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Auditor General for Wales

Annual Audit Report 2019 – **Velindre University NHS Trust**

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Summary report

About this report

- 1 This report summarises the findings from the audit work I have undertaken at Velindre University NHS Trust (the Trust) during 2019. I did that work to carry out my responsibilities under the Public Audit (Wales) Act 2004; the Act requires me to:
 - a) examine and certify the accounts submitted to me by the Trust, 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 Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2 I have reported my findings in key messages under the following headings:
 - Audit of accounts
 - Arrangements for securing economy, efficiency and effectiveness in the use of resources
- 3 I have issued several reports to the Trust this year. This annual audit report is a summary of the issues presented in these more detailed reports, a list of which is included in [Appendix 1](#).
- 4 [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 Trust: it is the same as the original fee that was set out in the 2019 Audit Plan.
- 5 [Appendix 3](#) sets out the financial audit risks highlighted in my 2019 Audit Plan and how they were addressed through the audit.
- 6 The Chief Executive and the Executive Director of Finance have agreed this report is factually accurate. We presented it to the Board on 30 January 2020, and every member will receive a copy. We strongly encourage the Trust to arrange wider publication of this report. We will make the report available to the public on the [Wales Audit Office website](#) after the Board have considered it.
- 7 I would like to thank the Trust's staff and members for their help and co-operation during the audit work my team has undertaken over the last 12 months.

Key messages

Audit of the accountability report and financial statements

- 8 I have concluded that the Trust's accounts were properly prepared and materially accurate, and my work did not identify any material weaknesses in the Trust's internal controls relevant to my audit of the accounts. I have therefore issued an unqualified opinion on their preparation.
- 9 My audit did not highlight any material financial transactions within the Trust's 2018-19 accounts that were not in accordance with authorities. Therefore, I have issued an unqualified opinion on the regularity of the financial transactions within its 2018-19 accounts.
- 10 The Trust achieved financial balance for the three-year period ending 31 March 2019. It has an approved three-year plan in place. As there were no issues which warranted highlighting, no substantive report was placed on the Trust's accounts.

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

- 11 My programme of Performance Audit work at the Trust has led me to draw the following conclusions:
 - Structured Assessment: The Trust continues to strengthen its strategic planning arrangements, but risks and related controls and assurance are not mapped to strategic priorities. Positive progress has been made to redesign the organisational structure to better support transformation and there are effective financial arrangements. However, important gaps remain in clinical audit assurance.
 - Implementing the Well-being of Future Generations Act 2015: The Trust is applying the sustainable development principle when designing and developing the Transforming Cancer Services programme, but more work is needed to ensure it is embedded in core business and performance management arrangements.
 - Progress made in responding to the recommendations set out in my 2014 review of the Trust's clinical coding arrangements: The Trust has exceeded all-Wales completeness and accuracy targets for clinical coding and has implemented actions to address most of our 2014 recommendations, but there remains scope to make more use of clinical coding data
- 12 These findings are considered further in the following sections.

Detailed report

Audit of the accountability report and financial Statements

- 13 This section of the report summarises the findings from my audit of the Trust's financial statements for 2018-19. These statements are how the organisation shows its financial performance and sets out its net assets, net operating costs, recognised gains and losses, and cash flows. Preparing the statements is an essential element in demonstrating appropriate stewardship of public money.
- 14 My responsibilities in auditing the Trust's financial statements are described in my [Statement of Responsibilities](#) publication, which is available on the Wales Audit Office website.

I have issued an unqualified opinion on the accuracy and proper preparation of the 2018-19 financial statements of the Trust although, in doing so, I have brought some issues to the attention of officers and the Audit Committee

I have concluded that the Trust's accounts were properly prepared and materially accurate, and my work did not identify any material weaknesses in the Trust's internal controls relevant to my audit of the accounts

- 15 I received the draft accounts in line with the prescribed deadlines and the supporting working papers were of good quality.
- 16 I reviewed those internal controls that I considered to be relevant to the audit to help me identify, assess and respond to the risks of material misstatement in the accounts. I did not consider them for the purposes of expressing an opinion on the operating effectiveness of internal control. My review did not identify any significant deficiencies in the Trust's internal controls.
- 17 I must 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 Trust's Audit Committee on 28 May 2019. [Exhibit 1](#) summarises the key issues set out in that report.

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

The following table summarises and provides comments on the key issues identified.

Issue	Auditors' comments
Uncorrected misstatements	There were no uncorrected misstatements.

Issue	Auditors' comments
Corrected misstatements	There were several adjustments made to the draft accounts. These were minor in nature and had no impact on the Trust's reported surplus.
Other significant issues	I did not identify any other significant issues either qualitative or quantitative, relating to the accounts.

- 18 I also undertook a review of the Whole of Government Accounts return. I concluded that the counterparty consolidation information was consistent with the financial position of the Trust at 31 March 2019 and the return was prepared in accordance with the Treasury's instructions.
- 19 My separate audit of the charitable funds financial statements has been completed and I issued an unqualified opinion on the accounts on 5 December 2019.

I have issued an unqualified audit opinion on the regularity of the financial transactions within the financial statements of the Trust and, as the Trust met its statutory financial duties, did not need to place a substantive report alongside this opinion

My audit did not highlight any material financial transactions within the Trust's 2018-19 accounts that were not in accordance with authorities, and so I have issued an unqualified opinion on the regularity of the financial transactions within its 2018-19 accounts

- 20 The Trust's financial transactions must be in accordance with the authorities that govern them. It must have the powers to receive the income and incur the expenditure that it has. My work reviews these powers and tests that there are no material elements of income or expenditure which the Trust does not have the powers to receive or incur.

The Trust achieved financial balance for the three-year period ending 31 March 2019 and has an approved three-year plan in place. As there were no issues which warranted highlighting, no substantive report was placed on the Trust's accounts

- 21 I have the power to place a substantive report on the Trust's accounts alongside my opinions where I want to highlight issues. I did not issue a substantive report on the accounts because the Trust met both of its financial duties and there were no other issues warranting report.
- 22 The Trust maintained its track record in achieving financial balance in 2018-19 and reported a small surplus totalling £31,000 (this includes £14,000 which relates to the NHS Wales Shared Services Partnership, a body hosted by the Trust). The Trust also broke even for the three-year period 2016-2019.

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

- 23 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 Trust over the last 12 months to help me discharge that responsibility. This work has involved;
- undertaking a structured assessment of the Trust's arrangements for overall governance, strategic planning, managing financial resources, and managing workforce productivity and efficiency; and
 - reviewing the progress made in responding to the recommendations that I set out in my 2014 review of the Trust's clinical coding arrangements.
- 24 In addition, in order to discharge my responsibilities under the Well-being of Future Generations Act 2015, I have undertaken work to review the Health Board's arrangements for implementing the Act.
- 25 My conclusions based on this work are set out below.

Governance: The Board and its sub-committees are generally effective, but risks and related controls and assurances are not mapped to strategic priorities and there are gaps in information flows relating to clinical audit. Positive progress is being made to redesign the organisational structure to better support the transformation of cancer and blood services

- 26 My structured assessment work examined the Trust's governance arrangements, the way in which the Board and its sub-committees conduct their business, and the extent to which organisational structures are supporting good governance and clear accountabilities. I also looked at the information that the Board and its committees receive to help them oversee and challenge performance and monitor the achievement of organisational objectives. My findings are set out below.
- 27 The Board is generally effective, and my team observed good levels of scrutiny and challenge at Board and committee meetings and suitable responses from executive directors. The Board continues to review its committee structures and how it organises its work to support good governance. Board and committee reports provide a good summary of matters for discussion but could more clearly identify how decisions taken may impact on the delivery of the Trust's strategic priorities.
- 28 Work to develop a Board Assurance Framework (BAF) and update the risk management framework is behind schedule due to capacity issues, and in part

linked to the secondment of key staff. Consequently, the Board has not mapped risks and related controls and assurances to strategic priorities. However, positively, in November 2019, the Board adopted an interim BAF in 2020 and work commenced on a permanent framework to be in place by May 2020. No progress has been made to address our 2018 recommendations to improve the scrutiny of clinical audit planning and reporting, but the Trust has plans to address our recommendations in 2020. The Trust has implemented arrangements to track and monitor the findings and recommendations arising from external reviews and inspections, such as those of Healthcare Inspectorate Wales. The Trust has strengthened and increased the capacity of leadership and is making positive changes to the organisational structure to better support the transformation of services. However, given the scale and complexity of the Transforming Cancer Services programme (TCS)¹, the Trust needs to ensure that there are appropriate governance and risk management arrangements and internal controls to underpin the next phases of the work, with appropriate assurances provided to the Board.

- 29 In 2018, I concluded that the Audit Committee has a well-established approach for tracking progress against audit recommendations made by the Wales Audit Office and Internal Audit. However, the audit tracker does not include a mechanism for the Audit Committee to satisfy itself that actions taken are satisfactory in order to remove recommendations from the tracker. At the time of writing, the Audit Committee was planning to add functionality to address this finding. My work has found that the Trust is making progress in addressing recommendations from my 2018 Structured Assessment, although progress has been slow. I identified 15 recommendations in my 2018 Structured Assessment, of which seven have been addressed, but seven remain outstanding and are overdue (one recommendation is superseded with a new recommendation made in 2019). In addition, three recommendations from previous structured assessments have not yet been fully addressed.

¹ The TCS programme aims to keep pace with the increasing demand and complexity of cancer care and to deliver more care closer to home. The TCS comprises seven projects; the construction of a new cancer centre, enabling works to deliver access and facilities to the new cancer centre site (pre-build), decommissioning of the existing cancer centre, development of a new radiotherapy satellite centre at Neville Hall Hospital, procurement of clinical and digital equipment, delivery of more outreach services, and clinical service transformation.

Strategic planning: The Trust continues to strengthen its strategic planning arrangements, however, whilst the Board is beginning to scrutinise delivery against plans, the effectiveness of scrutiny is limited by the absence of signposting of progress made against delivering strategic priorities

- 30 My structured assessment work examined how the Trust engages partners and sets the strategic direction for the organisation. I also assessed how well the Trust plans the delivery of its objectives and how it monitors progress in delivering the plans. My findings are set out below.
- 31 The Board is developing a five-year strategy for the Trust with a focus on improving population health and wellbeing. During 2019, progress has been made in developing strategic plans to underpin the Integrated Medium Term Plan (IMTP), and plans are informed by demand and capacity modelling to identify gaps in capacity and resources. The Trust's 2019-22 IMTP is a more cohesive plan than in previous years and has a strong focus on system leadership and regional working. The Trust's 2019-22 IMTP was approved by the Welsh Government in March 2019. The Trust has arrangements to monitor delivery of the IMTP at an operational level. However, whilst the Board has begun to scrutinise the delivery of the IMTP, the effectiveness of scrutiny is limited by the absence of signposting of progress made against delivering strategic priorities. The Board should collectively decide the information it requires to support effective scrutiny of delivery of strategic priorities.

Managing financial resources: The Trust has effective financial planning, management and monitoring arrangements and has identified more realistic and sustainable financial savings

- 32 My structured assessment work examined the actions the Trust is taking to achieve financial balance and create longer-term financial sustainability. I also assessed the financial position of the organisation, the approach to financial planning, financial controls and stewardship, and the arrangements for financial monitoring and reporting. My findings are set out below.
- 33 Financial planning arrangements continue to work well. The Trust has completed the development of a new costing model to ensure that financial plans are informed by an understanding of the true cost of Velindre Cancer Centre's services. Accounting and financial control arrangements are sound. The Trust has well-established financial monitoring arrangements, and improvements to Board reports are supporting effective scrutiny. The Trust has identified more realistic (achievable) financial savings, reducing reliance on non-recurrent savings and has strengthened financial savings monitoring arrangements.

- 34 The National Fraud Initiative (NFI) is a biennial data-matching exercise that helps detect fraud and overpayments by matching data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. Participating bodies submitted data to the 2019-20 NFI data matching exercise in October 2018. Satisfactory progress has been made during the year to review matches and appropriate evidence has been recorded.

Managing workforce productivity and efficiency: The Trust is taking positive steps to improve staff retention and recruitment and has a comprehensive and proactive approach to staff health and wellbeing

- 35 My structured assessment work examined the actions that the Trust is taking to ensure that its workforce is well managed and productive. I also assessed arrangements for addressing training and development needs and action to engage and listen to staff and address wellbeing needs. My findings are set out below.
- 36 The Trust has developed an Education Strategy to support the development of its workforce and is developing new career pathways with the aim of increasing staff retention and recruitment. It is too early to comment on the impact of these initiatives. The Trust also has a comprehensive suite of tools to promote wellbeing in the workplace. Of note, in 2019, the Trust has identified and trained wellbeing champions, is rolling out mental health first aid training, has launched a Menopause Café with accompanying guidance, and has developed support for staff with financial concerns that may affect their wellbeing.

Implementing the Well-being of Future Generations Act 2015: The Trust is applying the sustainable development principle when designing and developing the Transforming Cancer Services programme, but more work is needed to ensure it is embedded in core business and performance management arrangements

- 37 I reviewed the Trust's arrangements for implementing the Well-being of Future Generations Act 2015 (the Act) by examining the extent to which the Trust is applying the sustainable development (SD) principle and the five ways of working²

² The five ways of working are the principles that public bodies listed in the Act must demonstrate in their decision making in order to show that they are taking into account the impact that they could have on people living their lives in Wales in the future as well as in the present. The five ways of working are thinking for the long term, prevention, integration, collaboration and involvement.

in order to do things differently. My work considered how the SD principle is being embedded in core arrangements and included examination of a step being taken by the Trust to meet one of its wellbeing objectives. We reviewed the application of the SD principle and the five ways of working in the design of the TCS Programme clinical service model set out within the TCS programme and supporting infrastructure. My findings are set out below.

- 38 The Trust is taking steps to apply the SD principle in core arrangements, by;
- developing a sustainable development strategy;
 - planning to align its wellbeing objectives with strategic objectives;
 - revising its planning framework to ensure the requirements of the Act underpin service development; and
 - planning to improve arrangements to monitor progress against achieving wellbeing objectives.
- 39 The Trust proactively seeks ways to engage with citizens, stakeholders, patients and donors when developing its services, but recognises that there is more to do to identify opportunities to do things differently to embed the SD principle and embed the five ways of working.
- 40 The Trust is applying the sustainable development principle when designing and developing the TCS programme clinical service model and supporting infrastructure, but there are opportunities to further strengthen its approach. Specifically, I identified the following:
- **Prevention:** The new TCS Programme clinical service model has a clear preventative focus, but there are opportunities to educate patients and the wider community on healthier lifestyles to help prevent cancer.
 - **Thinking for the long term:** The TCS Programme clinical service model supporting infrastructure has a strong long-term focus based on a sophisticated understanding of current and future needs.
 - **Integration:** The Trust is working in an integrated way to design and develop the TCS programme and supporting infrastructure and has considered how it can deliver wider benefits.
 - **Collaboration:** The Trust is collaborating well with partner organisations across South East Wales to develop and improve cancer services.
 - **Involvement:** The Trust has involved a range of stakeholders in the design and development of the TCS programme and supporting infrastructure but should ensure regular progress feedback is provided.

Progress made in responding to the recommendations set out in my 2014 review of the Trust's clinical coding arrangements: The Trust has exceeded all-Wales completeness and accuracy targets for clinical coding and has implemented actions to address most of our 2014 recommendations, but there remains scope to make more use of clinical coding data

- 41 In 2014 I undertook a review into the Trust's arrangements for clinical coding³, I reported my findings in April 2014. During 2018 and 2019, I examined the progress made in addressing the recommendations set out in my 2014 report. My findings are set out below.
- 42 The Trust's performance against clinical coding completeness and accuracy performance measures exceeded Welsh Government targets⁴. Between April 2017 and December 2018, the Trust exceeded the 95% clinical coding completeness target in all but one month. The Trust's clinical coding accuracy scores improved each year between 2014-15 and 2018-19. The Trust recognises the importance of national clinical coding data to help identify disease prevalence and inform clinical pathways. However, there is an opportunity for the Trust to explore how it could make more use of clinical coding data in areas such as to support early cancer diagnosis, to support demand management and to inform research undertaken by the Trust building on the work undertaken over the last few years in delivering its business capability and capacity. My 2014 review set out 16 recommendations for the Trust to address, of which 12 have been actioned. However, five years later, there are still four outstanding recommendations. The Trust is taking action to address the remaining recommendations from my 2014 report and one new recommendation I identified.

³ Clinical coding involves the translation of written clinical information (such as a patient's diagnosis and treatment) into a code format. Coded data underpins much of the day-to-day management information used within the NHS.

⁴ The Welsh Government's clinical coding completeness target is that 95% of hospital episodes should be coded within one month of the episode end date. The target for clinical coding accuracy is for NHS bodies to demonstrate improvements in clinical coding accuracy over time as measured by the NHS Wales Informatics Service Standards Team's annual reviews.

Appendix 1

Reports issued since my last annual audit report

Exhibit 2: reports issued since my last annual audit report

The following table lists the reports issued to the Trust in 2019.

Report	Date
Financial audit reports	
Audit of Financial Statements Report	May 2019
Opinion on the Financial Statements	June 2019
Management Letter	July 2019
Charitable Funds Audit of Financial Statements Report	December 2019
Opinion on the Charitable Funds Financial Statements	December 2019
Performance audit reports	
Clinical Coding	July 2019
Structured Assessment 2019	December 2019
Implementing the Well-being of Future Generations Act	December 2019
Other	
2019 Audit Plan	March 2019

Appendix 2

Audit fee

The 2019 Audit Plan set out the proposed audit fee of £208,996 (excluding VAT). My latest estimate of the actual fee, (on the basis that some work remains in progress), is in keeping with the fee set out in the outline.

Appendix 3

Financial audit risks

Exhibit 4: financial audit risks

My 2019 Audit Plan set out the financial audit risks for the audit of the 2018-19 financial statements. The table below lists these risks and sets out how they were addressed as part of the audit.

Audit risk	Proposed audit response	Work done and outcome
<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.</p>	<p>My audit team proposed to:</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;• evaluate the rationale for any significant transactions outside the normal course of business.	<p>My audit team considered the risk factors set out in ISA240 and completion of our audit work did not identify any evidence of management override of controls.</p>
<p>IFRS 9 financial instruments applies from 1 April 2018 and brings in a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will result in earlier recognition of expected credit losses and will impact on how the bad debt provision is calculated.</p>	<p>My audit team proposed to assess the likely impacts of the new IFRSs and undertake work to respond to any identified risks of material misstatement.</p>	<p>My audit team assessed the impacts of the new IFRSs and undertook work in response to identified risks which did not identify any issues in applying the new accounting standards.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>IFRS 15 revenue from contracts with customers introduces a principle based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration the body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.</p>	<p>My audit team proposed to assess the likely impacts of the new IFRSs and undertake work to respond to any identified risks of material misstatement.</p>	<p>My audit team assessed the impacts of the new IFRSs and undertook work in response to identified risks which did not identify any issues in applying the new accounting standards.</p>
<p>We consider senior officer remuneration to be material by its nature and there is a risk that appropriate disclosures are not in line with relevant regulations and legislation.</p>	<p>My audit team proposed to test the disclosures made in the Remuneration Report and to review any changes to roles and responsibilities and associated changes to remuneration levels.</p>	<p>My audit team tested the disclosures made in the Remuneration Report and reviewed changes to roles and responsibilities and the associated changes to remuneration levels.</p> <p>This identified a number of amendments required to the Remuneration Report, which were corrected by the Trust.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>NHS Trusts have a financial duty to break even over a three-year rolling period. Although the Trust is forecasting a break-even position for the year-end, this duty increases the risk that management judgements and estimates included in the financial statements could be biased in an effort to achieve the financial duty.</p> <p>Where this financial duty is not met, I will place a substantive report on the financial statements highlighting the failure.</p>	<p>My audit team proposed to focus its testing on areas of the financial statements which could contain reporting bias.</p>	<p>My audit team considered the areas of the accounts more likely to contain reporting bias and reviewed:</p> <ul style="list-style-type: none"> • accounting estimates, judgments and decisions made by management for bias; • creditors for unrecorded liabilities; and • debtors for overstatement of income due. <p>No matters arose from the work carried out.</p>
<p>Clinical negligence structured settlement provisions are revalued annually using discount rates issued by HM Treasury. Previously, real rates were issued but from 2018-19 onwards, nominal rates have been issued which are required to be separately inflated. The methodology for estimating future liabilities has changed, which increases the risk that the estimate of the provision is not robust.</p>	<p>My audit team proposed to:</p> <ul style="list-style-type: none"> • review the processes and assumptions used in calculating this estimate; and • test the estimates made to ensure they reflect the correct discount rate and an appropriate inflation factor. 	<p>My audit team tested the processes and assumptions used in calculating this estimate which confirmed that reasonable assumptions had been used to calculate the estimate and that the correct discount rate and inflation factors had been applied.</p>

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