on a regular basis. I found that although there were some positive aspects, my diagnostic

¹ Wales Audit Office, **A Review of Orthopaedic Services**, June 2015.

work indicated that the current level of investment and commitment to ICT in the Health Board is not fully effective at supporting the delivery of healthcare, and there is scope to integrate systems and reduce the reliance on paper.

- I undertook a number of follow-up audits to assess progress in addressing previous audit recommendations:
 - My follow-up review of hospital catering and patient nutrition found that good progress had been made in addressing recommendations to improve catering and nutrition services and had significantly reduced the subsidy for non-patient catering. However, there was further scope to strengthen some aspects of nutritional screening, ensure timely nursing support at mealtimes and reduce the costs of patient catering.
 - I followed up a number of ICT reports and found that the Health Board was strengthening arrangements in the areas we reviewed, however, progress against our previous recommendations had been slow.

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

Detailed report

About this report

18. This Annual Audit Report to the Board members of the Health Board sets out the key findings from the audit work that I have undertaken between December 2014 and November 2015.
19. My work at the Health Board is undertaken in response to the requirements set out in the 2004 Act². 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.
20. 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;
 - performance audit examinations undertaken at the Health Board; and
 - the results of the work of other external review bodies, where they are relevant to my responsibilities.
21. 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](#).
22. 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.
23. [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 2015 Audit Plan.
24. Finally, [Appendix 3](#) sets out the significant financial audit risks highlighted in my 2015 Audit Plan and how they were addressed through the audit.

² Public Audit (Wales) Act 2004.

Section 1: Audit of accounts

- 25.** This section of the report summarises the findings from my audit of the Health Board's financial statements for 2014-15. 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.
- 26.** 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.
- 27.** In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).
- 28.** In undertaking this work, auditors 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 2014-15 financial statements of the Health Board, although in doing so, I have brought some issues to the attention of officers and the Audit Committee and placed a substantive report alongside my audit opinion

The Health Board's accounts were properly prepared and materially accurate

- 29.** I received the draft financial statements for the year ended 31 March 2015 on 1 May 2015 in line with the agreed deadline. Compared to previous years we have experienced some difficulty in getting responses and working papers to support the figures in the accounts in a timely manner.
- 30.** 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 Manager reported these issues to the Health Board's Audit Committee on 3 June 2015. **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 |
|---|---|
| <p>There were a number of accounting errors in relation to the disposal of fixed assets. Whilst I have been able to conclude the errors would not be material overall, the number of errors highlights significant control failings within the systems in place for recording and accounting for fixed asset disposals.</p> | <p>Some assets identified as disposed of during the year were not accounted for within the draft Financial Statements. The Net Book Value (NBV) of these items was nil, but the Gross Book Value to be written out of the Financial Statements was £559,000. This error was identified by the Health Board's Finance team after submission of the draft accounts and has now been adjusted.</p> <p>The results of our audit testing highlighted that 43 per cent of our sample related to assets disposed of in previous years. The NBV of all these assets was nil.</p> <p>Additionally, 43 per cent of the sample of disposals tested had small proceeds of sale which had not been recorded correctly as proceeds from the sale of fixed assets. The NBV of these assets was very low or nil, and whilst not quantified exactly the proceeds were in the region of £17,000.</p> <p>Furthermore, 14 per cent of our sample had not actually been disposed of at the end of the financial year 2014-15, although they had been taken out of service.</p> |
| <p>The number and value of overpayments to staff who have left employment but continue to get paid is concerning.</p> | <p>During the year 2014-15 1,163 staff left the employment of the Health Board. Shared Services identified 74 instances where staff continued to receive payment after the date of their termination. The total value of the overpayments was £234,288, and arrangements have been made to recover this. Through examination of this information and additional testing of our own we have concluded that any misstatement in the 2014-15 Financial Statements would not be material. However, we consider the number and value of overpayments due to staff leaving to be a weakness in internal controls that should be brought to the attention of those charged with governance. Since the date of our report (June 2016) Internal Audit have reviewed this area and made recommendations for improvement. The recommendations have been accepted by management.</p> |

31. 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 2015 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.

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32. My separate independent examination of your charitable fund financial statements is complete. My report was signed on 9 November 2015, with no issues to report.

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

33. 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 arrangements through my Structured Assessment work, including review of the progress made in identified improvement areas since last year;
 - specific use of resources work on medicines management, district nursing services, outpatient follow-up appointments, orthopaedic services, waiting list anomalies and a local diagnostic audit review of ICT capacity and resources; and
 - assessing the progress the Health Board has made in addressing the issues identified by previous audit work on catering and patient nutrition, information management and technology audits and reviewing the Health Board's arrangements for tracking external audit recommendations.
34. The main findings from this work are summarised under the following headings.

The Health Board continues to monitor savings plans effectively, and has a good record of achieving financial balance, but whilst it again forecasts a break-even position for 2015-16, it faces significant financial challenges and needs to manage risks relating to planned savings and directorate sign-up to budgets

In 2014-15, as in previous years the Health Board achieved financial balance. We reported last year that the process established for identifying and delivering savings was sound, but internal stakeholder engagement in signing up to saving plans could be improved, and this would be key to sustainable and recurring efficiencies going forward

35. I have reached this conclusion as:
- it was one of the first health boards to have its three-year rolling IMTP signed off and approved by Welsh Ministers;

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- it once again stayed within both its revenue and capital resource limits for 2014-15;
 - it has established robust procedures for setting and monitoring cost savings targets, with both directorate level plans and cross cutting themes;
 - its in-year financial reporting both internally to the Board and externally to the Welsh Government was transparent, consistent and reasonably accurate;
 - whilst it has established effective processes for setting and monitoring savings plans, at month 7 it had only approximately half of the directorate budget plans signed off; and
 - of the £17.25 million savings target set at the beginning of the year it only managed to deliver £10 million of these, with centrally held contingencies and some accounting one-off gains allowing financial balance within the year.

In 2015-16 the Health Board is currently reporting that it will break even assuming the additional funding contained within its three-year IMTP is received. However, it is unlikely to deliver all of its £14.6 million savings targets, and to date only about half of the directorate budget plans have been signed off by the Clinical/Executive Director. This again suggests that improvement has been slower than anticipated in getting internal stakeholder 'buy in' to the savings process.

- 36.** The NHS Finance (Wales) Act 2014 has introduced a more flexible finance regime. It provides a new legal financial duty for local health boards to break even over a rolling three financial years rather than each and every year. The act allows local health boards to focus their service planning, workforce and financial decisions and implementation over a longer, more manageable, period and moves away from a regime which encourages short-term decision making around the financial year. The financial flexibilities are, however, contingent upon the ability of NHS bodies to prepare suitably robust IMTPs, and the formal approval of those plans by Welsh Ministers.
- 37.** The work I have undertaken on financial management arrangements at the Health Board has led me to draw the following conclusions :
- The process for identifying and monitoring costs saving plans remains robust.
 - At month 7, however, approximately half of the directorate budget plans had not been signed off by the Clinical/Executive Director. To be truly effective budget plans should be drafted, agreed and approved prior to the start of the financial year.
 - As at month 7 in 2015-16, the Health Board was continuing to forecast break even for the end of the financial year but this was dependent upon an improved 'run rate' on saving plans which to date are significantly behind schedule. At the current rate there would be a shortfall of £2.8 million against total saving plans of £14.6 million.

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- The break-even forecast was also dependent upon receipt of additional funding from the Welsh Government that is detailed within the three-year plan. To date £3.5 million of this has yet to be confirmed.
 - This information is consistently and transparently reported to both the Board and Welsh Government. The Monthly Finance Update paper to the Executive Board is very detailed. However, it is not always clear what the high-level messages are. For example, it is not easy to reconcile the Executive Summary, Areas of Concern and Year End Forecast Key Points. Consequently, there is a danger that readers outside of the Finance department will be unclear of the messages.

The Board has set a clear vision and continues to strengthen its governance arrangements, although its challenge is to further improve some supporting governance arrangements, address internal control weaknesses and develop a performance management framework

- 38.** This section of the report considers my findings on governance and board assurance, presented under the following themes:
- Strategic planning
 - Board effectiveness
 - Governance structures
 - Management information and performance against key targets
 - Internal controls

The Health Board's three-year strategic plan (IMTP) sets out a clear vision. The approach to strategic planning combined with the creation of the Programme Management Office (PMO) provides a sound basis for taking the organisation forward and supporting improvement activity, however, progress reporting against the plan could be strengthened

- 39.** The Health Board has an approved three-year IMTP called 'Cwm Taf Cares' and its planning arrangements have continued to mature during 2015 and are being further developed and strengthened for 2016. The IMTP has a clear vision and sets out five strategic objectives together with clearly stated priorities for 2015-16.
- 40.** The approach to updating the IMTP is good and includes a number of positive aspects such as a clear delivery timetable, local planning framework guidance issued to directorates to assist in developing refreshed plans for 2016-2019 and a revised 'bottom-up' approach to identifying savings targets.
- 41.** The IMTP provides broad coverage of the South Wales Programme (SWP) and outlines some contingency arrangements during implementation. There is good coverage on developments like the expansion of neonatal services at Prince Charles Hospital but less detail about other service changes, such as 24-hour consultant-led

A&E at the Royal Glamorgan Hospital. Progress is being made on a number of projects including: the adoption of the acute medicine model at the Royal Glamorgan Hospital and the development of plans for paediatric and obstetric services.

42. There is a good approach to IMTP project monitoring arrangements across the organisation with clear accountabilities for directorate-based and cross-cutting projects. However, reporting to the Board needs to clearly report progress against the stated 2015-16 priorities and what the Board had planned to achieve at that point in time.

Board effectiveness and assurance continue to strengthen although there is scope to further improve arrangements in specific areas

43. The Board demonstrates good strategic leadership, good conduct, effective administration and a commitment to openness and quality improvement. The Health Board has developed a Board Assurance Framework (BAF) which was a recommendation that I made last year. Assurances could be improved by mapping performance measures against individual risks identified in the BAF to ensure coverage and any gaps identified should have measures developed as per another of my recommendations that I made last year.
44. During 2015, Healthcare Inspectorate Wales (HIW) undertook a follow-up review to check on the progress made on recommendations identified in its original review of governance in 2012. HIW stated: 'Overall, HIW is pleased and encouraged with the progress that has been made by the health board since the initial review in 2011. Most, if not all of the areas, have seen significant improvements. The recommendations made as a result of this follow-up review also highlight the areas which require further improvement.' Sixteen further recommendations were made covering the following broad areas: clinical teams and leadership, non-officer members, risk, patient complaints, concerns and claims, trend analysis, action planning and shared learning, communication of vision and objectives, staff development and appraisal.
45. The Board are committed to providing sub-committee papers in the public domain and some limited preparatory work has been undertaken so that progress can be made in 2016. In terms of improving accessibility for members of the public, the Health Board's website needs to clearly signpost users to information that is current including performance information and the current IMTP.
46. The Health Board has had a historically stable cadre of independent members. This will change during 2016 and 2017 as many independent members' terms of office will end, including that of the Board Chairman. In light of this the Chairman has put in place succession planning arrangements within the existing cohort of independent members to ensure continuity of sub-committee chairs.
47. It is acknowledged by the Health Board that meeting the standard of issuing Board and sub-committee papers 10 days in advance of meetings had been a challenge and has now reduced the timescale to one calendar week. The Health Board will need to ensure that the reduced timescale does not impair the Board and sub-committees'

ability to consider reports. The Health Board will need to reconsider the timescales when new independent members are appointed.

48. As part of my commitment to help secure and demonstrate improvement through audit work, I have reviewed the effectiveness of the Health Board's arrangements to manage and respond to recommendations made as part of my nationally mandated and local programme of audit work during 2015. This work has found that arrangements for addressing audit recommendations and monitoring implementation were put in place in 2015 and are maturing. The Audit Committee receives an audit tracker report at every meeting which identifies progress made and clearly highlights those recommendations that have not been completed within agreed timescales.
49. The Health Board will need a mechanism to ensure that Wales Audit Office recommendations that predate January 2014, and which are still valid, are appropriately monitored and that recommendations reported as 'completed' are actually completed.

The sub-committee structure supports governance requirements but the Health Board recognises there is scope to improve arrangements in specific areas

50. The sub-committee structure covers the Health Board's business and supports governance requirements but the Health Board recognises there is scope to improve arrangements in specific areas, in particular governance arrangements to support the Quality and Safety Committee. The Health Board is undertaking work to improve the links between the Quality and Safety and Corporate Risk committees and has now formally included workforce within the remit of the Finance, Performance & Workforce Committee. The Integrated Governance Committee continues to provide a central role in ensuring that key areas of business are captured within the work of the sub-committees with no gaps.
51. Sub-committee terms of reference have been reviewed and all committees have undertaken a self-assessment in 2015, which is a significant improvement on the previous year. The Health Board is currently in the process of reviewing which operational groups report and inform the work of individual sub-committees, and there is an opportunity to reflect these arrangements more clearly in the terms of reference for each committee. Currently, forward work programmes are not consistently adopted by committees although the Health Board intends to adopt a standardised approach across all sub-committees in 2016.
52. My team's observations identified that the quality and depth of scrutiny can vary between sub-committees. The challenge facing the Health Board will be to achieve a uniform level of practice across all committees in terms of chairmanship and scrutiny.
53. The Health Board has continued to make improvements to the operation of the Quality and Safety Committee and recognises that further developments are required to improve its arrangements. Despite a more disciplined agenda management meetings are lengthy and the complexity and size of meeting agendas make it challenging to balance more in-depth scrutiny with general oversight.

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54. The Audit Committee has the necessary business processes in place in terms of agenda management, engagement with internal and external audit, cross-referral of issues to other sub-committees, tracking of actions and recommendations and self-assessment of its performance. However, the Health Board needs to assure itself that as a minimum one member of the Audit Committee should have recent relevant financial experience.
 55. The Finance, Performance & Workforce Committee is effective and my team's observations identified strong chairmanship and robust scrutiny and challenge. Appropriate succession planning in relation to independent member turnover will be needed to ensure this committee maintains its momentum and sound working arrangements.
 56. The Health Board has adequate internal control arrangements but some of the current arrangements require improvement, in particular, controlling overpayments to staff, control over disposal of assets and data used to calculate Continuing Healthcare provisions.

The Board receives adequate information and is further refining management information to support effective scrutiny and decision making but it continues to face challenges in meeting some key national performance targets

57. Overall the Board receives adequate information and during the last 12 months the Board has been further strengthening and refining management information to support effective scrutiny and decision making. New performance measures have been introduced and scorecards are being developed.
58. The performance report to the Board includes positive aspects such as the use of summary tables to provide an overview of progress, and I understand that the 'At a Glance' table will be re-introduced which independent members find helpful. However, there remains scope to align reporting with the 2015-16 IMTP priorities, widening coverage of the performance report so it covers the totality of the Health Board's activity and clearly identifies assigned responsibilities for delivering identified actions.
59. Although the Health Board does not have a performance management framework performance reporting arrangements continue to develop but the Health Board faces challenges in meeting some key national performance targets. Performance reporting could be strengthened by the Health Board undertaking a review of each of its performance reports to ensure that they are fit for purpose and meet the intended need.

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

- 60.** As part of my structured assessment I have reviewed a number of key enablers of the effective use of resources, whilst my wider performance audit work has examined a number of specific areas of service delivery. The key messages from these pieces of work are summarised below.
- 61.** My Structured Assessment work reviewed how a number of key enablers of efficient, effective and economical use of resources are managed. This work has indicated that although the Health Board has change management arrangements in place to support delivery of its IMTP there are improvements needed if ICT is to effectively support service delivery. Key findings are summarised in **Exhibit 2**.

Exhibit 2: Structured Assessment – key enablers of effective use of resources

| Issue | Summary of findings |
|----------------------------|---|
| Change management capacity | <p>My work focussed not only on corporate arrangements but also looked at two projects, stroke and palliative care. Overall the Health Board has adequate change management arrangements in place to underpin the IMTP but the approach to benefit realisation needs to be strengthened:</p> <ul style="list-style-type: none"> • overall the Stroke project was well managed during development and implementation but some project management arrangements could be strengthened and some performance outcomes are not yet realised; and • the palliative care project has been managed well with effective partnership working to date but challenges remain to secure funding and deliver new build and service improvements. |
| Use of technology | <p>Diagnostic review of ICT capacity and resources</p> <p>Although there are some positive aspects, our diagnostic work indicates that the current level of investment and commitment to ICT in the Health Board is not fully effectively supporting the delivery of healthcare with scope to integrate systems and reduce the reliance on paper:</p> <ul style="list-style-type: none"> • overall spend on ICT is below average for Wales and remains below the recommended level of spend; • staffing levels for ICT are around average for Wales with the exception of information management staff which is the lowest in Wales; |

| Issue | Summary of findings |
|-------------------|---|
| Use of technology | <p>Diagnostic review of ICT capacity and resources (continued)</p> <p>Although there are some positive aspects, our diagnostic work indicates that the current level of investment and commitment to ICT in the Health Board is not fully effectively supporting the delivery of healthcare with scope to integrate systems and reduce the reliance on paper:</p> <ul style="list-style-type: none"> • there is a lower level of commitment to ICT than other health boards, and the systems and resources lack integration; • the Health Board has the lowest number of devices although accessing PCs is generally less problematic than in many other health boards; • the condition of ICT equipment and the reliability of systems appear typical of Wales although records for managing downtime are incomplete; • there are good arrangements for training which support proficiency in the use of systems and the quality of the information contained on them; and • the mainstream clinical ICT systems are not fully effective in supporting doctors to provide patient care. <p>Combined follow-up of Information Management and Technology audits</p> <p>The Health Board is strengthening arrangements in the areas we have considered as part of this review, however, progress against our previous recommendations has been slow:</p> <ul style="list-style-type: none"> • although most departments have used the Health Board's standard approach to business continuity planning, the available corporate template has not been followed comprehensively; the IT department does not have a disaster recovery plan and testing of disaster recovery and business continuity plans is limited; • appropriate software, hardware and access controls are used as part of back-up delivery but there is no back-up policy, and not all procedures and back-up approaches are adequately documented; |

| Issue | Summary of findings |
|-------------------|--|
| Use of technology | <p>Combined follow-up of Information Management and Technology audits (continued)</p> <p>The Health Board is strengthening arrangements in the areas we have considered as part of this review, however, progress against our previous recommendations has been slow:</p> <ul style="list-style-type: none"> • Caldicott governance arrangements have been strengthened, and training methods improved but some relevant staff are yet to do this training; and • there are a number of initiatives to strengthen data quality arrangements, including a data quality audit programme, annual report and the addition of key staff but some of the governance arrangements require improvement. |

While there is a high-level vision for the district nursing services, further work is required to strengthen service planning and performance monitoring, and to improve understanding of demand and deployment

62. I came to this conclusion because:

- the district nursing service is integral to the Health Board's vision for primary and community services with clear lines of accountability within localities, but detailed workforce requirements have yet to be identified;
- the district nursing service is well resourced but there is limited understanding of demand for the service and inappropriate demand needs to be better managed;
- the unexplained variation in the deployment and distribution of district nursing resources means that the Health Board cannot take assurance that its district nursing staff are effectively deployed; and
- the Health Board takes an active role in all-Wales district nursing fora, but arrangements for monitoring district nursing services at a corporate level are underdeveloped.

Whilst the Health Board responded appropriately to concerns about waiting list data anomalies, and subsequently strengthened processes, several aspects of its investigation were unsatisfactory

63. I came to this conclusion because:

- the Health Board's immediate response to concerns was appropriate and it crucially sought assurance that no patient had come to harm as a result of being placed on a holding list;

-
- several aspects of the Health Board's investigations into the waiting list anomalies were unsatisfactory and ultimately it failed to identify any individual accountability for the problems that were acknowledged; and
 - although the Health Board has taken positive action to address weaknesses in its waiting list management processes and prevent the identified problems recurring it is important to capture the learning from the investigation process to ensure that the problems encountered are not repeated in the future.

Overall corporate medicines management arrangements are strong and working relationships are good but opportunities exist to strengthen some medicines management processes, increase the use of technology, address some facilities issues and broaden performance monitoring

64. I came to this conclusion because:

- Corporate arrangements for medicines management are strong with clear strategic vision and savings delivered as planned.
- There is a strong focus on training and development within the pharmacy team, which has a richer skill mix and slightly higher-than-average costs relative to inpatient activity. Pharmacy provides a good visible presence and has good relationships at ward level but out-of-hours services should be reviewed.
- Pharmacy facilities largely comply with key requirements but there are risks associated with the lack of medicines storage at ward level.
- Arrangements for transferring medicines information, utilisation of electronic systems, as well as timeliness and accuracy of discharge information should be improved.
- There are good arrangements for monitoring when things go wrong but there is potential to broaden the current performance indicators and improve feedback to Health Board staff.

Although there is a good level of investment in primary care and referrals for orthopaedic services appear to be reducing, many referrals are routed through physiotherapy services, which are unable to cope with demand. Once on the orthopaedic pathway, both outpatient and inpatient services are generally inefficient and there are mixed outcomes for patients

65. My conclusion on the efficiency, effectiveness and economy of orthopaedic services at the Health Board is based upon the data gathered as part of my national review of orthopaedic services in Wales, which was published in June 2015. My review found:

- there is a positive level of investment in primary care with a reduction in referrals for orthopaedic services, but the Clinical Musculoskeletal Assessment and Treatment Service (CMATS) is not operating in line with its intended purpose, which is resulting in referrals being routed through physiotherapy services;

-
- outpatient services are inefficient with high levels of follow-up appointments, Did Not Attend (DNAs) and cancellations, and physiotherapy and radiology services are unable to meet demand;
 - length of stay and the consequent use of orthopaedic-bed capacity could be significantly improved by increasing day-case rates, day-of-surgery admissions and theatre utilisation; and
 - follow-up arrangements generally work well although outcomes from surgical intervention are mixed both across the Health Board and in comparison with the rest of Wales.

The Health Board is improving the accuracy of its follow-up waiting list but the number of patients delayed is increasing and it needs to do more to assess clinical risks, improve administrative processes and address follow-up delays

66. I came to this conclusion because:

- the Health Board is improving the accuracy of its follow-up waiting list but needs to improve the way it assesses and reports clinical risks and ensure that changes to booking processes are implemented;
- the number of patients waiting for a follow-up appointment and the number of patients delayed are increasing; and
- although the Health Board has plans to develop services within the community, current operational arrangements are having limited impact on reducing delayed follow-ups.

The Health Board has made progress in addressing some recommendations from previous audit work, however, action to address ICT recommendations has been slow and important actions remain outstanding

67. In addition to reviewing the effectiveness of the Health Board's arrangements to manage and respond to recommendations made as part of my nationally mandated and local programme of audit work as discussed in [paragraph 48](#), my work found that good progress had been made in 2015 to address many of my 2014 structured assessment recommendations.

68. During the last 12 months, I have also undertaken detailed follow-up audit work to assess the progress that the Health Board has made in addressing concerns and recommendations arising from previous audit work in specific areas of service delivery. The findings from this follow-up work are summarised in [Exhibit 3](#).

Exhibit 3: Progress in implementing audit recommendations

| Area of follow-up work | Conclusions and key audit findings |
|--|--|
| Hospital catering and patient nutrition | <p>The Health Board has made good progress in addressing recommendations to improve catering and nutrition services and has significantly reduced the subsidy for non-patient catering. There is further scope to strengthen some aspects of nutritional screening, ensure timely nursing support at mealtimes and reduce the costs of patient catering:</p> <ul style="list-style-type: none"> • arrangements for meeting patients' dietary and nutritional needs continue to improve but not all patients are regularly assessed and documentation processes need to improve; • mealtime experiences have improved, but nursing support at mealtimes was not always timely; • the level of subsidy for non-patient catering services has reduced significantly and is the lowest in Wales but patient catering costs do not compare favourably with Wales; and • arrangements for planning, monitoring and reporting on hospital catering and nutrition services are largely robust. |
| Combined follow-up of Information Management and Technology audits | <p>The Health Board is strengthening arrangements in the areas we have considered as part of this review, however, progress against our previous recommendations has been slow:</p> <ul style="list-style-type: none"> • although most departments have used the Health Board's standard approach to business continuity planning, the available corporate template has not been followed comprehensively; the IT department does not have a disaster recovery plan and testing of disaster recovery and business continuity plans is limited; • appropriate software, hardware and access controls are used as part of back-up delivery but there is no back-up policy, and not all procedures and back-up approaches are adequately documented; • Caldicott governance arrangements have been strengthened, and training methods improved but some relevant staff are yet to do this training; and • there are a number of initiatives to strengthen data quality arrangements, including a data quality audit programme, annual report and the addition of key staff but some of the governance arrangements require improvement. |

Appendix 1

Reports issued since my last Annual Audit Report

| Report | Date |
|--|---------------|
| Financial audit reports | |
| Audit of Financial Statements Report | June 2015 |
| Opinion on the Financial Statements | June 2015 |
| Financial Statements Memorandum | July 2015 |
| Opinion on Funds Held On Trust | November 2015 |
| Performance audit reports | |
| Review of District Nursing Services | March 2015 |
| Handling of Historic Waiting List Anomalies | May 2015 |
| Review of Medicines Management | June 2015 |
| Review of Orthopaedic Services | June 2015 |
| Review of Outpatient Follow-up Appointments | October 2015 |
| Follow-up Review of Hospital Catering and Patient Nutrition | October 2015 |
| Diagnostic Review of ICT Capacity and Resources | November 2015 |
| Combined follow-up of Information Management and Technology audits | December 2015 |
| Structured Assessment 2015 | December 2015 |
| Other reports | |
| 2015 Audit Plan | March 2015 |

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 |
|---|---------------------------|
| Follow-up Review of Consultant Contract | June 2016 |
| Review of Radiology Services | September 2016 |

Appendix 2

Audit fee

The 2015 Audit Plan set out the proposed audit fee of £417,348 (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

Significant audit risks

My 2015 Audit Plan set out the significant financial audit risks for 2015. The table below lists these risks and sets out how they were addressed as part of the audit.

| Significant audit risk | Proposed audit response | Work done and outcome |
|--|---|---|
| <p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p> | <p>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business. | <p>My testing of a sample of transactions confirmed the appropriateness of journals, adjustments, accounting estimates and transactions outside of the normal business.</p> |
| <p>There is a risk that the Health Board will fail to meet its annual revenue resource limit. The month 10 position showed a year-to-date deficit of £2.9 million and forecast a year-end deficit of nil. I may choose to place a substantive report on the financial statements explaining the context of your financial performance.</p> <p>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.</p> | <p>My audit team will focus its testing on areas of the financial statements which could contain reporting bias.</p> | <p>My testing, on a sample basis, of estimates and judgements confirmed their appropriateness.</p> |
| <p>There is a risk that the Health Board will not correctly account for the ongoing legal dispute with one of its contractors on the Ysbyty Cwm Rhondda building project. In previous years the claim has been split between provisions and contingent liabilities based upon legal advice received and accounting estimation.</p> | <p>My audit team will discuss the accounting treatment and most recent legal advice with the Health Board and assess if the estimate is reasonable.</p> | <p>My audit team examined the most up-to-date information available on this legal dispute and concluded that the estimation basis was reasonable.</p> |

| Significant audit risk | Proposed audit response | Work done and outcome |
|--|--|--|
| <p>2014-15 is the first year that the Health Board has hosted the new Emergency Ambulance Services Committee (EASC). There is a risk that Welsh Government guidance on how to disclose the financial information relating to this new Joint Committee within the Health Board's Accounts will not be followed, or that the figures are not accurately disclosed.</p> | <p>My audit team will discuss the accounting treatment with Cwm Taf and WHSSC finance staff, and will sample test the figures disclosed in any EASC segment.</p> | <p>My audit work confirmed that Welsh Government guidance was followed.</p> |
| <p>As with all Welsh Health Boards there is a risk of misstatement relating to upward revaluations of previously impaired assets not being written back correctly against the Statement of Comprehensive Net Expenditure (SOCNE). This could result in the Revaluation Reserve, SOCNE and General Fund being materially misstated.</p> | <p>My audit team will consider how revaluations have been accounted for and conclude on their accuracy and treatment in relation to IAS 16 and any nationally agreed guidance.</p> | <p>My audit work confirmed that, after adjustment, the accounting treatment in this area was materially correct.</p> |

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