

# Annual Audit Report 2022 – Digital Health and Care Wales

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This document is also available in Welsh.

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# Summary report

## About this report

- 1 This report summarises the findings from my 2022 audit work at Digital Health and Care Wales Special Health Authority (the Authority) undertaken to fulfil my responsibilities under the Public Audit (Wales) Act 2004. That Act requires me to:
  - examine and certify the accounts submitted to me by the Authority, and to lay them before the Senedd;
  - satisfy myself that expenditure and income have been applied to the purposes intended and are in accordance with authorities; and
  - satisfy myself that the Authority has made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources.
- 2 I report my overall findings under the following headings:
  - Audit of accounts
  - Arrangements for securing economy, efficiency, and effectiveness in the use of resources
- 3 This year's audit work took place at a time when NHS bodies continued to respond to the unprecedented and ongoing challenges presented by the COVID-19 pandemic. Health bodies were not only tackling the immediate challenges presented by the public health emergency but were also seeking to recover and transform services to respond to the significant numbers of people who are waiting for treatment and improve population health. My work programme, therefore, was designed to best assure the people of Wales that public funds are well managed. I have considered the impact of the current crisis on both resilience and the future shape of public services.
- 4 I aimed to ensure my work did not hamper public bodies in tackling the crisis, whilst ensuring it continued to support both scrutiny and learning. We largely continued to work and engage remotely where possible through the use of technology, but some on-site audit work resumed where it was safe and appropriate to do so. This inevitably had an impact on how we deliver audit work but has also helped to embed positive changes in our ways of working.
- 5 As was the case in the previous two years, the delivery of my audit of accounts work has continued mostly remotely. The success in delivering it reflects a great collective effort by both my staff and the Authority's officers.
- 6 I have adjusted the focus and approach of my performance audit work to ensure its relevance in the context of the crisis and to enable remote working. My local audit teams have commented on how governance arrangements have adapted to respond to the pandemic, and the impact the crisis has had on service delivery.
- 7 This report is a summary of the issues presented in more detailed reports to the Authority this year (see **Appendix 1**). I also include a summary of the status of work still underway, but not yet completed.

- 8 **Appendix 2** presents the latest estimate of the audit fee that I will need to charge to cover the costs of undertaking my work, compared to the original fee set out in the 2022 Audit Plan.
- 9 **Appendix 3** sets out the audit of accounts risks set out in my 2022 Audit Plan and how they were addressed through the audit.
- 10 The Chief Executive and the Director of Finance have agreed the factual accuracy of this report. We presented it to the Audit and Assurance Committee on 14 February 2023. The Board will receive the report at a later Board meeting and every member will receive a copy. We strongly encourage the Authority to arrange its wider publication. We will make the report available to the public on the [Audit Wales website](#) after the Board have considered it.
- 11 I would like to thank the Authority's staff and members for their help and co-operation throughout my audit.

## Key messages

### Audit of accounts

- 12 I concluded that the Authority's accounts were properly prepared and materially accurate and issued an unqualified audit opinion on them. My work did not identify any material weaknesses in the Authority's internal controls (as relevant to my audit).
- 13 I made one recommendation in the Audit of Accounts Report. I will review the actions taken by the Authority to implement this as part of my audit of the 2022-23 accounts.
- 14 I identified no material financial transactions within the Authority's 2021-22 accounts that were not in accordance with authorities or not used for the purpose intended, and so I have issued an unqualified opinion on the regularity of the financial transactions within the Authority's 2021-22 accounts.
- 15 The Authority met its financial duty to break even against its Revenue and Capital Resource Limit for the year ending 31 March 2022.
- 16 My review of the IT environment and application controls applied to the national financial systems hosted by the Authority and used by other NHS organisations in Wales assured me that financial values produced by the systems for 2021-22 were likely to be free from material misstatement, although some controls could be strengthened.

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

- 17 My programme of performance audit work has led me to conclude that the Authority is making positive progress in embedding good governance

arrangements, and must now seek to further develop its role as a trusted digital partner to exploit digitally enabled service opportunities across Wales.

18 These findings are considered further in the following sections.

# Detailed report

## Audit of accounts

- 19 Preparing annual accounts is an essential part of demonstrating the stewardship of public money. The accounts show the organisation’s financial performance and set out its net assets, net operating costs, gains and losses, and cash flows. My annual audit of those accounts provides an opinion on both their accuracy and the proper use (‘regularity’) of public monies.
- 20 My 2022 Audit Plan set out the key risks for audit of the accounts for 2021-22 and these are detailed along with how they were addressed in **Exhibit 4, Appendix 3**.
- 21 My responsibilities in auditing the accounts are described in my [Statement of Responsibilities](#) publications.

## Accuracy and preparation of the 2021-22 accounts

- 22 I concluded that the Authority’s accounts were properly prepared and materially accurate and issued an unqualified audit opinion on them. My work did not identify any material weaknesses in internal controls (as relevant to my audit), however, I brought some issues to the attention of officers and the Audit and Assurance Committee for improvement.
- 23 The accounts were the first accounts prepared by the Authority and were submitted by the required deadline. The working papers provided were comprehensive and of good quality, and officers promptly responded to audit queries and requests for further information.
- 24 I must report issues arising from my work to those charged with governance (the Audit and Assurance Committee) for consideration before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues on 14 June 2022. **Exhibit 1** summarises the key issues set out in that report.

### Exhibit 1: issues reported to the Audit and Assurance Committee

Issue	Auditors’ comments
Uncorrected misstatements	There were no misstatements identified in the accounts which remained uncorrected.
Corrected misstatements	There were initially misstatements in the accounts that were corrected by management.

Issue	Auditors' comments
Other significant issues	<p>There were no other significant issues identified during the audit. We made one recommendation in the Audit of Accounts Report:</p> <ul style="list-style-type: none"> <li>Useful lives of existing assets that are not fully depreciated should be subject to an annual review and with any lives adjusted as deemed necessary.</li> </ul>

25 I also undertook a review of the Whole of Government Accounts return. I concluded that the counterparty consolidation information was consistent with the Authority's financial position on 31 March 2022 and the return was prepared in accordance with the Treasury's instructions.

## Regularity of financial transactions

26 The Authority's financial transactions must be in accordance with authorities that govern them. The Authority must have the powers to receive the income and incur the expenditure. Our work reviews these powers and tests that there are no material elements of income or expenditure which the Authority does not have the powers to receive or incur.

27 Where an Authority does not achieve financial balance, its expenditure exceeds its powers to spend and so I must qualify my regularity opinion.

28 The Authority achieved financial balance for the year ending 31 March 2022, with an underspend of £366,000 against its Revenue Resource Limit and an underspend of £10,000 against its Capital Resource Limit. All other material financial transactions were in accordance with authorities and used for the purposes intended, so I have issued an unqualified opinion on the regularity of the financial transactions within the Authority's 2021-22 accounts.

29 I have the power to place a substantive report on the Authority's accounts alongside my opinions where I want to highlight issues. As the Authority met both of its financial duties and there were no other issues warranting report, I did not issue a substantive report on the accounts.



## Review of nationally hosted IT systems

- 30 The Authority hosts a number of national financial systems which are used by other NHS organisations in Wales. These IT systems include the:
- National Health Application and Infrastructure Services system, used for NHS patient demographics and the payments engine for calculating primary care General Medical Services contractor payments by NHS Wales Shared Services Partnership;
  - Hospital Pharmacy system, provided by the Authority to NHS organisations and used for ordering, stock receipting and invoicing of Hospital dispensed pharmaceutical items and drugs for payment via Oracle Accounts Payable;
  - Losses and Special Payments Register system, provided by the Authority to NHS organisations for the recording, payments processing and provisioning from Welsh Legal and Risk reports arising on claims for clinical negligence and personal injury from patients and staff; and
  - NHS national ICT infrastructure and Wales wide area network, the communication links between all NHS organisations in Wales, provided by the Authority.
- 31 My IM&T auditors reviewed the IT environment and application controls that are applied to these systems for the purposes of providing assurance for NHS financial audit opinions in 2021-22. My IM&T auditors also considered progress made by the Authority in addressing my 2020-21 audit recommendations as well as any outstanding recommendations made in previous years.
- 32 My IM&T auditors found that the IT controls we examined assured us that financial values produced by the systems for 2021-22 were likely to be free from material misstatement, although some controls could be strengthened. I have made a small number of IT recommendations in the 2021-22 work that should be addressed by the Authority in order to minimise the potential for future application and infrastructure system risks. My IM&T auditors also found that some good progress has been made in addressing prior year IT recommendations.

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

- 33 I have a statutory requirement to satisfy myself that the Authority has proper arrangements in place to secure efficiency, effectiveness, and economy in the use of resources. To help me discharge that responsibility, I have undertaken a structured assessment of the Authority's corporate arrangements for ensuring that resources are used efficiently, effectively, and economically.
- 34 My conclusions based on this work are set out below.

## Structured assessment

- 35 My 2022 structured assessment work took place at a time when NHS bodies were not only continuing to tackle the challenges presented by COVID-19 but were also seeking to recover and transform services to respond to the significant numbers of people who are waiting for treatment and improve population health.
- 36 My team focussed on the Authority's corporate arrangements for ensuring that resources are used efficiently, effectively, and economically, with a specific focus on the organisation's governance arrangements; strategic planning arrangements; financial management arrangements; and arrangements for managing the workforce, digital assets, the estate, and other physical assets.

## Governance arrangements

- 37 My work considered the Authority's governance arrangements, with a particular focus on:
- Board and committee effectiveness;
  - the extent to which organisational design supports good governance; and
  - key systems of assurance.
- 38 My work found that **overall, the Authority is well led and has made positive progress in establishing and embedding appropriate arrangements to support good governance.**
- 39 The Authority's governance arrangements enable the Board and its committees to conduct their business effectively and transparently. Board and committee meetings are well chaired, and demonstrate an open and transparent culture. The quality and timeliness of the information presented to the Board and its committees enable decision-making and support effective scrutiny and challenge from Independent Members. The Authority has plans in place to make greater use of patient and staff stories, where possible, to highlight learning and support improvement.
- 40 The Board is beginning to stabilise following several key appointments to the Executive Team and Independent Member cadre. However, the time taken to make these appointments has had an impact on the Authority's pace in delivering some key organisational objectives, such as progressing work on its long-term strategy. The Authority has commissioned an external provider to support Board development and cohesion following these changes.
- 41 The Authority has developed and embedded appropriate systems of assurance, which continue to strengthen. The Authority has a detailed, comprehensive, and high-quality Board Assurance Framework (BAF) which is underpinned by effective risk management arrangements and adequate performance management arrangements. There is a good approach to self-review and improvement by the Board and its committees, and the Authority's arrangements for supporting Independent Member development are strengthening.

## Strategic planning arrangements

- 42 My work considered the Authority's strategic planning arrangements, with a particular focus on the organisation's:
- vision and strategic objectives;
  - Integrated Medium Term Plan;
  - planning arrangements; and
  - arrangements for implementing and monitoring the delivery of corporate strategies and plans.
- 43 My work found that **the Authority has effective planning approaches, but further work is required to develop its longer-term strategy and to include milestones and targets in some plans to enable effective progress monitoring.**
- 44 The Authority's vision and strategic objectives over the short to medium term are clearly set out in its 2022-25 Integrated Medium Term Plan (IMTP). However, the Authority has made slow progress in developing its long-term strategy partly due to the time it has taken to appoint an Executive Director of Strategy. The Authority has also decided to wait for the publication of the Welsh Government national digital strategy before preparing its own long-term strategy. The Board was actively involved in overseeing and shaping the 2022-25 IMTP. The 2022-25 IMTP was formally accepted by the Welsh Government, and the feedback provided to the Authority was broadly positive.
- 45 The Authority has effective arrangements in place to oversee the development of corporate strategies and plans, such as the 2022-25 IMTP, the Research and Innovation Strategy, the People and Organisational Development Strategy, and the Estates Plan. The Authority engages well with internal and external stakeholders when developing corporate strategies and plans in line with its Stakeholder Engagement Strategy. Corporate strategies and plans approved by the Board during 2022 have clear Executive Director ownership and contain clear and understandable strategic objectives, which are underpinned by outcome measures or actions for achievement. They are also supported by appropriate governance, delivery, and reporting arrangements. However, a lack of target dates and milestones in some corporate plans and strategies, such as the Estates Plan and Research and Innovation Strategy, inhibits effective progress monitoring and reporting.

## Managing financial resources

- 46 My work considered the Authority's arrangements for managing its financial resources, with a particular focus on the organisation's:
- arrangements for meeting key financial objectives;
  - financial controls; and
  - arrangements for reporting and monitoring financial performance.

- 47 My work found that **whilst the Authority has a generally effective approach to financial planning, monitoring, and reporting, the organisation’s funding model presents risks that need to be actively managed in the medium to long term.**
- 48 The Authority’s arrangements for securing financial balance are good. The Authority met its financial objectives to break even for both revenue and capital expenditure in 2021-22, and is forecasting an overall breakeven position for 2022-23. Whilst the Authority has good financial planning arrangements in place, the BAF does not clearly identify how the medium to long-term risks associated with the sustainability of the of the digital priorities investment fund will be managed.
- 49 The Authority has generally effective financial controls in place, with good reporting to the Audit and Assurance Committee on single tender actions, special payments, losses, and counter-fraud. The Authority has effective arrangements in place for monitoring and reporting financial performance, with evidence of proportionate scrutiny and challenge from Independent Members. However, the Board should seek greater assurances on the development and delivery of recurrent savings in the medium to long term.

## **Managing the workforce, digital resources, the estate, and other physical assets**

- 50 My work considered the Authority’s arrangements for managing its wider resources, with a particular focus on the organisation’s:
- arrangements for supporting staff wellbeing;
  - arrangements for managing its digital resources; and
  - arrangements for managing its estate and other physical assets.
- 51 My work found that **the Authority has a good commitment to supporting staff wellbeing and good strategic approaches in place for managing its digital resources and the estate. However, its arrangements for managing physical assets require strengthening.**
- 52 Supporting staff wellbeing is a clear priority for the Authority. It has good arrangements in place for identifying, promoting, delivering, and evaluating innovative initiatives to improve staff health and wellbeing. Whilst reporting to the Board on health and wellbeing activity is good, the reports do not provide adequate assurance that initiatives are achieving their desired impact.
- 53 The Authority does not currently have a separate Digital Strategy, but its 2022-25 IMTP outlines the organisation’s digital approach up to 2025. There is good reporting to the Board on the delivery of national products and programmes. But there is scope to enhance reporting by providing greater detail on challenges, risks, and the delivery of intended benefits to the Authority and the wider health and care system. The Authority is currently working with the Welsh Government to review the governance arrangements around national programmes it hosts with a view to providing clarity around roles, responsibilities, and accountability arrangements.

- 54 The Authority has Board approved plans and strategies in place relating to the estates and decarbonisation, which are underpinned by appropriate delivery and oversight arrangements. The Authority has established a programme of health, safety, and environmental inspections, and there is good reporting to the Audit and Assurance Committee on these matters. Whilst the Authority has recently taken steps to strengthen its IT stock management arrangements, it needs to provide greater assurances to the Board that its physical assets are being managed well.

# 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 Authority in 2022.

Report	Date
<b>Financial audit reports</b>	
Audit of Financial Statements Report	June 2022
Opinion on the Financial Statements	June 2022
Review of Nationally Hosted IT Systems	January 2023
<b>Performance audit reports</b>	
Structured Assessment 2022	December 2022
<b>Other</b>	
2022 Audit Plan	April 2022

My wider programme of national value for money studies in 2022 included reviews that focused on the NHS and pan-public-sector topics. These studies are typically funded through the Welsh Consolidated Fund and are presented to the Public Accounts Committee to support its scrutiny of public expenditure. Reports are available on the [Audit Wales website](#).

### Exhibit 3: performance audit work still underway

There are a number of performance audits that are still underway at the Authority. These are shown in the following table, with the estimated dates for completion of the work.

Report	Date
Review of workforce planning arrangements	March 2023
Review of primary care digital services governance	May 2023

# Appendix 2

## Audit fee

The 2022 Audit Plan set out the proposed audit fee of £171,338 (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.

In addition to the fee set out above, the audit work undertaken on the shared services provided to the Authority by the NHS Wales Shared Services Partnership cost £615.



# Appendix 3

## Audit of accounts risks

### Exhibit 4: audit of accounts risks

My 2022 Audit Plan set out the risks for the audit of the Authority's 2021-22 accounts. 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 [ISA 240.31-33].</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases;</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business; and</li> <li>• add additional procedures to address any specific risks of management override which are not addressed by the mandatory work above.</li> </ul>	<p>On a sample basis my team tested both journal entries and accounting estimates and found no evidence of the management override of controls. My team were satisfied that the accounts were free from material error.</p>
<p>This is the first set of financial statements the SHA has had to prepare since its creation in December 2020. Consequently, the financial statements are inherently more susceptible to material misstatements.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• test the completeness, classification and accuracy of balances transferred from Velindre University NHS Trust;</li> <li>• complete verification procedures to ensure assets transferred still exist at the year-end or have been disposed of during the year;</li> <li>• undertake analytical procedures to ensure completeness of income and expenditure; and</li> <li>• substantively test income, expenditure, and payroll to</li> </ul>	<p>The work was carried out as proposed.</p> <p>Amendments were agreed with the Authority to ensure the disclosure of balances transferred was consistent with that notified by the Welsh Government, however, there was a nil overall impact.</p>

Audit risk	Proposed audit response	Work done and outcome
	ensure no transactions from the predecessor body are incorrectly included.	
<p>Although COVID-19 restrictions have now been removed, there have been ongoing pressures on staff resources and of remote working that may impact on the preparation, audit and publication of accounts. There is a risk that the quality of the accounts and supporting working papers may be compromised leading to an increased incidence of errors. Quality monitoring arrangements may be compromised due to timing issues and/or resource availability.</p>	<p>We will discuss your closedown process and quality monitoring arrangements with the accounts preparation team and make arrangements to monitor the accounts preparation process. We will help to identify areas where there may be gaps in arrangements.</p>	<p>The work was carried out as proposed. My team found the Authority had robust arrangements in place and my work did not identify any issues in this respect.</p>
<p>Introduction of IFRS 16 Leases has been deferred until 1 April 2022. There may be considerable work required to identify leases and the COVID-19 national emergency may pose additional implementation risks. The 2021-22 accounts will need to disclose the potential impact of implementing the standard.</p>	<p>We will review the completeness and accuracy of the disclosures.</p>	<p>The work was carried out as proposed. My team did not identify any issues.</p>
<p>There is a risk that you will fail to meet your financial duty to break even. The position at month 10 shows a year-to-date surplus of £510,000 and a forecast year-end surplus of £350,000.</p>	<p>We will focus our testing on areas of the financial statements which could potentially contain reporting bias.</p>	<p>My team undertook a range of audit work to provide assurance over the risk of bias to ensure that the actual year-end position was true and fair. This included:</p>

Audit risk	Proposed audit response	Work done and outcome
		<ul style="list-style-type: none"> <li>• detailed sample testing of transactions either side of the year-end to ensure that they were recorded in the correct accounting period. This was focussed on the areas of greatest risk.</li> <li>• ensuring that accounting estimates were prepared on a reasonable basis and were supported by appropriate accounting judgements.</li> </ul> <p>My team were satisfied that the accounts were free from material error.</p>
<p>There is a risk that you will fail to meet your financial duty to not exceed the capital resource limit. The position at month 10 shows year-to-date capital expenditure of £5.855 million against a capital resource limit of £11.153 million, with a forecast capital expenditure for the year of £10.558 million.</p> <p>Where you fail this financial duty, we will place a substantive report on the financial statements highlighting the failure and qualify your regularity opinion.</p>	<p>We will focus our testing on areas of the financial statements which could potentially contain reporting bias.</p>	<p>The work was carried out as set out above. My team did not identify any issues.</p>
<p>We audit some of the disclosures in the Remuneration Report, such as the remuneration of senior officers and independent</p>	<p>We will review all entries in the Remuneration Report to verify that the SHA has reflected all known changes to senior positions, and</p>	<p>The work was carried out as proposed. Some amendments were agreed with the Authority to ensure the final</p>

Audit risk	Proposed audit response	Work done and outcome
<p>members, to a lower level of materiality.</p> <p>A number of changes have taken place to the senior management team and non-executive directors during the financial year. There is a risk that these changes are not correctly disclosed within the SHA's Remuneration Report.</p>	<p>that the disclosures are complete and accurate.</p>	<p>remuneration report was accurate and disclosures complied with the requirements of the NHS Manual for Accounts.</p>





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