

Archwilydd Cyffredinol Cymru
Auditor General for Wales



Annual Audit Report 2014

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, Stephen Lisle, Mandy Townsend, Derwyn Owen and David 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 2014.
2. The work I have done at the Health Board allows me to discharge my responsibilities under the Public Audit (Wales) Act 2013 (the 2013 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 19 January 2015. 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.wao.gov.uk).
5. The key messages from my audit work are summarised under the following headings.

Audit of accounts

6. I issued an unqualified opinion on the 2013-14 financial statements of the Health Board, although I brought some issues to the attention of officers and the Audit Committee. These related to:
 - a. two non-material uncorrected mis-statements; an expenditure classification error of £401,000, and an overstatement of impairment costs of £2.18 million, neither of which impacted upon the year-end reported underspend;
 - b. the reported Public Sector Payment Policy (PSPP) performance of paying 96.9 per cent of non NHS invoices within 30 days of receipt could not be verified as the Health Board 'starts the clock' when an invoice is received within Finance rather than when first received by the Health Board; and
 - c. non-material uncertainties of £1.3 million in respect of some disputed balances between WHSSC and English providers of healthcare.
7. In addition, I placed a substantive report on the Health Board's financial statements alongside my audit opinion. My report drew attention to £3.9 million of brokerage from the Welsh Government at the year-end, primarily to enable it to stay within its Revenue Resource Limit for the year. The Health Board's three-year plan running from 2014-15 to 2016-17 was approved by the Welsh Ministers on 7 May 2014, and indicates that the Health Board anticipates it will break even in 2014-15.

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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. I set out more detail about the financial position and financial management arrangements in **Section 2** of this report.

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. My Structured Assessment work has examined the robustness of the Health Board's financial management arrangements, the adequacy of its governance arrangements, and the progress made since last year on quality governance and arrangements for measuring and improving patient/user experience. 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 has strong arrangements for budgetary control, in-year monitoring and reporting. The direction of travel on arrangements for financial sustainability is positive, but delivery of savings is behind schedule, and future success will require increased 'buy in' from key stakeholders

11. Overall the Health Board was partly successful in managing its finances in 2013-14. It remained within its Revenue Resource Limit, but it required £3.9 million brokerage from the Welsh Government to do so, as it had not delivered all of its planned savings.
12. For 2014-15 in-year monitoring and reporting remain strong, but again the Health Board is behind where it planned to be in terms of achieving savings and efficiencies, and not all directorate savings plans were signed off in a timely manner. Earlier engagement and 'buy in' from directorates and clinical staff will be key to success going forward.

The Health Board has continued to strengthen governance arrangements and recognises areas that require further development

13. The Health Board has an approved three-year plan called 'Cwm Taf Cares' and its planning arrangements have continued to mature during 2014 and are being further strengthened for 2015. It has arrangements in place to monitor the delivery of the plan and clear accountabilities have been assigned at Executive Director level.

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14. The overall process for producing directorate business plans and savings strategies, both cross cutting and directorate specific, appears robust and there are areas of good practice. However, not all directorate plans were completed in a timely manner and some directorate plans were agreed subject to a number of factors being approved, such as approval for additional posts. The Health Board aims to have all directorate business plans signed off before the start of the 2015-16 financial year.
 15. The Health Board has commenced its refresh of its three-year integrated plan and has taken a proactive approach in developing its local framework in advance of the NHS Wales Planning Framework 2015-16. Other supporting arrangements are also being strengthened including the performance management framework and the allocation of HR and finance officers to directorates.
 16. Overall the Health Board's governance arrangements have continued to evolve but some arrangements need further improvement. Board administration is improving and increased corporate capacity should strengthen arrangements further. The Health Board is actively reviewing and seeking to strengthen its assurance arrangements.
 17. My team's observations identified that Board meetings were well chaired, the Board Secretary provided good support and meetings were conducted in an environment of openness. My team's observations of other committee meetings found that there was generally an appropriate level of scrutiny and challenge. The quality of committee reports is reasonable and there has been some improvement but more needs to be done to demonstrate impacts across performance, quality and finance, and move towards more outcome-focused reporting.
 18. The Health Board considers the changing external environment and is adapting its committee structure accordingly. Terms of reference for sub-committees have been or are being reviewed as part of the overall review of governance structures. Most terms of reference include a requirement for regular and rigorous annual self-assessment and evaluation of the committee's performance and operation. Despite the requirement to undertake a self-assessment only one committee had actually undertaken such a self-assessment in 2014.
 19. The Health Board has made structural and process improvements to the Quality and Safety Committee and has produced a Quality Strategy and an associated delivery plan as well as a Patient Experience Plan.
 20. The Health Board has adequate internal control arrangements but some arrangements could be improved particularly around the documentation regarding gifts and hospitality and also the prevention and detection of fraud within primary care.
 21. Performance management arrangements continue to develop but the Health Board faces challenges in meeting key performance targets. The Health Board has a developing integrated performance dashboard which is reported regularly. Further improvements could include coverage of performance against key organisational programmes and monitoring against key milestones in the integrated medium term plan.

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22. There are signs of improvements in performance in some areas and the Health Board compares well to some others in Wales. However, the overall picture shows that more needs to be done to improve performance against some key national targets.
 23. My work in 2013 highlighted the need to strengthen some aspects of board assurance and internal controls, capturing and learning from feedback and quality and safety governance. The Health Board has recently started to track internal audit recommendations and has agreed to also track external audit recommendations. Despite not having a systematic monitoring and tracking process in place my reviews have found that there has been steady progress on many of last year's recommendations but some require further action and there is a need for the Health Board to more systematically track the progress it is making against audit recommendations.

Whilst the Health Board's arrangements for managing resources generally meet normal operational needs further improvement is needed to key enablers to support delivery of the integrated medium term plan

24. The Health Board's arrangements for managing resources generally meet normal operational needs and there have been some improvements in change management and workforce planning arrangements. However, further improvement is needed to key enablers to support delivery of the integrated medium term plan. My Structured Assessment work in relation to key enablers including change management, workforce planning, estates and assets, partnership working, patient and citizen engagement and use of technology is ongoing and these areas will be reported on later in 2015.

My performance audit work has identified opportunities to secure improvements in the use of resources in a number of specific areas

25. My review of clinical coding found that while there had been a strong focus on improving the timeliness of management information, a range of weaknesses in the clinical coding arrangements and process are significantly reducing the accuracy of clinical coded data in the Health Board and backlogs in un-coded episodes are now increasing.
26. My follow-up reviews of:
 - Operating theatres found that theatres remain a priority for the Health Board and improvements have been made, particularly in promoting greater focus on patient safety. Nevertheless 'end utilisation' remains low and there are barriers that require joint action from theatres and theatre users.
 - Ward staffing demonstrates that the Health Board has made good progress in developing a consistent and informed approach to setting ward-staffing levels, which will ensure compliance with the Chief Nursing Officer's guidance on ward staffing.
27. We gratefully acknowledge the assistance and co-operation of the Health Board's staff and members during the audit.

Detailed report

About this report

- 28.** 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 2013 and November 2014.
- 29.** My work at the Health Board is undertaken in response to the requirements set out in the 2004 Act. That act requires me to:
- a)** examine and certify the accounts submitted to me by the Health Board, and to lay them before the National Assembly;
 - b)** satisfy myself that the expenditure 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.
- 30.** 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;
 - the results of the work of other external review bodies, where they are relevant to my responsibilities; and
 - other work, such as data-matching exercises and certification of claims and returns.
- 31.** 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](#).
- 32.** 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
- 33.** [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 Annual Audit Outline.
- 34.** Finally, [Appendix 3](#) sets out the significant financial audit risks highlighted in my Annual Audit Outline for 2014 and how they were addressed through the audit.

Section 1: Audit of accounts

- 35.** This section of the report summarises the findings from my audit of the Health Board's financial statements for 2013-14. 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.
- 36.** 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.
- 37.** In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).
- 38.** 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 issued an unqualified opinion on the 2013-14 financial statements of the Health Board, although in doing so I placed a substantive report on the funding process and financial pressures it is facing alongside my audit opinion

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

- 39.** The Health Board produced good-quality financial statements within the required timetable which, in the main, were supported by robust working papers. Finance staff continue to work well with the Wales Audit Office during the audit of the accounts and the finalisation and agreement process.
- 40.** I am required by ISA 260 to report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues to the Health Board's Audit Committee on 4 June 2014. **Exhibit 1** summarises the key issues set out in that report.

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

Issue	Auditors' comments
Uncorrected Misstatements	<p>Continuing Healthcare costs in Note 3.2 have been understated by £401,000 with compensating overstatement errors in Notes 3.1 (Primary Care) and 3.3 (Clinical Services). This is an error in classification between types of expenditure and therefore there is no effect on the reported bottom line within the financial statements.</p> <ul style="list-style-type: none">• This error has occurred due to the miss-posting of the accounting adjustments to write back 2012-13 accruals for Pharmaceutical Services, Prescribed Drugs and Appliance (Note 3.1) and Clinical Supplies and Services (Note 3.3). <p>Note 3.3 – Impairment Costs are overstated by £2.18 million. If corrected this would increase the underspend on the Statement of Comprehensive Net Expenditure (SOCNE) by this amount (though it is likely that the Welsh Government would reduce the Revenue Resource Limit by the same amount).</p> <ul style="list-style-type: none">• The Welsh Government's Manual for Accounts has this year clarified the position on how to account for indexation against any previous impairment included within the SOCNE. The guidance sets out that indexation on individual assets should firstly be offset against previous impairments on that asset before it can be used to increase the revaluation reserve. Whilst this directly impacts on the bottom line reported, it is likely that any adjustment would result in a corresponding reduction in Annual Managed Expenditure (AME) funding through reduction in the Revenue Resource Limit.

Issue	Auditors' comments
Public Sector Payment Policy (PSPP)	<p>The Welsh Government has set a financial target of paying at least 95 per cent of invoices received from non NHS creditors within 30 days of receipt. The Health Board has reported at Note 7.1 to the financial statements that it met this target paying 96.9 per cent of non-NHS invoices within the specified time.</p> <p>Welsh Government guidance states that the 'clock should start' when the invoice is initially received by the Health Board. Cwm Taf Health Board currently takes the start date as the date the invoice is received by the Procure to Pay (P2P) department. Previous audit testing by both Internal Audit and the Wales Audit Office has identified examples where the invoice is received by other departments, but is not stamped as received at that date. Furthermore our audit testing of expenditure in Hospital Pharmacy, highlighted that the clock starts when the invoice is passed to P2P rather than when received by the Pharmacy. It is consequently not always possible to identify the true date of receipt. There is the possibility, therefore, that the Health Board has overstated its performance in this regard.</p> <p>For disputed invoices the Welsh Government has clarified that the clock should stop when the invoice is identified as being disputed and then re-started when the dispute is resolved. The Health Board put 'flags' onto the payments system identifying the beginning and end of the disputed period. However, there is some doubt as to whether the figures reported on Note 7.1 have correctly taken this into account. There is the possibility, therefore, that the Health Board has understated its performance in this regard.</p>
WHSSC balances with English providers	<p>In general we found the information provided from WHSSC to be clear and reliable, and management judgements to be reasonable and free from bias. We did have some difficulty however, verifying the validity of managerial judgements in relation to WHSSC and some disputed balances with English health care providers. We identified three balances totalling £1.346 million which had been excluded from the financial statements on the basis that WHSSC does not accept it is liable. WHSSC has provided strong arguments to support this action (based mainly on the 'flex and freeze' rules of England not being followed), but has also provided us with strongly worded letters from providers demanding payment in full. The accounting treatment chosen by WHSSC appears reasonable but it is difficult for us to form a view on any likelihood of payment, and as such we have concluded that these are non-material uncertainties. We will review these balances next year, and work with the WHSSC Director of Finance and team to find an approach we are both comfortable with going forward on issues of this nature.</p>

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- 41.** 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 2014 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.
- 42.** My separate independent examination of the funds held on trust financial statements is complete. There were no issues to report.

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

43. 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 since last year on quality governance and arrangements for measuring and improving patient/user experience;
 - specific use of resources work on clinical coding; and
 - assessing the progress the Health Board has made in addressing the issues identified by previous audit work on operating theatres and ward staffing and reviewing the Health Board's arrangements for tracking external audit recommendations.
44. The main findings from this work are summarised under the following headings.

The Health Board has strong arrangements for budgetary control, in-year monitoring and reporting. The direction of travel on arrangements for financial sustainability is positive, but delivery of savings is behind schedule, and future success will require increased 'buy in' from key stakeholders

Overall the Health Board was partly successful in managing its finances in 2013-14. It remained within its Revenue Resource Limit, but it required £3.9 million brokerage from the Welsh Government to do so, as it had not delivered all of its planned savings.

45. I reached this conclusion as:
- There was sound in-year monitoring of budgets.
 - The Health Board reported its financial position and challenges consistently and transparently throughout the year, both to the Welsh Government and the Board. This included an initial projected overspend of £20.8 million.
 - The Health Board initially identified £19.7 million savings, which were reduced to £15 million part way through the year. At the year-end it had achieved £10.5 million of which it considers most (£9.2 million) to be recurrent.

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- Whilst I acknowledge there are challenges to making savings (increasing demand in some areas and inflexibility in pay and redundancy arrangements), the savings made could be considered modest as they represent approximately 2.4 per cent of annual controllable expenditure.
 - There were detailed discussions and consultation with budget holders but there was no formal sign-up to the initial budgets for 2013-14.

For 2014-15 in-year monitoring and reporting remain strong, but again the Health Board is behind where it planned to be in terms of achieving savings and efficiencies, and not all directorate savings plans were signed off in a timely manner. Earlier engagement and 'buy in' from directorates and clinical staff will be key to success going forward

46. 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 integrated medium-term plans, and the formal approval of those plans by Welsh Ministers.
47. The Health Board's three-year plan running from 2014-15 to 2016-17 was approved by Welsh Ministers on 7 May 2014, and consequently it has the financial flexibility of breakeven over the three-year period. The plan includes caveats where positions are currently unknown and the position going forward remains challenging.
48. Some of the more detailed findings which helped form my overall conclusion are:
 - In-year monitoring and reporting continue to be robust.
 - The three year plan identifies £17.2 million savings for 2014-15, made up of £7.2 million savings from directorates and £10 million from cross-cutting themes.
 - The plan had assumed it would receive £8 million 'flexibility funding' from the Welsh Government in 2014-15, which it has now secured.
 - The plan had assumed £6 million savings from 'all Wales issues', which are largely changes to staff terms and conditions. These are unlikely to be fully realised, although the Health Board believes the gap will be funded by the Welsh Government.
 - The process put in place for identifying savings is robust, but will need 'buy in' from budget holders and clinical staff if savings are to be realised. In 2014-15 the directorate business plans were not concluded and signed off early enough.

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- At month eight the Health Board is reporting that it is behind where it planned to be in terms of delivering savings. It is reporting that it has a £1.6 million savings shortfall that will require corrective action in 2014-15 if it is to meet the planned target of breakeven it set itself in the three-year plan. This reported shortfall indicates that the Health Board is getting closer to achieving its plans as the 'savings gap' was significantly higher in previous months.

The Health Board has continued to strengthen governance arrangements and recognises areas that require further development

49. This section of the report considers my findings on governance and board assurance, presented under the following themes:
- strategic planning;
 - board assurance and internal controls;
 - performance management; and
 - progress in responding to governance issues identified in last year's Structured Assessment.

The Health Board has an approved three-year plan and planning arrangements have continued to mature during 2014 and are being further strengthened for 2015

50. The Health Board has an approved three-year plan called 'Cwm Taf Cares'. Scrutiny and monitoring of the plan and its delivery are provided by a number of management activities. For example, to identify clear accountabilities Executive leads have been assigned to individual directorates and also to cross-cutting themes which are organisational-wide savings programmes. Monthly Clinical Business Meetings are held within each directorate and a key feature of these meetings is a review of the three year integrated plan.
51. The Health Board's approach to corporate planning continues to develop. The Integrated Planning Group provides a central focus for developing and improving planning arrangements. Business plan templates were developed centrally for directorates to complete and staff my team interviewed said that they did help in undertaking and completing the planning for their directorates. In order to assess the completeness and quality of plans a maturity matrix was developed and provides a helpful mechanism to assess each directorate business plan.
52. The overall process for producing directorate business plans and savings strategies, both cross cutting and directorate specific, appears robust and there are areas of good practice. Savings targets for 2014-15 were developed from a top-down and bottom-up approach, however, initial directorate savings were insufficient to cover the organisational target. Directorates initially came up with £5 million of savings, but these were reviewed and challenged centrally and a further £2.2 million of saving targets were required to be identified by directorates. Directorate plans were required to be signed off by the responsible director and went through seven stages of consideration as outlined in [Exhibit 2](#).

Exhibit 2: Key planning stages

Planning Stages undertaken by directorates

Key priorities and service changes for the 2014-15 year identified

Quality Impact Assessment undertaken on the plan

Capital Expenditure plans developed

Workforce plans developed

Demand and Capacity plans developed

Detailed savings plans developed and a probability assessment of achievement undertaken

Plan agreed and signed off by Director and budget allocated

- 53.** Despite having corporate arrangements in place not all directorate plans were completed in a timely manner and some directorate plans were agreed subject to a number of factors being approved, such as approval to recruit additional specialists and re-invest savings in the service rather than a budget reduction. The Health Board aims to have all directorate business plans signed off before the start of the 2015-16 financial year. The Health Board recognises that cross-cutting savings programmes by their very nature pose risks to delivery and a lack of wider ownership and awareness from directorates may inhibit delivery.
- 54.** During 2014-15 workforce planning improved and the Health Board recognises that this improvement was from a low base and acknowledges this as an area that needs to be strengthened. My team interviewed staff who gave some examples of where workforce planning had improved namely; workforce planning was integrated with service changes at Dewi Sant and the support received from Human Resources (HR) was also assisting in workforce planning improvements.
- 55.** It is positive to note that the Health Board has commenced its refresh of its three-year integrated plan and has taken a proactive approach in developing its local framework in advance of the NHS Wales Planning Framework 2015-16. The performance management framework is also being refreshed to provide greater clarity around planning requirements and responsibilities of staff including sign-off. In recognition of the support required by directorates in refreshing directorate business plans, HR and finance officers have been allocated to directorates.

Overall the Health Board's governance arrangements have continued to evolve but some arrangements need further improvement

56. Board administration is improving and increased corporate capacity should strengthen arrangements further. The Health Board is actively reviewing and seeking to strengthen its assurance arrangements. For example, the Board's Assurance Framework was being further developed at its December 2014 Development Board in line with a review of committee membership and Independent Member appraisals. A revised house style, covering committee reporting arrangements and report templates, has been adopted and the corporate risk register recently refreshed.
57. My team's observations identified that Board meetings were well chaired, the Board Secretary provided good support and meetings were conducted in an environment of openness. The Board Secretary/Director of Corporate Services and Governance's portfolio has been reviewed and a number of operational functions appropriately reallocated to other executive directors, such as education and learning to the Director of Workforce and Organisational Development. The Health Board recognised the capacity issues in the corporate infrastructure and has arrangements in place to address the issue by the end of 2014.
58. The quality of committee reports is reasonable and there has been some improvement but more needs to be done to demonstrate impacts across performance, quality and finance and move towards more outcome-focused reporting. More generally committee agendas were usually well organised but on occasions committee meetings can be long and items towards the end of the agenda can be rushed. Although committee papers are usually available five working days before committee meetings there have been some occasions where this was not the case. The five-day timescale is also less than set out in standing orders¹.
59. My team's observations of committee meetings found that there was generally an appropriate level of scrutiny and challenge. The Finance and Performance Committee works openly and transparently with strong scrutiny and appropriate challenge, the Audit Committee is well established and effective in its conduct; and the Integrated Governance Committee provides an oversight across all sub-committees.
60. The Health Board is committed to making committee papers publically available, however, progress on this has been hampered by corporate capacity issues. The Health Board has a secure members site but the purpose of the site is unclear and it does not contain a comprehensive set of papers for each sub-committee. At present Independent Members would not be able to use this secure site to access committee papers if they were not a member of that particular committee.

¹ *Model Standing Orders Reservation and Delegation of Powers for Local Health Boards*, Welsh Government, March 2014.

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- 61.** The Health Board is currently reviewing its governance structures and there are some areas of weakness which need to be addressed. The Health Board considers the changing external environment and is adapting its committee structure accordingly. For example, it has recently created a Primary Care Committee to fulfil a pivotal role in the development, implementation, monitoring and scrutiny of the primary care strategy. The Health Board has decided not to have a separate committee dealing with workforce and organisational development but is seeking to embed these activities across the wider committee structure and the relevant director is a member of key committees.
- 62.** Terms of reference for sub-committees have been or are being reviewed as part of the overall review of governance structures. Most terms of reference include a requirement for regular and rigorous annual self-assessment and evaluation of the committee's performance and operation. However, the terms of reference for the Quality and Safety committee do not contain a requirement to undertake a self assessment. Only one committee actually undertook a self-assessment in 2014. This is a weakness in the assurance arrangements, as self-assessment, if undertaken rigorously, is an important activity that can provide assurance that a committee is operating effectively and also a mechanism to identify and share good practice across the wider committee structure. Improvements could be made to:
- ensure all committee and sub-group terms of reference contain a specific requirement to undertake a self-assessment;
 - clarify the frequency and timing of self-assessments; and
 - identify the reporting mechanisms for self-assessments.
- 63.** My work in 2013 identified that the Health Board should review the functioning of its Quality and Safety Committee. The Health Board has made structural and process improvements to this committee, for example, improved agenda planning to clarify items for assurance, discussion and scrutiny or information and an additional two meetings to be held during the year to cover annual quality reporting. The Health Board has also produced a Quality Strategy and an associated delivery plan as well as a Patient Experience Plan. The Health Board has taken on board a number of our comments on last year's Annual Quality Statement but there is further improvement that can be made.
- 64.** The Quality and Safety Committee's workload remains high despite delegating more work to its sub-committees. The Health Board recognises that further improvements are needed and has identified the next phase of key developments which includes establishing a clinical informatics sub-group, developing local team dashboards with quality indicators and strengthening exception reporting to inform the organisation risk register.
- 65.** The Health Board has adequate internal control arrangements but some arrangements could be improved. It has sound and adequate arrangements for internal audit and local counter fraud. Further improvements to internal controls could be made around:
- improving documentation and recording around the declaration of gifts and hospitality; and

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- strengthening arrangements for prevention and detection of fraud within primary care.
- 66.** 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 our nationally mandated and local programme of audit work during 2012, 2013 and 2014. This work has found that until recently the Health Board did not systematically track audit recommendations. In October 2014 the Audit Committee received its first tracker report relating to internal audit recommendations made in 2014. The Audit Committee also agreed to extend the approach to include external audit recommendations. The Health Board could extend the tracker approach further to include other regulator recommendations. Despite not having a systematic monitoring and tracking process in place, work my team has carried out on following up previous reports found that many recommendations have been addressed, but it is not clear how the organisation ensures that this happens consistently so it has assurance that audit recommendations are being addressed.

Performance management arrangements continue to develop but the Health Board faces challenges in meeting key performance targets

- 67.** The Health Board has an integrated performance dashboard which is continuously refined and continues to increase coverage of performance measures but key areas such as primary care and commissioning outcome measures require further development. The dashboard is reported monthly to Executive Board and Finance and Performance Committee and bimonthly to the Board. It contains good overall context/background on performance, identifies executive lead directors and actions for improvement.
- 68.** Each dashboard report contains 'Cwm Taf UHB at a Glance' which is a two-page table including information on targets, actual performance in month and year-to-date performance with a comparison to the same period in the previous year. The information is also colour coded to indicate if performance is meeting targets and some performance measures are colour coded to reflect forecast expectations for the subsequent month. Covering reports to committees identify new measures added since the last report, key performance exceptions and any areas that are subject to escalation. Further improvements could include coverage of performance against key organisational programmes and monitoring against key milestones in the integrated medium term plan.
- 69.** There are signs of improvements in performance in some areas and the Health Board compares well to some others in Wales. However, the overall picture shows that more needs to be done to improve performance against some key national targets.

There has been steady progress on many of last year's recommendations but some require further action

70. My work in 2013 highlighted the need to strengthen some aspects of board assurance and internal controls, capturing and learning from feedback and quality and safety governance. My 2014 structured assessment work identified that the Health Board has made steady progress overall, with some areas such as publishing committee papers, still needing to be actioned.

Whilst the Health Board's arrangements for managing resources generally meet normal operational needs further improvement is needed to key enablers to support delivery of the integrated medium term plan

71. My Structured Assessment work has reviewed how a number of key enablers of efficient, effective and economical use of resources are managed. This work has indicated that the Health Board has arrangements that generally meet normal operational needs but further improvement is needed to ensure that key enablers support the delivery of the integrated medium term plan. Key findings are summarised in [Exhibit 3](#).

Exhibit 3: Structured Assessment – key enablers of effective use of resources

Issue	Summary of findings
Change management	Change management has been integrated into operational management functions and there are some examples of successful delivery eg, the Flow project and service remodelling. However, it is unclear if change management is operating consistently across the organisation. My Structured Assessment work is ongoing and this area will be assessed in 2015.
Workforce planning	The Health Board recognises that workforce planning made some progress from a low base. Specific action is being taken to address sickness absence and also improve PDR compliance. My Structured Assessment work is ongoing and this area will be assessed in 2015.
Estates and assets, Partnership working. Patient and citizen engagement and use of technology.	My Structured Assessment work is ongoing and this area will be assessed in 2015.

My performance audit work has identified opportunities to secure improvements in the use of resources in a number of specific areas

- 72.** During 2014 I have issued reports to the Health Board on the use of resources in the following specific areas:
- Clinical coding arrangement;
 - Operating theatres follow-up; and
 - Follow-Up Review of Ward Staffing.
- 73.** The main findings from these reviews are summarised in the following sections.

While there had been a strong focus on improving the timeliness of management information, a range of weaknesses in the clinical coding arrangements and process are significantly reducing the accuracy of clinical coded data in the Health Board and backlogs in un-coded episodes are now increasing

- 74.** Clinical coding of patient data underpins to the generation of management information used by NHS bodies to govern the business and ensures that resources are used efficiently and effectively and that services are safe and of high quality. During 2013, my team carried out a review of the Health Board's arrangements to generate timely and accurate clinical coding. The work was undertaken collaboratively with colleagues from the NHS Wales Informatics Service.
- 75.** The review found that while there had been a strong focus on improving the timeliness of management information, a range of weaknesses in the clinical coding arrangements and process are significantly reducing the accuracy of clinical coded data in the Health Board and backlogs in un-coded episodes are now increasing. The reason for our conclusion is that:
- clinical coding has a high profile at Board level but coding needs more investment and there needs to be a greater focus on quality and accuracy;
 - the quality of clinical coding is weakened by poor quality medical records, aspects of staff management and a lack of clinical engagement and audit processes; and
 - clinical coded data is used appropriately and met the Welsh Government standards for 2012-13 but backlogs of un-coded episodes are increasing and there are significant problems with the accuracy of coding, the implications of which need to be clearly identified to the Board.

My follow-up performance audit work reveals that improvements have been made in addressing my original recommendations

- 76.** During the last 12 months, I have 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 4**.

Exhibit 4: Progress in implementing audit recommendations

Area of follow-up work	Conclusions and key audit findings
<p>Operating theatres follow-up February 2014</p>	<p>We sought to answer the following question: Is the Health Board building on our previous recommendations and delivering high-quality and efficient theatre services?</p> <p>Overall conclusion: Theatres remain a priority for the Health Board and improvements have been made, particularly in promoting greater focus on patient safety. Nevertheless 'end utilisation' remains low and there are barriers that require joint action from theatres and theatre users.</p> <p>Part 1: Theatres' improvement has remained a priority and the Health Board has made good progress in some areas.</p> <p>Part 2: There are some very positive aspects of safety culture and there is appetite within theatres to take the next steps in mainstreaming the use of briefings and the checklist.</p> <p>Part 3: Theatre 'end utilisation' was comparatively low in 2011 and has changed little since then.</p> <p>Part 4: There are remaining barriers that are not isolated to theatres but relate to various parts of the patient's surgical pathway.</p>
<p>Follow-Up Review of Ward Staffing September 2014</p>	<p>Our follow-up work demonstrates that the Health Board has made good progress in developing a consistent and informed approach to setting ward-staffing levels, which will ensure compliance with the Chief Nursing Officer's guidance on ward staffing. This is because:</p> <ul style="list-style-type: none"> • the Health Board is making good progress in developing a more consistent approach to ward staffing; • Chief Nursing Officer guidance on grade mix and patients will be met once vacant posts are filled; • routine management information is now consistently available; • the establishment staffing level for each ward is supplemented by a bank allowance and the e-rostering system helps manage absences; • ward establishments have been revised and agreed; and • ward managers are now expected to manage within their budgets and allowances.

Appendix 1

Reports issued since my last Annual Audit Report

Report	Date
Financial audit reports	
Audit of Financial Statements Report	June 2014
Opinion on the Financial Statements	June 2014
Financial Statements Memorandum	September 2014
Independent Examiners Report on FHOT	December 2014
Performance audit reports	
Review of Clinical Coding	January 2014
Operating Theatres Follow-up	February 2014
Ward Staffing Follow-up	September 2014
Structured Assessment 2014	December 2014
Other reports	
Outline of Audit Work for 2014	May 2014

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
All Wales report on Orthopaedic Services	March 2015
ICT Diagnostic Review	February 2015
Review of District Nursing	February 2015
Waiting List Anomalies	March 2015
Review of Medicines Management	May 2015
Review of Outpatient Follow-up Appointments	June/July 2015

Appendix 2

Audit fee

The Outline of Audit Work for 2014 set out the proposed audit fee of £417,280 (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. This fee includes the audit work undertaken in respect of the shared services provided to the Health Board by the NHS Wales Shared Services Partnership.

Appendix 3

Significant audit risks

My Outline of Audit Work for 2014 set out the significant financial audit risks for 2014. 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 team:</p> <ul style="list-style-type: none"> • tested material and other journals; • reviewed accounting estimates; and • identified if there were any significant unusual transactions (and tested if any occurred). <p>I concluded that management had not in any material aspect, overridden the controls within the systems.</p>
<p>There is an inherent risk of material misstatement due to fraud in revenue recognition and as such this is treated as a significant risk [ISA 240.26-27].</p>	<p>My audit team will consider the completeness of income.</p>	<p>My audit considered the risk of income not being complete. Assurances were gained from the controls within the Financial and other systems to mitigate this risk.</p> <p>The audit work concluded that in all material respects income disclosed in the financial statements was complete.</p>
<p>There is a significant risk that the Health Board will fail to meet its revenue resource limit. The month nine position showed a forecast year-end deficit of £5.2 million. If the resource limit is exceeded I will qualify my regularity opinion and place a substantive report on the financial statements explaining the failure and the circumstances under which it arose.</p> <p>The current financial pressures on the body 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 team assessed managerial judgements and estimates. I concluded that these were materially accurate.</p>

Significant audit risk	Proposed audit response	Work done and outcome
<p>It is likely that the Health Board will face severe pressures on its cash position at the year-end.</p> <p>A shortfall of cash is likely to increase creditor payment times and could impact on PSPP performance.</p> <p>Additionally we have reported in previous years that we could not verify the accuracy of the PSPP figures quoted in the financial statements as not all invoices are stamped upon receipt by the Health Board and hence it is impossible to tell whether the 30-day payment target has been met.</p>	<p>My audit team will audit the PSPP bearing in mind the cash pressures on the Health Board and meet with Health Board officers to discuss the process for recording and reporting for 2013-14.</p>	<p>Given the ongoing issues with not all invoices being stamped upon receipt we were unable to verify the performance against the PSPP target. This was reported in our Report on the Financial Statements.</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>Having looked at the documentation available and latest legal advice we concluded that the estimated provision and contingent liability are materially correct.</p>
<p>There is a risk that provision and accruals for Continuing Healthcare (CHC) could be misstated or unreliable.</p> <p>We reported last year that for older CHC claims the Health Board relies upon data provided by Powys Health Board. In the past we have reported errors in this data upon which the estimated provision is based.</p>	<p>My audit team will consider the methodology of calculation and test the data upon which it is based to conclude whether or not the estimate is reasonable.</p>	<p>My team tested the accrual and provision for CHCs and whilst errors were still found in the database administered by Powys Health Board, the issues would not have had a material effect on the figures.</p>

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