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Annual Audit Report 2014

Hywel Dda University Local 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 Tracey Davies, Geraint Norman, Richard Harries and David Thomas.

Contents

Summary report

1. This report summarises my findings from the audit work I have undertaken at Hywel Dda University Local Health Board (the Health Board) during 2014. The work I have undertaken 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.

2. 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.

3. This report has been agreed for factual accuracy with the Interim Chief Executive and the Director of Finance and Planning. It will be presented to the Audit Committee in January 2015 and the Board in January 2015. We strongly encourage wider publication of this report by the Health Board. Following the Board's consideration, the report will also be made available to the public on the Wales Audit Office's website (www.wao.gov.uk).

Section 1: Audit of accounts

4. I issued an unqualified certificate on the Health Board's 2013-14 financial statements. However, as the Health Board's financial statements reported a £19.225 million overspend against the revenue resource limit, my regularity opinion was qualified.

5. I also issued an additional substantive report alongside my audit certificate.
This substantive report draws attention to the fact that the Health Board overspent against its resource limit in 2013-14. My report also highlights the fact that the Health Board's three-year Integrated Medium Term Plan (IMTP), beginning in 2014-15, presents significant financial challenges and the IMTP was not approved by the Welsh Government.

6. For the Health Board's 2013-14 financial statements I have also concluded that:

- the financial statements were properly prepared and materially accurate;
- the Health Board had an effective 'control environment' to reduce the risks of material misstatements to the financial statements although there are some areas for improvement; and
- the Health Board's significant financial and accounting systems were appropriately controlled and operating as intended although there are some areas which require management action.

7. We did not identify any matters which are material to the accuracy and completeness of the Health Board's financial statements. However, we did identify an £8.8 million payment in error to NHS Dental Services Wales which was corrected the next working day. Although this is a one-off and was picked up by the Health Board, the Health Board needs to satisfy itself that controls are improved to prevent this happening again.

8. The Health Board did not achieve financial balance at the end of 2013-14 and faces significant financial challenges in the future. I set out more detail about the Health Board's financial position and financial management arrangements in Section 2 of this report.

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

9. I have reviewed the Health Board's arrangements for securing efficiency, effectiveness and economy in the use of its resources. 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 a broadly sound approach to in-year financial management but some improvements are required. The Health Board did not achieve financial breakeven in 2013-14 and is unlikely to do so in 2014-15. The Health Board needs to develop a clear strategic direction through its IMTP

- In 2013-14, the Health Board did not break even, reporting a £19.225 million deficit. Financial management was sound, but some of the workforce Cost Improvement Plans (CIPs) were overly ambitious and were not supported by detailed plans.
- For 2014-15, in-year financial management and reporting arrangements are sound but there is not a sustainable and balanced financial plan and the Health Board is currently projecting a significant year-end deficit of £63 million (£19.225 million of this relates to the repayment of the 2013-14 deficit).
- The Health Board does not have an approved IMTP which sets a clear strategic direction linking finances, workforce and services.

The Health Board has continued to strengthen its governance arrangements and is building a more open and transparent culture. However, progress in some areas has been slow and the Health Board is yet to address some fundamental weaknesses including developing a clear strategic plan and a Board assurance framework

- Despite delivery of a number of significant service changes, weaknesses in the Health Board's IMTP suggest that strategic planning has not met the organisation's needs, although work is now underway to address this.
- The new organisational structure provides clearer lines of accountability and supports a stronger focus on operational delivery, improvement and change. For some areas, achieving change will be reliant on a number of difficult cultural challenges being addressed.
- Board effectiveness, Board assurance and internal controls continue to be strengthened and are largely effective although there remain some important areas which need to be addressed. These include agreeing clear and measurable strategic objectives, establishing a clearer Board assurance framework, revising the schemes of delegation and informing decision making, ensuring that performance information is outcome focused covering all key business areas.
- The Health Board has proactively responded to a number of quality governance issues identified last year although the Health Board has yet to develop an organisational approach to learning from complaints and other events.

The Health Board is improving its workforce planning arrangements and further strengthening partnership working and engagement with its local population but there remain a number of significant workforce, estate and asset risks

- The Health Board is strengthening its change management arrangements with some positive examples of successful change.
- There are early signs of the Health Board's commitment to strengthen workforce planning and service delivery but some recruitment and workforce challenges remain.
- Common to other parts of Wales the condition of the Health Board's estate and plant and equipment present significant financial and service risks.
- The Health Board's approach to collaborative working is positive although outcome and performance measures are not well defined across all partnerships.
- The Health Board has recognised the need for more continuous engagement with its population to improve its reputation and inform local people of the challenges facing the NHS and the need for change.

Although my performance audit work has identified some good practice areas it has also identified opportunities to secure improvements in the use of resources in a number of specific areas

- The Health Board does not have a clear strategy for its district nursing service, and planning and delivery are complicated by a limited understanding of demand, an unexplained variation in deployment and a lack of systematic monitoring of quality and performance.
- The Health Board gives clinical coding a high profile, supporting it with a suitable level of investment. The Health Board is focused on improving the quality of management information although further improvements are required.
- High demand and inefficient outpatient services are resulting in long waits for orthopaedic outpatient and diagnostic treatment. Patient outcomes are generally good but the high rates of joint replacement revisions and undertaking procedures of limited effectiveness are a concern.
- Whilst assurance can be taken that the sickness absence data reported by the Health Board are substantially accurate, there is a risk that these figures are marginally understated, especially if they are taken from reports run shortly after the period has ended.
- Since my last work in 2011, while there is evidence of some local efforts to improve operating theatre services, overall there has not been significant improvement in performance and some fundamental barriers to the delivery of economic, efficient and effective services remain.

10. I gratefully acknowledge the assistance and co-operation of the Health Board's staff and independent members during my audit.

Detailed report

About this report

11. This Annual Audit Report to Board members sets out the key findings from the audit work which I have undertaken between December 2013 and December 2014. 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 financial statements 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.

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

- the results of audit work on the financial statements;
- work undertaken as part of my latest Structured Assessment which examined the arrangements for financial management, governance and accountability, and use of resources;
- performance audit examinations;
- 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.

13. 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. 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

14. My Outline of Audit Work for 2014 set out the proposed audit fee of £420,556 (excluding VAT). My latest estimate of the actual fee, on the basis that some work remains in progress, is in line 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.

15. Finally, Appendix 2 sets out the significant financial audit risks highlighted in my Outline of Audit Work for 2014 and how they were addressed through the audit.

Section 1: Audit of accounts

16. This section of the report summarises the findings from my audit of the Health Board's 2013-14 financial statements. 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 cashflows. Preparation of an organisation's financial statements is an essential element in demonstrating appropriate stewardship of public money.

17. 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.

18. In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs). 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 audit certificate on the Health Board's 2013-14 financial statements but my regularity opinion was qualified and supported by a substantive report

19. I have issued an unqualified certificate on the Health Board's financial statements. However, as the Health Board's financial statements reported a £19.225 million overspend against the revenue resource limit, my regularity opinion was qualified. The reason for this is that the financial regime within which local health boards are required to operate, prescribes an annual 'resource limit'. This is a statutory net expenditure limit, requiring each local health board to function strictly within the resource limit that is set for it by the Welsh Government for that financial year.

20. Where a local health board's net expenditure exceeds the resource limit, that expenditure is deemed to be unauthorised and is therefore irregular. In such circumstances, the regularity opinion is qualified, irrespective of the value of the excess spend.

21. I also issued an additional substantive report alongside my audit certificate. This substantive report draws attention to the fact that the Health Board overspent against its resource limit in 2013-14. My report also highlights the fact that the Health Board's three-year IMTP beginning in 2014-15 presents significant financial challenges and the plan was not approved by the Welsh Government.

22. We did not identify any matters which are material to the accuracy and completeness of the financial statements. However, I have identified a significant payment error in the year which was corrected the next working day. On 3 March 2014, the Health Board made a £9.9 million payment to NHS Dental Services Wales (which was within the NHS) for dental services provided in February 2014. However, the Health Board should have paid only £1.1 million – the Health Board paid for the dental services of six other local health boards in error. The £8.8 million overpayment was identified the following day and the amount recovered on 4 March 2014. Although this is a one-off and was picked up by the Health Board, the Health Board needs to satisfy itself that controls are improved to prevent this from happening again. A report setting out the changes to the payment system has been submitted to the Audit Committee.

23. The Health Board did not achieve financial balance at the end of 2013-14 and faces significant future financial challenges. I set out more detail on the financial position and financial management arrangements in Section 2 of this report.

24. The Health Board successfully managed its capital programme staying within its £21 million capital financial resource limit for 2013-14.

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

25. The Health Board's draft financial statements were considered by the Audit Committee on 6 May 2014 and then formally approved by the Audit Committee and Board on 4 June 2014 before being submitted to Welsh Government by the deadline on 6 June 2014.

26. The financial statements were prepared to a high standard and we found the information provided to be relevant, reliable, comparable and easy to understand. There was also evidence that the financial statements had been subject to robust quality assurance checks, including a detailed review by the Audit Committee and a comprehensive 'analytical review'.

27. My team has continued to work with the Health Board's Finance staff and the Audit Committee throughout the year to ensure potential issues are identified and resolved in a timely manner. Following completion of the audit, my team held a joint post-project learning session with key Finance staff. This will help inform our planning for the audit of the Health Board's 2014-15 financial statements.

28. 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 financial statements. 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 which have not been set out previously in this Report.

Exhibit 1: Key issues identified in the Audit of Financial Statements Report

Issue	Auditor's comments
Defence costs for clinical negligence and personal injury claims	For defence costs for claims with a probability of less than 50 per cent, the Health Board only provides for 50 per cent of future defence costs. This has been consistently applied since the Health Board's formation. The future net cost of defending these claims at 31 March 2014 was some £700,000. The Health Board has provided in its financial statements for 50 per cent of this amount based on historical experience. There is significant inconsistency across Wales (NHS bodies provide between 10 per cent and 100 per cent). This is not a material issue and it will be looked at as an all-Wales issue in 2014-15.
Public Sector Payment Policy – measure of compliance	The Health Board's performance against the Public Sector Payment Policy (PSPP) 'prompt-payment code' is set out in the Financial Statements. The Welsh Government has set a Ministerial target of 95 per cent for the number of non-NHS payments within 30 days of delivery. The Health Board reported performance of 95.2 per cent for the number of non-NHS payments within 30 days of delivery in 2013-14. Internal Audit reviewed the Health Board's system to calculate the PSPP performance data and concluded that until November 2013 the Health Board was not complying with the Welsh Government's guidance – the Health Board was counting the 30 days from the date the invoice was received in Finance rather than the date the invoice was received by the originating department. It is the Health Board's policy for invoices to be sent to the Finance department but this is not the case for all invoices. The Welsh Government issued updated guidance on 30 October 2013 and the Health Board updated its procedures. In addition, the Welsh Government requires NHS bodies to include payments made to primary care contractors in their PSPP performance data. The Health Board's primary care payments system does not provide statistical information and in line with other NHS bodies it is assumed that all payments are made within 30 days per the contractual obligations but this may not be the case in practice. The PSPP performance data for the Ministerial target for both NHS and non-NHS payments in Note 7.1 in the Financial Statements may be misstated. The Health Board has improved its procedures for 2014-15 and it will be looked at as an all-Wales issue in 2014-15.

29.

30. 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.

31. My separate audit of the Health Board's charity financial statements is complete and there are no significant issues arising. My report on the financial statements was considered by the Charitable Funds Committee and the Board in November 2014.

The Health Board had an effective control environment to reduce the risks of material misstatements to the financial statements although there are some areas for improvement

32. My work focuses primarily on the accuracy of the financial statements, reviewing the internal control environment to assess whether it provides assurance that the financial statements are free from material misstatement. Subject to the payment error identified in paragraph 22, I did not identify any material weaknesses in the Health Board's internal control environment.

33. Following my review of the Audit and Assurance Service provided by the NHS Wales Shared Services Partnership, I concluded that the Audit and Assurance Service met the *2009 Internal Audit Standards for the NHS in Wales* and that there are some key areas where improvements are required to achieve further consistency. Developments are already underway which will further improve the service provided to health bodies in Wales.

The Health Board's significant financial and accounting systems were appropriately controlled and operating as intended. As part of its wider programme of work, Internal Audit have identified some areas of weakness in high-risk areas, mainly in the clinical/services domain, which require management action

34. Subject to the matters identified previously, I did not identify any material weaknesses in the Health Board's significant financial and accounting systems which would impact on my opinion.

35. The Head of Internal Audit's Annual Report highlights a number of weaknesses which the Health Board is in the process of addressing. The report concludes that overall the Health Board can take 'limited assurance' that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. The majority of Internal Audit's work was aimed at high-risk areas and the issues identified are mainly in the clinical/services domain. The Health Board needs to ensure the recommendations made by Internal Audit are

implemented. Action plans have been developed to strengthen controls and progress is being scrutinised by the Audit Committee.

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

36. 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 district nursing, clinical coding arrangements, orthopaedic services and a local audit of sickness performance indicators; and
- assessing the progress the Health Board has made in addressing the issues identified by previous audit work on operating theatres.

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

The Health Board has a broadly sound approach to in-year financial management but some improvements are required. The Health Board did not achieve financial breakeven in 2013-14 and is unlikely to do so in 2014-15. The Health Board needs to develop a clear strategic direction through its Integrated Medium Term Plan

In 2013-14, the Health Board did not break even reporting a £19.225 million deficit. Financial management was sound but improvements are required in some areas – for example, some of the Workforce Cost Improvement Plans (CIPs) were overly ambitious and were not supported by detailed plans

38. 2013-14 represented the fourth year of 'flat cash' funding for the Health Board. At the start of the year the financial plan identified a very challenging financial gap of some £56 million. In line with statutory requirements, at the beginning of the financial year the Health Board set a technically balanced budget with £28 million of CIPs but there was a further £28 million gap which the Health Board had no plans to meet.

39. During the year the Health Board was constrained in what actions it could take to redesign services but in line with most other Welsh NHS bodies, 'non-urgent' service delivery was affected by the financial savings measures as urgent clinical activity was prioritised and some activity was deferred. This does not represent good value for money.

40. Compared to its CIP target of £28 million, the Health Board achieved savings of some £23.5 million. The largest area of under-achievement was within Workforce with a £7.3 million underachievement. I have concerns that some CIPs were achieved based on underspends against budgeted expenditure so it is unclear how successful the CIPs have been.

41. In October 2013 the Health Board received some £14.45 million of additional revenue funding from the Welsh Government. At the year-end the Health Board did not achieve breakeven reporting a year-end deficit of £19.225 million. This resulted in a qualified regularity opinion and additional substantive report as set out in paragraphs 22 to 24.

42. During 2013-14, monthly budget monitoring and reporting to the Welsh Government, the Board and departments was robust, comprehensive and timely. Whilst 'zero-based budgeting' has been applied to areas such as Ward Nursing, it should be extended to other cost areas. Finally, the Health Board has undertaken some recent benchmarking of performance with other organisations across Wales but there is more to do such as analysing costing information.

For 2014-15, in-year financial management and reporting arrangements are sound but there is not a sustainable and balanced financial plan and the Health Board is currently projecting a significant year-end deficit of £63 million

43. In 2014-15, the Health Board has continued to improve the effectiveness of its budgetary control arrangements and it has assessed the level of savings required to achieve breakeven. The 2014-15 financial plan presented to the Board in March 2014 was not balanced as the plan showed a gross challenge of £68.7 million (£19.225 million of this is the 'repayment' of the 2013-14 deficit) and the Health Board was only able to set CIPs of £13 million.

44. Half-way through the 2014-15 financial year, the Health Board is experiencing difficulties in achieving the initial projected outturn – the year-end deficit has increased from a projected £57.9 million at the beginning of the year, to £63.4 million.

45. In 2013-14, the Health Board achieved its Capital Resource Limit of £21 million. However, as set out in Exhibit 2 below, there are significant current and future financial and service risks around the condition of the Health Board's estate and plant and equipment.

The Health Board does not have an approved IMTP which links finances, workforce and services

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 a suitably robust IMTP, and the formal approval of those plans by Welsh Ministers.

47. An IMTP was approved by the Board in January 2014 and this was submitted to the Welsh Government for approval. However, the Welsh Government did not approve the document as it fell significantly short of what was expected. This is discussed in more detail in paragraph 49 below.

The Health Board has continued to strengthen its governance arrangements and is building a more open and transparent culture. However, progress in some areas has been slow and the Health Board is yet to address some fundamental weaknesses including developing a clear strategic plan and a Board assurance framework

48. This section of the report considers my findings on governance and board assurance, presented under the following themes:

- strategic planning;
- organisational structure;
- board assurance and internal controls including performance management; and
- progress in responding to governance issues identified in last year's Structured Assessment.

Despite delivery of a number of significant service changes, weaknesses in the Health Board's IMTP suggests that strategic planning has not met the organisation's needs although work is underway to address this

49. The Health Board's strategic vision has been clear for some time. Based on the vision, the Health Board has delivered a number of significant service changes which span a range of service areas including maternity and children's services, unscheduled care and rehabilitation.

50. In line with the Welsh Government's requirements, an IMTP was approved by the Board in January 2014 and submitted to the Welsh Government for approval. However, the Welsh Government did not approve the document as it fell significantly short of what was expected. The key reasons for the Welsh Government not approving the IMTP included:

- an absence of strategic options and a preferred strategic direction for the Health Board;
- aspirational actions and a lack of clarity on the outcomes the Health Board was trying to achieve;
- delivery and performance outcomes for the next three years were not clearly set out and there was no clear trajectory on performance;
- workforce plans were not robust, including the management of workforce risks/shortages;
- financial planning needed strengthening with a 'greater level of granularity' linking to service and workforce plans; and
- across the three years of the IMTP, the plan showed a deficit of some £170 million and the Health Board's capital allocations were not in line with the Welsh Government's assumptions.

51. Although the inherited service configuration creates a number of challenges for the Health Board when developing a sustainable IMTP, the Health Board recognises that it needs to improve its IMTP as well as improving links across financial, service and workforce plans.

52. The Health Board recognises that the approach to strategic planning affected its ability to develop a robust IMTP and as a result revised its planning arrangements. In recent months the Health Board has invested considerable effort into producing a more coherent and workable IMTP for submission to the Welsh Government in January 2015.

The new organisational structure provides clearer lines of accountability and supports a stronger focus on operational delivery, improvement and change. For some areas achieving change will be reliant on a number of difficult cultural challenges being addressed

53. The planned organisational restructure reported last year came into effect in July 2014. Previously, the Health Board operated as three distinct counties with responsibility for acute, primary and community services. The new structure has an acute services directorate that spans the whole Health Board in addition to the three counties. The aim of the structural change is to ensure that the acute services provide more cohesive, consistent care and improve performance and efficiency. The three counties now have a community and commissioning focus, maintaining their alignment to the local authority partners. Operational lines of accountability are now clearer and there is a stronger performance management framework underpinning delivery.

54. While the new structure should support a greater sense of cohesion, the Health Board acknowledges that securing agreement from some clinical specialities to work as one Health Board will be challenging. The reason for this is that for some time many clinicians have worked in just one hospital and have become used to working in specific ways. Often the way of working can differ across the Health Board's four main hospital sites and this will need to be addressed.

Board effectiveness, Board assurance and internal controls continue to be strengthened and are largely effective although there remain some important areas which need to be addressed

55. The Health Board's internal controls continue to evolve and be strengthened and while in the main the Board demonstrates effective administration and conduct there remain some challenges. The absence of agreed strategic objectives and an articulated Board assurance framework make it more difficult for the Board to demonstrate that it is getting the right assurances. The Health Board is developing these alongside its IMTP.

56. Schemes of delegation have changed several times in the past year, which presents a risk of confusion about accountability and a lack of continuity. The changes were largely but not solely driven by director vacancies. The Health Board recognises that the current schemes of delegation are a holding position, pending the start of the new Chief Executive Officer in early 2015.

57. There is a strong quality and safety focus by the Board which underpin many aspects of its work. There is now greater openness and candour with Committee papers more readily accessible on the internet and greater visibility of Board members at an operational level.

58. Further changes to the structure and operation of committees have helped to strengthen overall governance and assurance although there remain opportunities for improvement. Committees have generally effective administration and conduct with good scrutiny and challenge. However, the quality of papers is variable and on occasions there is duplication of agendas and a lack of clarity of where issues should be discussed. Specifically, the Quality and Safety committee is now more strategic and focused on gaining appropriate assurances but greater clarity is required on exception reporting and ensuring the right level of assurance is being received from sub-committees. The Health Board is undertaking work to articulate what each committee does, to determine any gaps or duplication and to redefine 'assurance flows'.

59. The information presented to the Board and its committees generally supports good decision making and oversight in key business areas. The Health Board's overall monthly performance report has been further strengthened in-year with detailed summaries, better highlighting of key risks and actions supported by data-rich RAG (Red, Amber, Green) rated report. The report covers key performance domains including need and prevention, experience and access; patient flow processes; and quality and safety. There is a strong public health focus with primary care domains but few community and workforce measures.

60. The community domains are being developed through a community Task and Finish group, and balanced scorecards are being developed for all service areas. The quality dashboard is being continuously refined with the current version aligned to the information that is contained on the 'MylocalHealthService' website. However, the Health Board recognises that there remain opportunities for further improvement. Current information supports challenge, debate and decision making but more needs to be done to triangulate information, understand impacts across performance, quality and the finances, and move towards more outcome-focused reporting.

61. The arrangements for monitoring and reviewing performance have been enhanced with greater understanding of performance issues and where improvement is needed, although balancing financial and service performance remains a significant challenge. There is now clearer accountability and regular performance service meetings which are informed by more comprehensive and timely data. Detailed acute services information is generated daily by speciality and by hospital and this is used to inform daily service meetings to support and ensure improved patient flow. Systematic process reviews of some service areas are supporting understanding and improvement with plans to undertake similar reviews across different service areas. Performance has improved in some areas through a combination of the strengthened processes and scrutiny but also from additional investment.

62. Work is underway to further strengthen risk management arrangements, with current processes and risk registers undergoing an overhaul in order to align to the new structure. The risk panels led by independent scrutiny chairs continue with their scrutiny of operational risks with the responsible staff. This has provided effective oversight and scrutiny of risks which has helped embed arrangements at an operational level. The corporate risk register reported to the Board is a thematic overview of the key corporate risks rather than being based around the Health Board's strategic objectives. At present the corporate risk register does not provide clear assurance to the Board that controls are effective, although operational risk registers below Board level do provide this. The Health Board plans to review its risk management strategy, policy and procedure and is planning a Board development session to consider the corporate risks and identify and agree the Health Board's risk appetite.

The Health Board has proactively responded to a number of quality governance issues identified in last year's structured assessment although some challenges remain

63. Last year my structured assessment work focused on overall governance arrangements with a specific focus on quality governance and quality management arrangements. I identified a number of aspects of quality governance that needed to be addressed, in particular the need for the Health Board to improve:

- the way it responds to concerns;
- how it uses information to inform organisational learning; and
- its operational arrangements for capturing patient experience.

64. My 2014 structured assessment work found that whilst action has been taken to address the management of concerns, there are still areas requiring improvement. Executive responsibility for concerns now lies with one director but with the active involvement of all directors. To address the poor quality of complaint responses the Health Board has focused on reviewing every individual complaint and response. As a result the quality of responses has improved although timeliness remains as issue.

65. The Health Board has become more proactive in theming and triangulating concerns to inform learning. While there are many examples of the Health Board having learnt from events, there needs to be a more systematic approach to organisational learning. The recently developed 'learning lessons' newsletter is, however, a positive step in this direction.

66. The Health Board has continued to strengthen its approach to measuring patient experience with a number of varied and innovative approaches being adopted to understand patient views. My team found that the Board now has greater awareness and understanding of patient experience issues and processes, and there is evidence of a more consistent and embedded approach to understanding patient experience across the organisation.

67. My previous work also highlighted the need to strengthen other quality assurance and governance issues. This year, I found that measures had been taken to strengthen the Health Board's Annual Quality Statement which is now more user friendly and provides a clear picture of the issues, actions and progress against the actions. Clinical audit effectiveness has also been strengthened in the past year and is now more focused on risk.

68. 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. My work has found that generally effective arrangements are in place to manage and respond to audit recommendations although there are opportunities for a more consistent approach to the initial management response.

The Health Board is improving its workforce planning arrangements and further strengthening partnership working and engagement with its local population but there remain a number of significant workforce, estate and asset risks

69. My Structured Assessment work has reviewed how key enablers of efficient, effective and economical use of resources are managed. This year I have commented on the organisation's change management capacity, workforce issues, estates and assets, partnership working and citizen engagement. My work is ongoing and a number of the thematic areas will be reviewed in more detail early in 2015 following the Health Board's resubmission of its IMTP to the Welsh Government.

70. My work to date has indicated that:

- the Health Board is strengthening its change management arrangements with some positive examples of successful change;
- there are early signs of the Health Board's commitment to strengthen workforce planning and service delivery but recruitment and workforce challenges remain;
- the condition of the Health Board's estate and plant and equipment present significant current and future financial and service risks;
- the Health Board's approach to collaborative working is positive although as yet outcome and performance measures are not well defined across all partnerships, and;
- the Health Board has recognised the need for more continuous engagement with its population to improve its reputation and inform local people of the challenges facing the NHS and the need for change.

71. My key findings are set out further in Exhibit 2.

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

Issue	Summary of findings
Change management capacity	The Health Board is strengthening its change management arrangements with some positive examples of successful change. Historically change management programmes have not been strong but the successful delivery of a number of major service changes this year demonstrates that the Health Board has strengthened its approach with communication mechanisms for these schemes much improved. We will look at change management in more detail in 2015 following the submission of the Health Board's IMTP.
Workforce planning	There are early signs of the Health Board's commitment to strengthen workforce planning and service delivery but recruitment and workforce challenges remain in some areas. The Health Board recognises that workforce planning needs to be strengthened and that previous plans were based on current not future service models. As part of preparing the updated IMTP, work is underway to provide workforce forecast planning and gap analysis. However, there continues to be a number of significant workforce challenges with some fragile service areas. As a result the Health Board has started to consider alternative workforce solutions to address these challenges and positive measures have been taken to promote nursing recruitment. Workforce performance indicators have been significantly strengthened and are being used to inform operational planning and delivery.

Issue	Summary of findings
Workforce planning	In previous years we have commented on the need to increase the uptake of statutory and mandatory training along with the numbers of nurses receiving and annual appraisal and Performance Development Plan (PDP). This year while there are pockets of good practice, the Health Board's nursing workforce is still not meeting its statutory and mandatory requirements, and performance on annual appraisals and PDPs remains problematic.
Estates and assets	Common to other parts of Wales, the condition of the Health Board's estate and plant and equipment presents significant current and future financial and service risks. For the Health Board some £37.8 million of ICT, plant, equipment and vehicle assets are deemed to be beyond their economic life and are predicted to rise by a further 35 per cent to £50.9 million by 31 March 2015. Older assets represent a significant operational risk to the Health Board and they generally have higher running, repair and maintenance costs. The condition of the Health Board's estate (land and buildings) presents risks for the Health Board to manage. There are also financial consequences of the condition, backlog maintenance and energy costs: • The Health Board's high-risk 'backlog maintenance' has increased slightly from 2011-12 – it also remains the second highest 'significant risk' rated NHS body in Wales at £25.4 million. • Although the Health Board's Statutory/Safety compliance performance exceeds the All Wales average (at 86 per cent) it has not yet achieved the current 90 per cent Welsh Government target. • Fire Safety standards have shown considerable improvement since 2010 and exceed the Welsh Government target of 90 per cent. • Functional suitability of assets has improved and now meets the Welsh Government target of 90 per cent. • Welsh Government space utilisation targets have been met. • Energy efficiency has seen a small decline in performance on the previous year's results. Other than Withybush, the major sites, are predominantly poor performers.

Issue	Summary of findings
Estates and assets	In previous years we have identified a number of significant risks with the aging ICT infrastructure and the lack of capital investment to address these risks. This year my team has concluded that ICT infrastructure remains a significant risk and sustainable solutions have not been identified. The Health Board has not prioritised improving the ICT infrastructure which is inadequate for meeting the Health Board's current and future needs. There has been very limited investment in core services with some £8.6 million of ICT assets deemed to be beyond their economic life. ICT core services are fragile meaning that the service continues to firefight to keep systems working. While the Health Board has identified a five-year capital development plan that identifies all the ICT risks requiring capital funding; this is not supported by an ICT strategy and plan for how the Health Board will prioritise and address this significant risk. Linked to the IMTP, the Health Board needs to develop an asset management strategy which assesses risks and prioritises how resources are used to address these risks. This will be against a backdrop of limited revenue resources and significantly reducing capital resources.
Partnership working	The Health Board's approach to collaborative working is positive although as yet outcome and performance measures are not well defined across all partnerships. The Health Board is a strong partner at Local Service Boards (LSBs) although the effectiveness of the three LSBs is variable. Statutory partnerships are generally strong and provide a sound structure for effective strategic and operational working. Operational partnerships generally work well with clear aims but for some service areas such as adult services, there is limited information on outcomes to demonstrate what difference the partnerships are making. Partnerships with other NHS bodies are generally working well with engagement on strategic and operational issues. Historically, relationships between the Health Board and the Community Health Council have been strained but there are early signs of improvement. Both will have to work together to maximise the effectiveness of the partnership.

Issue	Summary of findings
Stakeholder engagement	The Health Board has recognised the need for more continuous engagement with its population to improve its reputation and inform local people of the challenges facing the NHS and the need for change. The Health Board has an involvement and engagement scheme which provides continuous engagement mechanisms and regular dialogue with patients/users. There are a number of examples of positive user engagement that have helped improve services. A wide variety of engagement activities on strategic and operational service planning and change are undertaken. However, at times the positive engagement has been overshadowed by adverse media and public opinion, which suggests that aspects of the approach may need to change. The Health Board recognises that it needs to engage better with the public and its own staff and rebuild its reputation. A proactive programme of ongoing engagement is vital to the successful delivery of the IMTP.

While my performance audit work has identified some good areas of practice it has also identified opportunities to secure improvements in the use of resources in a number of areas

72. During 2014, I have issued reports to the Health Board on the use of resources in the following specific areas:

- District nursing services
- Clinical coding arrangement
- Orthopaedic services
- Audit of Sickness Performance Indicator
- Operating theatres follow-up

73. The main findings from these reviews are summarised in the following sections.

The Health Board does not have a clear strategy for its district nursing service and planning and delivery are complicated by a limited understanding of demand, an unexplained variation in deployment and a lack of systematic monitoring of quality and performance

74. While the Health Board has made significant progress in establishing community teams and services to support patients in the community and to prevent unnecessary use of hospitals, it does not yet have a clear strategy or supporting operational plans for delivering its district nursing service. However, work is underway to identify the shape of community services, which includes the role of district nursing in wider service provision and the supporting plans to underpin this. Delivering the required service objectives will need stronger oversight at a corporate level.

75. Within the Health Board there is a limited understanding of demand for district nursing services and demand needs to be better managed although the Health Board is working to address this. The Health Board is actively investing in formal training for district nursing staff but poor compliance with the appraisal and performance review process undermines its ability to identify gaps in skills. Low levels of compliance with some statutory and mandatory training present corporate and operational risks.

76. District nursing staff have a greater role in co-ordinating the multiple healthcare services that patients receive in the community compared to some areas in Wales. However, there is unexplained variation in the way district nursing teams are deployed with staff unevenly distributed across the caseloads. In addition, the Health Board cannot take assurance that district nursing resources match the needs of the caseload, and more could be done to improve caseload management.

77. The Health Board is currently unable to systematically assess, monitor and report on the performance, quality and safety of its district nursing service. Systems for capturing and reporting on activity are inconsistent between counties with little clarity about how the information is used to inform planning or improvements. Performance measures have yet to be agreed for the quality and safety of the district nursing service.

78. On a more positive note, the Health Board plays an active role in the development of district nursing services across Wales and is working to improve the way information, including good practice, is shared within and between counties.

The Health Board gives clinical coding a high profile, supporting it with a good level of investment, and is focused on improving the quality of management information although further improvements to local practices are required

79. Clinical coding of patient data underpins the generation of management information used by NHS bodies to govern the business and ensure that resources are used efficiently and effectively and that services are safe and of high quality. During 2014, my team undertook a review of the Health Board's arrangements to generate timely and accurate clinical coding. The work was undertaken collaboratively with the NHS Wales Informatics Service.

80. The review found that clinical coding was a corporate priority with a good awareness of the Health Board's arrangements at Board level with clear governance and accountability for clinical coding to the Board and coding well integrated with wider informatics. Sufficient resource was allocated to clinical coding with an encouraging focus on training and development. However, there was little awareness of the accuracy of coded data at Board level and the inter-relationship between coding and medical records was weak.

81. Many aspects of the clinical coding process are sound with up-to-date policies and procedures, generally good access to information and positive processes for validation and audit. However, the effectiveness is undermined by variance in practice across the different sites, slow access to notes on some sites and mixed clinical engagement.

82. The quality of medical records needs to be addressed, particularly in relation to the use of temporary records. The routine use of poly pockets when records are not available is a concern. This has implications for the quality of clinical coding as relevant previous medical history may be omitted from the coding of a patient's episode of care. It also introduces wider clinical governance risks.

83. Clinical coded data meets the standards for completeness, validity and timeliness with no backlogs to affect the data, but there are issues with the accuracy of coding which need to be addressed:

- the Health Board achieved the national validity and consistency standards for data derived by clinical coding;
- the Health Board achieved the Welsh Government target that activity should be coded within three months, and performance targets continue to be met during the year to date; and
- the review of clinical coding accuracy identified error rates ranging between five and 27 per cent.

84. Clinical coded data is being used appropriately throughout the Health Board although despite a range of processes in place to review the accuracy of clinical coding, the accuracy of data is not reported to the Board therefore it is not sufficiently aware of the accuracy of coding and its implication.

High demand and inefficient outpatient services are resulting in long waits for orthopaedic outpatient appointments and diagnostic tests. Patient outcomes are generally good but the high rates of joint replacement revisions and undertaking procedures of limited effectiveness are a concern

85. 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, due to be published in 2015. My analysis of all-Wales data has shown that:

- The Health Board's investment in primary care has increased but GP referral rates are one of the highest in Wales and despite the Clinical Musculoskeletal Assessment and Treatment Service (CMATS) having a positive impact, referrals to secondary care are now increasing.
- Although physiotherapy services are meeting demand, outpatient services are inefficient and waits for radiology are the highest in Wales, with the proportion of magnetic resonance imaging (MRI) referrals also high.
- Pre-operative assessment arrangements are in place and hospital stays are generally shorter than across Wales. There is further scope to increase day-case rates and bed occupancy, reduce cancelled operations and minimise the number of procedures of limited effectiveness undertaken.
- Patients are followed up and generally have positive outcomes although revision rates for joint replacements are some of the highest in Wales.

Assurance can be taken that the sickness absence figures reported by the Health Board are substantially accurate, but there is a risk that these figures are marginally understated, especially if they are taken from reports run shortly after the period has ended

86. As part of the programme of performance audit work, we have undertaken an assessment on the reliability of the sickness absence performance indicator information. The results of this work:

- identified some deficiencies in the design and process used to capture sickness absence, although these are largely concerned with the manual input of sickness data rather than the system itself; and
- did not identify any issues with the calculation used to derive the sickness absence performance indicator.

While there is evidence of some local efforts to improve operating theatre services, overall there has not been significant improvement since my previous review in 2011, and some fundamental barriers remain

87. I reviewed operating theatre services in the Health Board during 2011. Since then there has been some improvement actions with local efforts to improve efficiency. Improvement initiatives have included the implementation of the Transforming Theatres Programme, use of 'glitch boards', and the use of external consultants to review theatres. However, the impact of these initiatives is unclear because the Health Board is unable to extract the necessary theatre utilisation data from its information systems.

88. Delays along the patients' surgical pathway of care impact on the efficient use of theatre capacity and contribute to theatre sessions starting later than planned.

89. Staff were generally positive about teamwork and safety culture within theatres but there were some negative perceptions about staffing levels and communication. The World Health Organisation's '5 Steps to Safer Surgery' are becoming more commonly used in theatres but they are often not carried out in the right way with inconsistencies in the way they are applied, and processes are not always carried out as a team. The Health Board has not assessed whether the safety interventions are being used as intended.

90. My follow-up work has indicated that the Health Board has a number of barriers that it needs to overcome if it is to secure further improvements in its use of operating theatre resources. These are set out below:

- Operating theatres have not been a corporate priority and the lack of central drive and leadership has been a fundamental barrier to improvement.
- Efforts to drive improvement have suffered because of the lack of robust information. The Health Board was unable to fulfil the data request for my follow-up audit and within the Health Board there are frustrations and conflicting views about the Myrddin theatres ICT system and its reporting functionality.

- While there is a Health Board level theatre improvement plan, staff were unaware of it and there was no evidence of it being used to drive improvement. The absence of a Health Board wide theatre group and a number of management changes have also affected progress.

Appendix 1

Reports issued since my last Annual Audit Report

Report	Date
Outline of audit work	
Outline of Audit Work for 2014	May 2014
Financial audit reports	
Audit of Financial Statements Report – Health Board	June 2014
Opinion on the Financial Statements	June 2014
Internal Audit Review	July 2014
Audit of Financial Statements Report – Charitable Funds	October 2014
Performance audit reports	
Review of Clinical Coding	April 2014
Performance Indicator Audit of Sickness Absence	May 2014
Operating Theatres follow-up	July 2014
Review of Orthopaedic Services	November 2014
Review of District Nursing	December 2014
Structured Assessment 2014	December 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
ICT Diagnostic Review	January 2015
Information Backup Review	February 2015
Information Governance follow-up	February 2015
Review of Outpatient Follow-up Appointments	March 2015
Review of Medicines Management	May 2015

Appendix 2

Significant audit risks

My Outline of Audit Work for 2014 set out the significant financial audit risks for 2014. The table below lists the key risks and how they were addressed as part of the audit.

Significant audit risk	Proposed audit response	Work done and outcome
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.	Test the appropriateness of journal entries and other adjustments made in preparing the financial statements. Review accounting estimates for biases. Evaluate the rationale for any significant transactions outside the normal course of business.	My team has tested the appropriateness of journal entries and other adjustments made in preparing the financial statements, reviewed accounting estimates for biases and evaluated the rationale for any significant transactions outside the normal course of business. Beyond those issues set out in Exhibit 1, I have no further issues to report.
There is a significant risk that the Health Board will fail to meet its revenue resource limit. The month-11 position showed a year-to-date deficit of £20.2 million and forecast a year-end deficit of £19.15 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. The current financial pressures increase the risk that management judgements and estimates could be biased in an effort to achieve the resource limit.	Focus testing on areas of the financial statements which could contain reporting bias.	I have qualified my regularity opinion and placed a substantive report on the Health Board's financial statements. My team has focused testing on those areas which might contain reporting bias. I have no further issues to report.

Significant audit risk	Proposed audit response	Work done and outcome
There is a significant risk that the Health Board will face severe pressures on its cash position at the year-end. A shortfall of cash is likely to increase creditor payment times and impact on Public Sector Payment Policy (PSPP) performance.	My team will audit the PSPP bearing in mind the cash pressures on the Health Board.	My team has monitored the Health Board's actions to successfully address the shortfall of cash at the year-end. My team has audited performance against the PSPP and set out our findings in Exhibit 1.

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