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Annual Audit Report 2015

Abertawe Bro Morgannwg University Health Board

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Status of report

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The team who assisted me in the preparation of this report comprised Dave Thomas, Ann-Marie Harkin, Matthew Coe, and Carol Moseley.

Contents

Summary report

1. This report summarises my findings from the audit work I have undertaken at Abertawe Bro Morgannwg University Health Board (the Health Board) during 2015.

2. The work I have done at the Health Board allows me to discharge my responsibilities under the Public Audit (Wales) Act 2004 (the 2004 Act) in respect of the audit of accounts and the Health Board's arrangements to secure efficiency, effectiveness and economy in its use of resources.

3. My audit work has focused on strategic priorities as well as the significant financial and operational risks facing the Health Board, and which are relevant to my audit responsibilities. More detail on the specific aspects of my audit can be found in the separate reports I have issued during the year. These reports are discussed and their factual accuracy agreed with officers and presented to the Audit Committee. The reports I have issued are shown in Appendix 1.

4. This report has been agreed for factual accuracy with the Chief Executive and the Director of Finance. It was presented to the Audit Committee on 4 February 2016. It will then be presented to a subsequent Board meeting and a copy provided to every member of the Health Board. We strongly encourage wider publication of this report by the Health Board. Following Board consideration, the report will also be made available to the public on the Wales Audit Office's own website (www.audit.wales).

5. The key messages from my audit work are summarised under the following headings.

Section 1: Audit of accounts

6. I have issued an unqualified opinion on the 2014-15 financial statements of the Health Board, and in doing so I have brought several issues to the attention of officers and the Audit Committee. These relate to the methodology for calculating the Health Board's performance against the Public Sector Payment Policy (PSPP), and a summary of the estimates included within the financial statements.

7. In addition, I placed a substantive report on the Health Board's financial statements alongside my audit opinion. My report explains the two new financial duties introduced on 1 April 2014 by the NHS Finance (Wales) Act 2014, the local Health Board's performance against them, and the implications for 2015-16.

8. I have also concluded that:

- the Health Board's accounts were properly prepared and materially accurate;
- the Health Board had an effective control environment to reduce the risk of material misstatements to the financial statements; and
- the Health Board's significant financial and accounting systems were appropriately controlled and operating as intended.

9. The Health Board achieved financial balance at the end of 2014-15. I set out more detail about the financial position and financial management arrangements in Section 2 of this report.

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

10. I have reviewed the Health Board's arrangements for securing efficiency, effectiveness and economy in the use of its resources. This includes my Structured Assessment work which has examined the Health Board's financial management arrangements, the adequacy of its governance arrangements, and the progress made in relation to the improvement issues identified last year. Performance audit reviews have also been undertaken on specific areas of service delivery. This work has led me to draw the following conclusions:

Financial management arrangements remain generally sound although the Health Board's financial position is slipping, with a £28.5 million deficit forecast for 2015-16 and significant funding gaps in future years

11. In reaching this conclusion we found:

- Despite sound financial management processes in 2014-15, the Health Board was unable to set a balanced financial plan at the beginning of the financial year, with a cumulative annual funding gap of £26.1 million reported with no identified savings or funding. The Health Board underspent its revenue resource limit by £0.1 million after receiving £26.1 million of additional funding from the Welsh Government.
- In 2015-16, financial management arrangements continue to be generally sound although savings schemes could be more robust. The Health Board's funding gap is widening and it is currently forecasting a £28.5 million deficit in 2015-16 with significant forecast funding gaps in future years.

The Board has a clear three-year vision, is developing an ambitious long-term strategy, a quality-focused culture and reviewing its governance arrangements as it moves to a new organisational structure

12. Key findings from my review of the Health Board's governance arrangements are as follows:

- the Board has set a clear three-year vision, established a commissioning framework and is developing ambitious longer-term strategy; although limited progress in South Wales Programme implementation and new legislative requirements present some risks;
- transition to the new unit based structure is progressing with a common set of principles guiding development of unit arrangements, but it is too early to say if the intended benefits of greater accountability and operational capacity will be delivered;

- Board effectiveness, governance and internal controls have been largely effective but the assurance system is currently being revised in the context of new operational structures and there remain some important areas which need to be addressed;
- there is a positive focus on developing an ICT strategy and generally sound operational arrangements but information governance assurance and scrutiny is not yet wholly effective; and
- performance management arrangements are in place and significant effort is being made to improve under-performance in a number of key areas. The performance management framework is being updated and places greater focus on accountability.

My performance audit work has identified examples of good practice and positive developments, but also opportunities to secure better use of resources in a number of important areas

13. Key findings from my performance audit reviews are as follows:

- the Health Board is developing a progressive approach to delivering strategic change and maintaining its focus on partnerships and engagement but it faces some significant workforce and capacity risks;
- there are many strengths in the way the Health Board manages medicines but there are also risks associated with new management structures, variation in performance across hospital sites, storage facilities and some key medicines management processes;
- the Health Board has good information on the scale of delayed follow-ups and its new strategic planning arrangements should help modernise outpatient services but too many patients are delayed, clinical risks are not fully known and operational planning, scrutiny and assurance need improving; and
- the Health Board has made progress in addressing recommendations from previous audit work although important actions remain outstanding in relation to operating theatres.

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

Detailed report

About this report

15. This Annual Audit Report to the Board members of the Health Board sets out the key findings from the audit work that I have undertaken between December 2014 and November 2015.

16. My work at the Health Board is undertaken in response to the requirements set out in the 2004 Act[1]. That act requires me to:

a) examine and certify the accounts submitted to me by the Health Board, and to lay them before the National Assembly;

b) satisfy myself that the expenditure and income to which the accounts relate have been applied to the purposes intended and in accordance with the authorities which govern it; and

c) satisfy myself that the Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

- the results of audit work on the Health Board's financial statements;
- work undertaken as part of my latest Structured Assessment of the Health Board, which examined the arrangements for financial management, governance and accountability, and use of resources;
- performance audit examinations undertaken at the Health Board;
- the results of the work of other external review bodies, where they are relevant to my responsibilities; and
- other work, such as data-matching exercises as part of the National Fraud Initiative (NFI) and certification of claims and returns.

18. 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.

19. 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

20. Appendix 2 presents the latest estimate on the audit fee that I will need to charge to cover the actual costs of undertaking my work at the Health Board, alongside the original fee that was set out in the 2015 Audit Plan.

21. Finally, Appendix 3 sets out the significant financial audit risks highlighted in my 2015 Audit Plan and how they were addressed through the audit.

[1] Public Audit (Wales) Act 2004

Section 1: Audit of accounts

22. This section of the report summarises the findings from my audit of the Health Board's financial statements for 2014-15. These statements are the means by which the organisation demonstrates its financial performance and sets out its net operating costs, recognised gains and losses, and cash flows. Preparation of an organisation's financial statements is an essential element in demonstrating appropriate stewardship of public money.

23. 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.

24. In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).

25. In undertaking this work, auditors have also examined the adequacy of the:

- Health Board's internal control environment; and
- financial systems for producing the financial statements.

I have issued an unqualified opinion on the 2014-15 financial statements of the Health Board, and in doing so, I have brought several issues to the attention of officers and the Audit Committee and placed a substantive report alongside my audit opinion

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

26. The draft financial statements were produced for audit by the agreed deadline of 2 May 2015 and were again of a high standard. The Health Board has robust quality assurances processes over the financial statements and there is a high level of scrutiny from the Audit Committee. As in previous years, we received information in a timely and helpful manner, and we found the information provided to be relevant, reliable, comparable, material and easy to understand. The significant estimates included within the financial statements relate primarily to accruals (primary care expenditure and holiday pay), and provisions (Continuing Health Care, clinical negligence, personal injury and other). We concluded that accounting policies and

estimates are appropriate and financial statement disclosures unbiased, fair and clear. We encountered no significant difficulties during the audit and were not restricted in our work. The constructive but independent working relationships with the Director of Finance and the whole finance team have continued again this year, and we thank them for that.

27. I am required by ISA 260 to report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues to the Health Board's Audit Committee on 2 June 2015. Exhibit 1 summarises the key issues set out in that report.

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

Issue	Auditors' comments
Welsh Health Specialised Services Committee (WHSSC) balances	As the Health Board shares financial risks for the WHSSC with all local Health Boards in Wales, any amendments from the audit of WHSSC need to be reflected in each local Health Board's own financial statements. We confirmed with the WHSSC audit team that there were no issues arising from the audit of WHSSC affecting the Health Board's financial statements.
PSPP – Measure of Compliance	The financial statements set out the Health Board's performance against the PSPP 'prompt payment code' – the Welsh Government has set a target of 95 per cent for the number of non-NHS payments within 30 days of delivery. The Health Board has reported performance of 91.5 per cent against this target for 2014-15. The Manual for Accounts explicitly requires Health Boards to include payments made to primary care contractors in their PSPP performance data. The Exeter system used by the Health Board to process primary care payments does not provide any statistical information on the number of days it has taken to make payments. In common with some other Welsh health bodies, the Health Board has therefore assumed that all payments are made within 30 days. The PSPP performance data for this administrative target for both NHS and non-NHS payments may be overstated but we are unable to quantify the level of overstatement. This remains an all-Wales issue and is being examined by all NHS bodies in 2015-16.

Issue	Auditors' comments
Substantive report	My substantive report outlines the changes to statutory financial duties in the NHS, and the fact that the Health Board met its financial duty to have an approved three-year Integrated Medium Term Plan (IMTP) for the period 2014-15 to 2016-17. The report notes that, for 2014-15, the Health Board operated within its revenue resource allocation and its capital resource allocation or the year. The report also notes the IMTP for the period 2015-16 to 2017-18 has not yet been approved by Welsh Ministers; that the Health Board has in place an Interim Resource Plan for 2015-16; and a £19.85 million funding gap is currently forecast against the Health Board's revenue resource allocation for that year.

28. As part of my financial audit, I also undertook the following reviews:

- Whole of Government Accounts return – I concluded that the counterparty consolidation information was consistent with the financial position of the Health Board at 31 March 2015 and the return was prepared in accordance with the Treasury's instructions; and
- Summary Financial Statements and Annual Report – I concluded that the summary statements were consistent with the full statements and that the Annual Report was compliant with Welsh Government guidance.

29. My separate audit of the Charitable Funds financial statements is also complete. There were no significant issues to report to Trustees at their meeting on 2 November 2015 and I issued an unqualified opinion on those financial statements on 9 December 2015.

The Health Board had an effective control environment to reduce the risk of material misstatements to the financial statements

30. In considering the internal control environment, I assess arrangements that include high-level controls over the main accounting and budgetary control systems, the work and role of internal audit, and the work of the Audit Committee which plays an active role in reviewing and strengthening the internal control environment.

31. I found that controls were operating as effectively as intended and therefore formed a reliable basis for preparing the financial statements.

The Health Board's significant financial and accounting systems were appropriately controlled and operating as intended

32. I did not identify any significant weaknesses within the Health Board's financial systems. However, there were some less significant areas for improvement identified during the audit and recommendations have been made to management to address these.

33. Internal Audit reported on a number of system weaknesses which require ongoing management action. Management action plans have been developed to strengthen the control weaknesses identified in these reports, and progress is scrutinised by the Audit Committee.

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

34. I have a statutory requirement to satisfy myself that NHS bodies have proper arrangements in place to secure efficiency, effectiveness and economy in the use of their resources. I have undertaken a range of performance audit work at the Health Board over the last 12 months to help me discharge that responsibility. This work has involved:

- reviewing the Health Board's financial management arrangements, including the progress being made in delivering cost saving plans and their contribution to achieving financial balance;
- assessing the effectiveness of the Health Board's governance arrangements through my Structured Assessment work, including review of the progress made in identified improvement areas since last year;
- specific use of resources work on medicines management, follow-up of outpatient appointments, and local audit reviews, which include ICT capacity; and
- assessing the progress the Health Board has made in addressing the issues identified by previous audit work on operating theatres, and reviewing the Health Board's arrangements for tracking external audit recommendations.

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

Financial management arrangements remain generally sound although the Health Board's financial position is slipping, with a £28.5 million deficit forecast for 2015-16 and significant funding gaps in future years

Despite sound financial management processes in 2014-15, the Health Board was unable to set a balanced financial plan at the beginning of the financial year. The Health Board's 2014-15 IMTP reported a cumulative annual funding gap of £26.1 million for which savings/funding had not been identified. The Health Board underspent its revenue resource limit by £0.1 million after receiving £26.1 million of additional funding from the Welsh Government.

36. In 2014-15 the Health Board had an IMTP approved by the Minister for Health and Social Care, which linked the finances, workforce and services and was forecasting funding gaps of £19.85 million for 2015-16 and £9.45 million for 2016-17.

37. The Health Board commenced 2014-15 with a remaining funding gap of £26.1 million, after taking account of identified savings of £23.4 million. This remaining funding gap was subsequently funded by additional allocations from the Welsh Government in October 2014. At the end of 2014-15, the Health Board was able to break even, reporting a small £0.1 million surplus.

38. Despite being unable to set a balanced financial plan at the start of the year, the Health Board continued to have sound financial management arrangements in 2014-15. There were realistic and robust plans in place underpinned by Cost Improvement Plans for savings drawn up in conjunction with Directorates and Localities management. As a result, £29 million of savings and cost containment was delivered across a variety of schemes including procurement, Continuing Health Care and workforce.

39. Of the original £23.4 million savings target identified in the 2014-15 IMTP, £4.8 million were not achieved. A high proportion of this related to £3.6 million planned variable pay savings which did not materialise due to recruitment difficulties and service pressures. This has translated into a material underlying recurring shortfall carried forward to 2015-16 and beyond. The remaining underachievement of savings of £1.2 million related to non-pay costs (£1 million) and commissioned services (£0.2 million).

40. Conversely, some schemes achieved or exceeded their savings plans, including Primary Care (£0.1 million additional savings), and Medicines Management who achieved their savings targets. Additional costs pressures of £1.7 million in the year were offset by £6.5 million of 'one-off' accountancy gains.

41. Actual spend on capital projects in 2014-15 was £61.3 million against planned expenditure for the year of £61.4 million. The Health Board managed its capital budget so that whilst there was a £1.3 million overspend on the all-Wales capital programme spend on the Cardiac Intensive Care Unit, this was offset by £1.1 million underspend on discretionary Estates capital. However, a large proportion of capital programme (60 per cent) was spent in the last four months of the financial year.

In 2015-16, financial management arrangements continue to be generally sound although savings schemes could be more robust. The Health Board's funding gap is widening and it is currently forecasting a £28.5 million deficit in 2015-16 with significant forecast funding gaps in future years.

42. The NHS Finance (Wales) Act 2014 has introduced a more flexible finance regime. It provides a new legal financial duty for local health boards to break even over a rolling three financial years rather than each and every year. The Act allows local health boards to focus their service planning, workforce and financial decisions and implementation over a longer, more manageable, period and moves away from a regime which encourages short-term decision making around the financial year. The financial flexibilities are, however, contingent upon the ability of NHS bodies to prepare suitably robust IMTPs, and the formal approval of those plans by Welsh Ministers.

43. The Health Board submitted a further IMTP covering the period 2015-16 to 2017-18 which was approved by the Minister for Health and Social Care in August 2015. This IMTP identifies savings of some £63 million leaving a financial gap of some £35 million over the next three years.

44. The IMTP's forecasted position for 2015-16 at the beginning of the year was a deficit of £19.8 million. However, at month 6 this forecast deficit position had grown to £28.5 million. This is primarily the result of additional cost pressures rather than deterioration in financial management arrangements. These additional cost pressures are identified as Continuing Health Care (£3 million), prescribing (£2.6 million), agency staff costs (£3 million) and various other costs (£0.3 million). This position has been consistently reported to the Board and the Welsh Government on a regular basis.

45. This revised forecast deficit is made up of a combination of additional costs and further income. The main elements are:

- forecast expenditure overspends of pay costs (£10.1 million), non-pay costs (£14.7 million), Continuing Health Care costs (£7.1 million), prescribing costs (£3.6 million), and losses and special payments (£1.5 million); and
- additional miscellaneous income of £8.4 million and £1.7 million of further funding from other Welsh NHS organisations and Welsh Health Specialist Services Committee.

46. The savings target for 2015-16 at the start of the year was £22.6 million, which is made up of £18.5 million of identified savings schemes and £4.1 million of unidentified savings.

47. Month 6 budget monitoring returns continue to report £4.1 million of unidentified savings and it is increasingly unlikely that they will be achieved by the end of the financial year. For the identified savings schemes, at month 6 the Health Board is £2 million behind a year to date target of £8.6 million – 23 per cent slippage. £1.8 million of this underachievement relates to workforce savings which have slipped by 36 per cent. Recruitment continues to be a significant challenge and is a key contributor to this worsening financial position.

48. In terms of expenditure on capital projects, at month 6 capital spend was £16 million. This position has remained steady at £4.2 million behind the year to date target of £20.2 million and has now worsened further. Total forecast capital programme spend for 2015-16 is now £45 million (£25.8 million of which relates to the Morriston Phase 1B projects) ahead of the planned spend of £36.7 million – an increase of £8.3 million (£3.5 million for increasing cardiac capacity, £2 million for Cefn Coed rationalisation and £2.5 million discretionary spend on estates/IT/Equipment).

49. The new Service Delivery Unit structure within the Health Board came into operation in October 2015. The Service Directors have been tasked with producing recovery plans that significantly reduce the current levels of expenditure, which will be extremely challenging to achieve without adversely impacting on service delivery. While the Health Board's sound financial management arrangements from previous years have continued in 2015-16, some of the savings plans were not suitably robust at the beginning of the financial year. As a result, it is doubtful whether the Health Board can recover this position in the second half of the year and prevent the position from worsening further.

50. Looking forward, the financial context within which the IMTP is being implemented is challenging and the IMTP is currently being reviewed in light of this. The Health Board recognises that going forward, the IMTP will need to be values driven, quality and outcomes focused as well as addressing the financial constraints.

The Board has a clear three-year vision, is developing an ambitious long-term strategy, a quality-focused culture and reviewing its governance arrangements as it moves to a new organisational structure

51. 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
- Performance management
- Information governance

52. The Health Board has faced a number of challenges during the year. It is progressing complex organisational development work with transition to new operational structures to improve overall governance and accountability, whist also taking actions to improve performance in a number of key areas. 'Action after Andrews'' work to improve patient experience and service quality has continued and in September 2015, the 'Trusted to Care' follow-up review[2] confirmed that the Health Board has addressed the main issues of concern. This work has been carried out within a financially challenging environment and ongoing public scrutiny. The Health Board is also currently revising its documented 'System of Assurance' to account for the transition to new operational structures and management arrangements.

53. My findings are summarised in more detail below.

The Board has set a clear three-year vision, established a commissioning framework and is developing an ambitious longer-term strategy; although limited progress in South Wales Programme implementation and new legislative requirements present some risks

54. The Health Board's refreshed three-year IMTP received ministerial approval in August 2015. Approval was subject to conditions on financial and delivery performance, although the required improvements are proving challenging for the Health Board to deliver. The Health Board has arrangements for oversight, reporting and scrutiny of the IMTP, with the Board receiving bi-annual progress reports and the Performance Committee receiving regular information. However, the current frequency of Board reporting may not be sufficient given the financial and performance risks for

[2] Trusted to Care: August 2015.

delivering the plan and Welsh Government expectation for quarterly IMTP progress reporting to Board.

55. There is a well-planned approach for updating the IMTP. The principles underpinning the IMTP update place clear emphasis on prudent healthcare principles, more granular local delivery plans and focus on delivering improvements within resources. Some uncertainty remains about the overall financial planning assumptions and the IMTP is yet to provide sufficient detail about the impact of the South Wales programme. The Health Board's commissioning approach will help translate strategic priorities into service change plans for delivery through the IMTP.

56. The Health Board has also set out an ambitious longer-term strategy through its ARCH[3] proposals, developed in partnership with Swansea University and Hywel Dda Health Board. These proposals aim to increase the health, wealth and well-being of people in South West Wales. However, there is a challenge for the Health Board to bridge the long-term ARCH strategy with the three-year IMTP and address the strategy and service change gap for the east of the Health Board, which is dependent on the South Wales programme.

Transition to the new unit based structure is progressing with a common set of principles guiding development of unit arrangements, but it is too early to say if the intended benefits of greater accountability and operational capacity will be delivered

57. Last year, I reported that changes to organisational structure were being proposed by the Health Board to better enable the organisation to fulfil its role as both commissioner and provider, enable the Board to operate more strategically, and to bring greater focus on accountabilities, responsibilities and clinical leadership. The Health Board is currently establishing the new unit based structure[4]. Appointments to the unit management teams comprising a Unit Service Director, Unit Medical Director and Unit Director of Nursing are complete, with the exception of one post for the mental health and learning disabilities unit. Consultation on the unit sub-structures is expected to be complete by end March 2016.

58. A set of agreed principles are informing the design of the individual unit structures and governance arrangements. It will be important for the Health Board to ensure that the agreed principles are applied consistently and governance arrangements are effectively joined up between the unit and corporate structures. From April 2016, the clinical directorates currently operating across the Health Board will 'stand down' but during the transition period, clear reporting arrangements align directorates to a designated Unit Service Director. My previous structured assessment work has highlighted the need to improve accountability and operational capacity and my work next year will consider whether the new structure is delivering these intended benefits.

[3] A Regional Collaboration for Health
[4] The new Service Delivery Units and management teams are set out on the Health Boards' website

Board effectiveness, governance and internal controls have been largely effective but the assurance system is currently being revised in the context of new operational structures and there remain some important areas which need to be addressed

59. The Board demonstrates good strategic leadership and generally effective administration through the conduct of its business. The organisational values launched in February 2016 are being embedded and Board development sessions support consideration of critical governance issues and member development. With a number of Independent Members reaching the end of their term of office in 2016, there are potential risks for continuity and loss experience. There is commitment to openness and quality improvement, with a quality strategy approved in January 2015 and the 'Action after Andrews' programme continuing to deliver quality and patient experience improvements. However, there is more to do for example, in reducing complaints backlog and ensuring systematic learning of lessons.

60. The Board is currently updating its system of assurance within the context of the new operational structures, including the assurance, performance and risk management frameworks. Sources of assurance and their flow across organisational levels have been reviewed and a one-page map developed to aid clear understanding of the required assurances and inform the development of unit structures and arrangements. The revised governance arrangements and assurance flows will need to be tested to confirm they operate as intended. It will also be important to ensure that all Board members and senior managers understand the role of operational units, corporate centre and the Board within the new environment.

61. The Board committee structure, revised in 2014, supports good governance overall. Independent Members provide good challenge and the Chairman's advisory group provides valuable interaction between committee chairs and consideration of governance arrangements in the round. The Audit Committee is effective in supporting the organisation's governance and internal control arrangements and the Quality and Safety Committee has matured over the last year. While the Quality and Safety Committee continues to improve in its operation, there are still issues with the complexity of the management groups reporting to the Quality and Safety Committee and the timeliness of some assurance reports. The Workforce and Performance Committees are beginning to establish themselves although aspects of their operation are not yet robust and the longer-term role of the Performance Committee is unclear given that it is not currently performing a scrutiny role.

62. The Health Board continues to actively develop how management information is presented and used in support of effective scrutiny and decision-making. There are many positive features to the Board's approach to performance reporting including the linkage to IMTP and Health Board objectives. Independent Members show good understanding of data and the Health Board has sustained its focus on developing and reporting on quality and safety measures. Papers are generally well written and whilst there is a wide range of management information available, reporting tends to focus on secondary care and national Tier 1 targets.

63. Risk management arrangements provide a reasonable basis to understand and respond to key organisational risks. The framework, updated and approved by Board in March 2015, is subject to further revision on finalisation of the new organisational structures and the role of the Learning and Assurance group will need to be considered within this context. Some aspects of risk management could be further improved including the completeness of information recorded in Datix and that all IT risks are reflected in the corporate risk register.

64. Internal controls are generally effective in meeting current assurance requirements although some aspects are also subject to change to reflect the organisational restructure. A new scheme of delegation, changes to standing financial instructions and revised delegated financial limits have already been approved for the new structure. The Health Board will need to test all changes to the assurance system and controls in 2016, to confirm they operate as intended. My team found there to be a very effective internal audit, good counter fraud service, and improved clinical audit scrutiny.

65. As part of my commitment to help secure and demonstrate improvement through audit work, I have reviewed the effectiveness of the Health Board's arrangements to manage and respond to recommendations made as part of my nationally mandated and local programme of audit work during 2015. This work has found that the Health Board has well established arrangements for considering my reports and monitoring the implementation of my recommendations. A tracking report identifying the status of recommendations (ie the number that is complete, ongoing or overdue) is considered at every Audit Committee meeting, and is used to challenge the pace of management response. The Health Board is currently developing an electronic system to provide more automated reporting on the status of recommendations, as reported by management. My follow-up work on operating theatres (Exhibit 3) identified that whilst internal action plans identify that actions are complete, this was not always found to be the case.

There is a positive focus on developing an ICT strategy and generally sound operational arrangements but information governance assurance and scrutiny is not yet wholly effective

66. Current ICT strategy is reflected in the Health Board's IMTP. The Health Board recognises the importance of information and communication technologies and is committed to developing a longer-term digital strategy in 2016, to support strategic change and development.

67. There are a number of positive aspects to the Health Board's information governance arrangements. These include the arrangements to plan and manage ICT and information, and to comply with laws and standards. There is an operational infrastructure to support information security and initiatives to improve data quality are in progress. Some aspects of information governance still require attention however. My team found that the operation and remit of the information governance committee needs further clarification although improved scrutiny and assurance reporting arrangements have recently been agreed. Greater assurance is needed on the robustness of local business continuity plans and currently there is limited resource within the central information governance team.

Performance management arrangements are in place and significant effort is being made to improve under-performance in a number of key areas. The performance management framework is being updated and places greater focus on accountability.

68. The Health Board has a well-established performance management framework and operational performance review process. The framework is due to be updated to account for the new operational unit structures. The Health Board has carried out preparatory work including setting out new escalation and intervention principles to support models of earned autonomy and an increased focus on accountability. Work is also underway to improve data intelligence, to better inform performance information, management and delivery.

69. The Health Board has been working to address key performance challenges for unscheduled care, waiting times (RTT), cancer and stroke during 2015. Delivery boards are steering improvements in specific areas of service delivery whilst the planned care board is tackling patient flow issues affecting performance across patient pathways. Work on infection control is also progressing with for example, the 'Big Fight' campaign to reduce antimicrobial prescribing. However, improvements in these key areas of performance was a condition of IMTP approval and with the exception of RTT, the Health Board has found it difficult to meet these requirements. Performance overall remains below target for unscheduled care, cancer and stroke, and Clostridium Difficile rates remain high.

My performance audit work has identified examples of good practice and positive developments, but also opportunities to secure better use of resources in a number of important areas

The Health Board is developing a progressive approach to delivering strategic change and maintaining its focus on partnerships and engagement but it faces some significant workforce and capacity risks

70. My Structured Assessment work has reviewed how a number of key enablers of efficient, effective and economical use of resources are managed. This work has indicated that the Health Board is making progress in a number of areas relating to use of resources, particularly in terms of its approach for delivering strategic change and working with stakeholders and partners. However, despite active recruitment and a focus on staff retention, there are significant workforce risks and funding challenges for estates and ICT. Key findings are summarised in Exhibit 2.

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

Issue	Summary of findings
Change management capacity	Integration of strategic change programmes into the commissioning arrangements reflects a progressive approach for delivering vision and strategic objectives but ensuring sufficient change capacity is a challenge.
Workforce planning	The Health Board is taking action to address workforce priorities, but workforce planning and staff recruitment and retention present key risks.
Estates and assets	Important hospital estate developments and improvements to care environments are being made, but there are challenges for prioritising discretionary funding and ensuring the capital programme is able to support strategic change.
Partnership working	The Health Board recognises the importance of collaborative working to achieve outcomes and drive service efficiency and continues to demonstrate commitment.
Stakeholder engagement	The Health Board is continuing to engage positively with stakeholders on service priorities, and is taking a co-productive approach to shaping commissioning plans. Work to embed organisational values is progressing but building staff trust is key.

Issue	Summary of findings
ICT and use of technology	There is a commitment to extending the use of technology and making effective use of IT systems, but current ICT capacity and investment are low compared to other health boards in Wales.

There are many strengths in the way the Health Board manages medicines but there are also risks associated with new management structures, variation in performance across hospital sites, storage facilities and some key medicines management processes

71. My review of medicines management followed on from previous local audit work my team have undertaken on primary care prescribing. It focused on aspects of medicines management that directly impact on inpatients at acute hospitals. The work covered medication information provided by GPs to support admissions, medication reviews that patients receive during their stay, the support patients are given to take their medicines and the arrangements to ensure good medicines management after discharge.

72. My review found clear executive accountabilities and improved clinical engagement in the new Medicines Management Group. The Directorate has articulated a three-year plan for pharmacy services, although the need for a medicines management strategy is recognised and there is scope to raise pharmacy's profile. My team identified that there are some risks associated with the changes to Health Board's operational management structures and in common with other health boards, the pharmacy team has limited involvement in decision making. Secondary care medicines expenditure is not routinely reported outside the Directorate and a higher-than-average proportion of pharmacy staff think savings are impacting on patient outcomes. The Health Board's individual patient funding request panel considers more applications than average and does not comply with the key national requirements.

73. The staffing profile and pressures are similar to the rest of Wales and the Health Board compares well in relation to training and ward-based pharmacy. However, there is unexplained variation across sites in pharmacy's ward activity data and further scope to embed pharmacy staff in ward teams. While pharmacy services are accessible, with longer than average opening hours at Morriston and Princess of Wales departments, these extended pharmacy hours are unfunded.

74. Pharmacy facilities largely comply with key requirements but Singleton pharmacy is not ideally located and there are safety and legal risks associated with the storage of fluids at Princess of Wales and Neath Port Talbot hospitals. The Health Board is developing a business case to replace its aseptic facilities and in common with the rest of Wales, the preparation of injectable medicines on wards is not regularly audited. My team's visits suggest there is further work required to improve storage of medicines on wards and the process for returning unused drugs to the pharmacy department.

75. There are strengths in a number of medicines management processes including the timeliness of medicines reconciliations, governance controls for non-medical prescribing and actions to improve antimicrobial prescribing. There are good mechanisms for sharing information on formulary changes, but doctors' views about the formulary's usefulness and access to the British National Formulary were fairly negative. There are also risks related to transfer of information between primary and secondary care, rewriting drugs charts and supporting patients to take their medicines properly. The Health Board has taken a wide range of actions in response to Trusted to Care, although at the wards we sampled at Singleton there was a high number of cases where it was unclear whether a drug had been administered or omitted.

76. The Health Board has some good methods for monitoring performance and learning from errors. A good range of performance indicators are reported although there is opportunity for greater use of benchmarking. The rate of medication-related admissions is slightly below the Wales average, although the Health Board needs to do more work to understand the reasons for the pharmacy team's safety interventions. There are some good initiatives in place to learn from medication errors although the ongoing review of the Medicines Safety Group should ensure there is adequate medical and nursing involvement.

The Health Board has good information on the scale of delayed follow-ups and its new strategic planning arrangements should help modernise outpatient services but too many patients are delayed, clinical risks are not fully known and operational planning, scrutiny and assurance need improving

77. There is a concern that with a focus on securing first appointments to meet referral to treatment time targets, in a resource constrained environment, less attention is given to follow-up appointments. In some health boards, this has resulted in large backlogs building up, with associated risks for quality of care. During 2015, my team carried out a review of follow-up outpatient appointments to assess how these risks are being identified, managed and mitigated across Wales.

78. My review identified that the Health Board has a systematic approach to validating the follow-up waiting list, with a good understanding of the Welsh Government data standard requirements and a range of information available on the volume of outpatient follow-ups. While the Health Board has a systematic approach to list validation more can be done to better prioritise validation activities, capture learning from validation already undertaken and assess clinical risks to patients waiting beyond their target date.

79. The Health Board is reducing the number of patients waiting for a follow-up appointment but it did not achieve its own reduction target and still has too many patients delayed beyond their target date. The Health Board had good operational information on delayed follow-up appointments but the Board and its committees do not yet receive sufficient information to provide assurance that follow-up outpatient appointments are being adequately managed. These weaknesses in scrutiny and assurance arrangements need to be addressed.

80. Operational arrangements are in place to help reduce the number of delayed follow-up outpatient appointments. In addition, the Health Board's new approach to strategic planning should, if implemented well, support outpatient modernisation. However, my team identified that further work is needed to evaluate service changes and develop 2015-16 operational plans.

The Health Board has made progress in addressing recommendations from previous audit work although important actions remain outstanding in relation to operating theatres

81. In addition to reviewing the effectiveness of the Health Board's arrangements to manage and respond to my recommendations as discussed in paragraph 65, I have considered the completeness and timeliness of the actions taken. My work has found improvement in the timeliness of developing, initiating and completing actions over the last year. Of the 13 reviews included in the Audit Committee's recommendation tracking log, 52 per cent of the 107 recommendations are reported as complete, with the majority (82 per cent) of actions still in progress relating to audit recommendations made during 2015. There are however, six recommendations with overdue actions:

- two recommendations against my 2011 Maternity services review, relating to information systems and provision of perinatal mental health services; and
- four recommendations relating to my 2014 clinical coding review.

82. During the last 12 months, I have also undertaken detailed follow-up audit work to assess the progress that the Health Board has made in addressing recommendations arising from previous audit work on operating theatres.The findings from this follow-up work are summarised in Exhibit 3.

Exhibit 3: Progress in implementing audit recommendations

Conclusions and key audit findings

I concluded that the Health Board has improved some aspects of the surgical pathway but there has been limited improvement in theatres and implementation of recommendations has been patchy. Theatre performance remains problematic although use of theatre safety checks has improved:

- Implementation of recommendations has been patchy since the end of the Theatre Programme:
  - safety issues associated with damaged and wet trays have been acted upon;
  - staff communications have improved but two-thirds of survey responses indicate low morale;
  - disbanding the Theatre Work Programme and Theatre Board means there is no forum for driving theatre improvement, although the Surgical Pathway Board has secured some broader improvements;
  - action to strengthen performance monitoring is underway but good-quality data is not yet driving improvement;
  - preoperative assessment has improved but there are some remaining issues; and
  - staffing and sickness levels continue to be issues but new funding for theatre staff presents a big opportunity for improvement.

Conclusions and key audit findings

- Theatre performance remains suboptimal:
  - theatre efficiency is problematic and the Surgical Services mid-year review lists utilisation as a key risk; and
  - late starts and early finishes are typically double the target rate; and cancelled operations are frequent.

- The Health Board's pathway work is focusing on the barriers that lie outside theatres' direct control. There is a need to supplement this with specific work within theatres:
  - operational problems are impacting on theatre performance before, during and after surgery, including patient flow and emergency demand; and
  - the Surgical Pathway Board is focusing on external barriers and has made some progress, but the lack of a structured theatre improvement programme is a barrier to theatre improvement.

- Failings in the use of the surgical checklist sparked improvements in key safety interventions:
  - there is evidence of some positive actions to improve use of the WHO checklist after an Internal Audit review found failings in the use of the checklist in 2014;
  - staff survey results suggest checklists are now commonly used although team briefings are not yet mainstreamed in all theatres;
  - incident data suggests a stable reporting culture and the staff survey shows fairly positive views about incident reporting; and
  - the Health Board is purchasing Surgical Procedure Management software to further strengthen surgical safety, with electronic procedure guides for training and standardisation.

Appendix 1

Reports issued since my last Annual Audit Report

Report	Date
Financial audit reports	
Audit of Financial Statements Report	June 2015
Opinion on the Financial Statements	June 2015
Submission of Whole of Government Accounts Return	June 2015
Charitable Funds – Audit of Financial Statements Report and opinion on the Financial Statements	November 2015
Financial Audit Memo	November 2015
Performance audit reports	
Review of Medicines Management	May 2015
Follow-up review of operating theatres	September 2015
Review of Follow-up Outpatient Appointments	September 2015
Diagnostic Review of ICT Capacity and Resources	November 2015
Structured Assessment 2015	December 2015 – in clearance
Other reports	
Annual Audit report 2015	January 2015
2015 Audit Plan	March 2015

There are also a number of performance audits that are still underway. These are shown below, with estimated dates for completion of the work.

Report	Estimated completion date
Follow-up review of hospital catering and patient nutrition	January 2016
Follow-up review of previous IT audits	February 2016
Follow-up Review of Consultant Contract	July 2016
Review of Radiology Services	September 2016

Appendix 2

Audit fee

The 2015 Audit Plan set out the proposed audit fee of £423,238. My latest estimate of the actual fee, on the basis that some work remains in progress, is in accordance with the fee set out in the outline.

The fee set out above includes the audit work undertaken in respect of the shared services provided to the Health Board by the NHS Wales Shared Services Partnership.

Appendix 3

Significant audit risks

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

Significant audit risk	Proposed audit response	Work done and outcome
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].	My audit team will: • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.	No issues were noted from our review and testing of journal entries. There were no issues noted in relation to other significant estimates in the accounts.
There is a risk of material misstatement due to fraud in revenue recognition and as such is treated as a significant risk [ISA 240.26-27].	My audit team will: • review and test the individual funding and income streams received by the Health Board; and • consider whether all funding and income streams have been identified.	No issues were noted from our review and testing of the funding and income received by the Health Board.

Significant audit risk	Proposed audit response	Work done and outcome
There may be a significant risk that the Health Board will fail to meet statutory financial duties. However, it is unclear at this stage what those statutory financial duties will be: guidance is due to be issued by the Welsh Government shortly. The month 10 position showed a year-to-date deficit of £7.9 million. However, the year-end outturn is still forecast to be a break even position. I may choose to place a substantive report on the financial statements explaining any failures and the circumstances under which they arose. The current financial pressures on the Health Board increase the risk that management judgements and estimates could be biased in an effort to achieve any financial duties set.	My audit team will: • focus its testing on areas of the financial statements which could contain reporting bias; • review accounting estimates included in the financial statements as noted above; and • conduct testing to ensure income and expenditure are recognised in the correct accounting period.	The amendments to the financial statements were minor by nature and there was no impact on the Health Board's net expenditure. There were no issues noted in relation to other significant estimates in the financial statements, or recognition of transactions in the correct financial year. The Auditor General issued an unqualified audit report on the financial statements, and also issued a substantive report alongside his audit report. The report explained the two new financial duties applicable from 2014-15, the performance of the Health Board against them for 2014-15, and the implications for 2015-16.
On 1 April 2014, Welsh Health Supplies stores transferred from the Health Board to the NHS Wales Shared Services Partnership. These transfers must be properly accounted in the annual accounts.	My audit team will discuss with officers and verify the transfer has been properly accounted for in the financial statements.	We reviewed the transfer documentation and confirmed to WAO colleagues that the balances transferred agreed to supporting information. No issues were noted.

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. The month 10 monitoring report forecasts a cash balance at year-end of £0.6 million based on the assumptions that all other NHS Wales organisations settle their balances on time; and that there are no additional and significant Clinical Negligence settlements above those forecast, with corresponding Welsh Risk Pool payments received on time. Any shortfall of cash is likely to increase creditor payment times and impact on PSPP performance.	My audit team will audit the PSPP bearing in mind the cash pressures on the Health Board.	As noted in 2013-14, the PSPP performance data includes payments made to primary care contractors derived from the Exeter system. This system does not provide statistical information and the Health Board therefore assumes that all payments are made within 30 days per the contractual obligations. The PSPP performance data for both NHS and non-NHS payments may be overstated but we are unable to quantify the level of overstatement. This remains an all-Wales issue and is being examined by all NHS bodies in 2015-16. No other issues were noted.

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