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Auditor General for Wales

# Annual Audit Report 2018 – Aneurin Bevan University Health Board

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This report was prepared for the Auditor General by David Wilson, Terry Lewis, Nathan Couch, Dave Thomas and Richard Harries.

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# Summary report

## About this report

- 1 This report summarises the findings from the audit work I have undertaken at Aneurin Bevan University Health Board (the Health Board) during 2018. I did that work to carry out my responsibilities under the Public Audit (Wales) Act 2004. 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.
- 2 I have reported my findings under the following headings:
  - Key messages
  - Audit of accounts
  - Arrangements for securing economy, efficiency and effectiveness in the use of resources
- 3 I have issued several reports to the Health Board 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 Health Board, alongside the original fee that was set out in the 2018 Audit Plan.
- 5 [Appendix 3](#) sets out the significant financial audit risks highlighted in my 2018 Audit Plan and how they were addressed through the audit.
- 6 The Chief Executive and the Director of Finance have agreed this report is factually accurate. The report has been shared with members of the Audit Committee and will be presented to the Board on 27 March 2019. We strongly encourage the Health Board 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 has considered it.
- 7 I would like to thank the Health Board'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 accounts

- 8 I have issued an unqualified opinion on the 2017-18 financial statements of the Health Board, concluding that the accounts were properly prepared and materially accurate.
- 9 My work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts.
- 10 The Health Board achieved financial balance for the three-year period ending 31 March 2018 and so I have issued an unqualified opinion on the regularity of the financial transactions within its 2017-18 accounts.

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

- 11 My 2018 structured assessment work at the Health Board has found that:
  - whilst the Health Board has established the necessary arrangements to support good governance, there is more to do to ensure they are operating as intended;
  - the Health Board has a clear vision supported by an effective planning process, and work is continuing to update plans for service re-design; and
  - the Health Board has a track record in managing resources effectively and a good developing approach to improving productivity, although some aspects are not always sufficiently strategic or detailed and performance against some key targets needs to improve.
- 12 Reviews of primary care services, estates management and regional working around the Integrated Care Fund have found some aspects of good practice as well as opportunities to strengthen arrangements for securing efficient, effective and economical use of resources.
- 13 The Health Board has made broadly effective use of National Fraud Initiative (NFI) as a component of its counter-fraud arrangements but has yet to review all the recommended data matches. This is particularly important given the NFI web application record instances where staff members had interests in companies that had not been declared to the Health Board.
- 14 These findings are considered further in the following sections.

# Detailed report

## Audit of accounts

- 15 This section of the report summarises the findings from my audit of the Health Board's financial statements for 2017-18. These statements are how the organisation shows its financial performance and sets out its net operating costs, recognised gains and losses, and cash flows. Preparing the statements is an essential element in demonstrating appropriate stewardship of public money.
- 16 In examining the Health Board's financial statements, I must 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 prepared in accordance with statutory and other requirements, and meet the relevant requirements for accounting presentation and disclosure;
  - whether that part of the remuneration report to be audited is properly prepared;
  - whether the other information provided with the financial statements (usually the annual report) is consistent with them; and
  - the regularity of the expenditure and income in the financial statements.
- 17 In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).

## I have issued an unqualified opinion on the accuracy and proper preparation of the 2017-18 financial statements of the Health Board

- 18 I issued an unqualified opinion on the Health Board's 2017-18 financial statements, concluding that they were properly prepared and materially accurate. My work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts.
- 19 We have no concerns about the qualitative aspects of your accounting practices and financial reporting. We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
- 20 We did not encounter any significant difficulties during the audit. As in previous years, the accounts and audit process ran smoothly with excellent engagement. We received information in a timely and helpful manner and were not restricted in our work. We met the Health Board's Finance Team regularly during the final audit to review progress and clear any issues arising promptly. We also continued to develop our audit approach and carried out early audit testing of 'in-year' transactions wherever possible. The Finance Team prepared a detailed closedown plan for

2017-18 which incorporated our audit requirements and details of the supporting papers. This approach continued to strengthen the financial statements production process and helped to meet the tight clearance timetable. We will continue to work closely with the Health Board to review the process and experiences this year to identify any areas where we can further develop and refine the procedures and to ensure any lessons learned can be carried forward to 2018-19.

- 21 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 Health Board’s internal controls.
- 22 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 Health Board’s Audit Committee on 29 May 2018. **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 misstatements identified in the financial statements, which remained uncorrected.
Corrected misstatements	There were a number of misstatements that have been corrected by management. However, we did not consider that they needed to be drawn to your attention as part of your responsibilities over the financial reporting process. As well as a few additional disclosures, the financial corrections were relatively minor and have not impacted on the reported surplus.
Other significant issues	Whilst there were no significant difficulties, we did note that Internal Audit have reported on a number of system weaknesses which require management action.

- 23 As part of my financial audit, 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 Health Board at 31 March 2018 and the return was prepared in accordance with the Treasury’s instructions.
- 24 My separate audit of the charitable funds financial statements was carried out during September 2018. I presented my Audit of Financial Statements Report to the Health Board on 28 November 2018. I issued an unqualified audit opinion and there were no significant issues to report.

## I also issued an unqualified audit opinion on the regularity of the financial transactions within the financial statements of the Health Board

The Health Board achieved financial balance for the three-year period ending 31 March 2018 and so I have issued an unqualified opinion on the regularity of the financial transactions within its 2017-18 accounts

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

As the Health Board achieved its financial balance duty and has an approved three-year plan in place and there were no other issues which warranted highlighting, no substantive report was placed on the Health Board's accounts

26 I have the power to place a substantive report on the Health Board's accounts alongside my opinions where I want to highlight issues. As the Health Board met both of its financial duties: to achieve financial balance (as set out above) and to have an approved three-year plan in place; and there were no other issues warranting report, I did not issue a substantive report on the accounts.

27 As detailed above, the Health Board has met its financial duty to break even over the three years 2015-16 to 2017-18 and reported a retained surplus of £509,000 for this period.

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

28 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:

- assessing the effectiveness of the Health Board's governance and assurance arrangements;
- reviewing the Health Board's approach to strategic planning;
- examining the arrangements in place for managing the Health Board's finances, workforce, assets and procurement;

- specific use of resources work on the Primary Care service, Estates and regional partnership working;
- reviewing the Health Board's arrangements for tracking progress against external audit recommendations; and
- assessing the application of data-matching as part of the National Fraud Initiative (NFI).

29 My conclusions based on this work are set out below.

### Whilst the Health Board has established the necessary arrangements to support good governance, there is more to do to ensure they are operating as intended

- 30 My structured assessment work examined the Health Board'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. I found the following.
- 31 **Arrangements to support board and committee effectiveness are generally good with ongoing work to strengthen team working at the board.** My work found that the Health Board reviews its Board and committee effectiveness annually and used this year's survey results as part of a board development session and developed an action plan to inform a development programme.
- 32 Since my 2017 Structured Assessment, the Health Board has experienced a turnover of independent members and during 2018, they have been settling into their new roles and developing relationships that will be essential to make the Health Board's governance arrangements fully effective. Independent Members have been able to access the national induction programme and the Health Board is providing a range of training opportunities for independent members itself including an induction programme, all-Wales board member training and the Health Board's own board development sessions. However, independent members responding to our board member survey had mixed opinions about their induction programme, the training and support given to discharge their responsibilities and the programme of board development.
- 33 The Chair appraises independent members to set personal objectives and to identify training and development needs. The Health Board is developing a new board training and development programme to address learning needs. Health Board committees perform effectively, with good arrangements in place to escalate issues to the Board. However, there is scope to ensure systematic communication between committees and improve understanding amongst board members about committee roles and responsibilities.

- 34 **The Health Board is making progress to develop a board assurance framework, and work is underway to improve and strengthen risk management arrangements.** The Health Board is developing its Board Assurance Framework with support from the Audit and Assurance team<sup>1</sup>. Work continues to map strategic risks and the required sources of assurance within the BAF, as well as redevelopment of the risk appetite statement once the BAF is finalised. I found that the strategic risk management arrangements are generally fit for purpose and work is in progress to strengthen them further. There are improvements to risk reporting but I note that the Health Board is yet to clarify the roles for collating and monitoring corporate and clinical risks and ensure it has sufficient resources and capacity to oversee risk management across the organisation.
- 35 **Internal controls are in place and the Health Board is continuing to strengthen aspects of its clinical audit arrangements.** The Health Board business is conducted in accordance with the latest Standing Financial Instructions<sup>2</sup>, Standing Orders<sup>3</sup> and an up-to-date Scheme of Delegation, which sets out roles, responsibilities and levels of authority. The Audit Committee oversees and monitors compliance against them. The Health Board is also continuing to raise awareness of its Register of Gifts, Hospitality and Sponsorships. The Health Board routinely monitors both financial and operational performance. Its performance management arrangements are robust, and it takes action to address poor performance. The Health Board has developed a draft Quality Assurance and Improvement Framework<sup>4</sup>, but my work did identify some ways that its quality governance arrangements could be improved such as around patient stories, independent member walkabouts, complaints and clinical audit.
- 36 The Audit Committee oversees progress against recommendations made by Internal and External Audit. My work found that the Health Board has made significant progress to address outstanding recommendations with ongoing work to ensure recommendations are addressed in a timely way. I also found that the Health Board has implemented a new process to track recommendations made by other regulators and inspectors such as Health Inspectorate Wales to enable the Quality and Patient Safety Committee to monitor progress.
- 37 **The Health Board is working to strengthen cyber security and to achieve full compliance with response times for statutory information requests.** I found that compliance with information governance training is improving and is currently 89%, but it is still below the all-Wales target of 95%. The Health Board provided additional resources to its information governance unit from mid-2018 to strengthen

<sup>1</sup> The NHS Shared Services Partnership Audit and Assurance service provides bilingual internal audit, specialist audit and consultancy services to the whole of the NHS in Wales.

<sup>2</sup> [Standing Financial Instructions for Health Boards – March 2014](#)

<sup>3</sup> [Standing Orders & Reservation and Delegation of Powers – March 2014](#)

<sup>4</sup> [Aneurin Bevan University Health Board – Draft Quality Assurance and Improvement Framework](#)

the information confidentiality arrangements and work towards full GDPR compliance. The Health Board reports that the volume of FOI requests is growing and that it deals with on average 50 requests each month. Although response times to FOI requests started to improve towards the end of 2018 overall compliance was 73% for the year compared with 84% in 2017. Performance in relation to response times to data subject access requests began to improve towards the end of 2018 having fluctuated between 83% and 89% for much of the year. Overall compliance with data subject access requests for 2018 was 88% compared with 96% in relation to 2017. An external review of information governance and information security was undertaken in early 2018 and the Health Board is working to address areas for improvement and to strengthen cyber security arrangements and capacity by establishing a specialist team to bolster controls, resilience and manage incidents.

## The Health Board has a clear vision supported by an effective planning process, and work is continuing to update plans for service re-design

- 38 My work examined how the Board engages partners and sets the strategic direction for the organisation. I also assessed how well the Health Board plans the delivery of its objectives and how it monitors progress in delivering the plans. My findings are set out below.
- 39 **The Health Board has an effective approach for engaging with stakeholders to inform strategy development.** My work found that the Health Board's strategy development is supported by effective internal and external engagement. It is also continuing to improve its engagement approach and has established workstreams on Workforce and Organisational Development/Staff Engagement and Communication and Engagement as part of its Clinical Futures Programme. The Health Board is a member of the Greater Gwent Regional Partnership Board and five Public Service Boards, ensuring alignment between the IMTP and the Greater Gwent Area and Well-being plans. The Health Board's Public Partnership and Well-being Committee effectively oversees partnership engagement and the Independent Chair of the Regional Partnership Board attends this meeting to provide updates.
- 40 **The Health Board has a strong planning approach underpinned by an analysis of demand and capacity with ongoing work to update service models underpinning the Clinical Futures Strategy.** Throughout 2017-18, the Health Board has had a clear and agreed planning approach. It has invested in extra capacity within the Planning Team, introducing a lead planner for each division mirroring the business partner model for finance and workforce. I also found evidence that the Health Board's IMTP planning approach is informed by learning and evaluation. The Health Board's analysis of demand and capacity supports strategic planning, but my 2018 Structured Assessment work found that

whilst it is developing its approach to demand and capacity analysis, it is not as strong in primary care, frailty and district nursing, as in other parts of the organisation. I found that the Health Board is working to produce an overarching workforce plan to support the Clinical Futures Strategy and the timely opening of the Grange University Hospital in 2020.

- 41 **The Health Board has arrangements for monitoring and reporting on delivery of the IMTP and the Clinical Futures Strategy.** The Board, Executive Team and Finance and Performance Committee regularly reviews and monitors IMTP performance and evidence indicates that actions are taken to address poor performance. However, we found that the Health Board is not consistently achieving some of its IMTP performance targets. The Health Board has approved its IMTP Delivery Framework, which sets out how the organisation ensures delivery and reinforces the importance of performance at individual, team, directorate and organisational level. This enables the Health Board to assess progress, learn from its performance and act where necessary. The Health Board recognises that it needs robust governance arrangements to support delivery of the Clinical Futures Strategy with Executive Member involvement at a Delivery Board and sub-group level which are responsible for delivering specific workstreams. The Health Board has appointed a Programme Director and set up a project timeline to support delivery of the strategy. My review of the content of the Clinical Futures progress reports found them to provide enough information to enable effective monitoring of progress, risks and issues. Both the Health Board and Welsh Government assessment of progress in delivering the Clinical Futures Strategy is reported to be broadly on target.

**The Health Board has a track record in managing resources effectively and a good developing approach to improving productivity, although some aspects are not always sufficiently strategic or detailed and performance against some key targets needs to improve**

- 42 My structured assessment work examined the Health Board's arrangements for managing its workforce, its finances and other physical assets to support the efficient, effective and economical use of resources. I also considered the arrangements for procuring goods and services, and the action being taken to maximise efficiency and productivity. My findings are set out below.
- 43 **The Health Board is actively managing workforce issues, but sickness absence rates remain above the Welsh Government target and compliance with statutory and mandatory training, the appraisal process and consultant job planning needs to improve.** The Health Board is proactively addressing workforce issues particularly around sickness absence, turnover, vacancies and appraisals resulting in improvement in key performance indicators. The Health

Board must meet requirements of the Nurse Staffing (Wales) Act 2016<sup>5</sup> and while it has put arrangements in place, nursing staff shortfalls present ongoing challenges. The Health Board is taking a proactive approach for staff engagement and wellbeing. For example, it has developed an Employee Experience Framework although this is still being approved by the Executive Team. The 2018 NHS staff survey results show continued improvement particularly around overall staff engagement and staff advocacy. It highlights some areas to improve, including bullying and harassment from patients and colleagues, and staff confidence in delivering services in Welsh. The Health Board is addressing these areas. The organisation commits to staff safety and wellbeing by encouraging staff access to services and wellbeing initiatives, and its Mental Health and Learning Disabilities Division is developing a wellbeing programme for its staff focusing on effective stress management and promoting wellbeing.

- 44 **In general, the financial management of the Health Board is strong and improving; nevertheless, there are challenges in managing financial risks.** The Health Board met its financial duties in each of the last three financial years by achieving 'break-even' and has made a small surplus each year. It is forecasting a 'break-even' position in the current financial year despite managing significant challenges and must meet many targets, to either secure existing funding or to attract extra funding for service improvements. The Health Board considers that during 2018-19 a total of £5 million is 'at risk' within its IMTP either because targets are not met to secure additional funding, or savings plans do not fully deliver. The Health Board is starting to move away from traditional cost improvement programmes although there is still some reliance on transactional savings. It has developed a framework that aligns performance and cost drivers to efficiency. However, the Health Board estimates that it could save up to £22 million by reducing sickness levels, temporary staffing costs and lengths of stay, to benchmark levels. It has already acted to secure a reduced reliance on bank services and agency staff, however, this remains a challenge given staffing shortages in a number of key service areas.
- 45 Procurement is undertaken by the NWSSP Procurement Service (Procurement team), on the Health Board's behalf. There is an all-Wales Procurement Strategy, underpinned by an all-Wales business plan but there is no overall Health Board procurement plan. In common with other NHS bodies, the Health Board has a service level agreement with the Shared Services Partnership. The Health Board uses its SFIs to guide procurement practice. Internal Audit's review of Non-Pay Expenditure provided reasonable assurance (dated 18 May 2018). The report did, however, identify the lack of a detailed service level agreement, out-of-date policies and procedures and non-compliance with the Financial Control procedure. We understand that the Procurement team is drafting a new set of policies and procedures on behalf of the Health Board.

<sup>5</sup> [Nurse Staffing Levels \(Wales\) Act – Legislation](#)

- 46 The Procurement team uses a business partner approach and procurement leads are based within each division to work with service managers and suppliers to secure value for money and in doing so improve patient outcomes. However, our interviews suggest further scope for engagement with some clinical areas and Work and Estates to understand whether there are potential opportunities to drive better value from key contracts.
- 47 **The Health Board is not delivering against all key access targets, but it is actively improving its arrangements to secure efficiency and productivity.** I found that some performance continues to be a matter of concern particularly with four-hour and 12-hour Accident & Emergency (A&E) waiting times, the number of ambulance handovers taking over one hour and achieving the Welsh Government target to deliver zero 36-week and eight-week diagnostic breaches by the end of December 2018.
- 48 The Health Board is investing resources to address areas of underperformance and achieve some positive outcomes. For example, it has embraced prudent and value-based healthcare and its benchmarking approach identifies notable savings through efficiency opportunities.
- 49 **There is a good strategic approach in the informatics service, but it needs focused investment and stronger oversight of the impact of national IT system risks.** The Health Board agreed a five-year informatics strategic outline programme (SOP), which was first produced in late 2016. Additional funding of £500,000 was provided for infrastructure and technology updates in 2017-18. Despite this additional investment, capital investment is required to replace an ageing IT network and infrastructure. Several risks remain concerning availability and delays in implementing national IT systems. For example, the delay of the Welsh Community Care Information System presents a lost opportunity, because of the lack of reliable community-based service and productivity information.
- 50 **The Health Board's management of assets, particularly medical equipment devices, needs to be more rigorous and strategic.** I identified some concerns around the Health Board's arrangements to manage medical equipment and devices specifically around the Health Board's monitoring of medical equipment incidents reported through Datix and the lack of an overarching asset register.

## My wider programme of work indicates that the Health Board is responding to risks and opportunities, but continues to face several challenges

The Health Board has comprehensive plans for primary and community care and is making steady progress towards implementing the key elements of the national vision. While performance levels are above average for many indicators, growing workforce pressures are challenging the sustainability of core GP services in some areas

- 51 I found that the Health Board has comprehensive primary care plans that align with the national vision and are informed by Neighbourhood Care Network plans although these networks are not yet fully mature. The Health Board is making steady progress in delivering its plans and performance compares well with the rest of Wales, but a number of difficult challenges remain.
- 52 In respect of resources, the Health Board has some clear examples of resources shifting closer to home and aims to increase investment in primary care but the available data makes it difficult to accurately calculate the overall investment in primary care. Workforce challenges threaten the sustainability of some practices which the Health Board has assessed and is in the early stages of testing solutions.
- 53 The Health Board has strong leadership arrangements but current performance indicators do not allow oversight of all areas of primary care and there is scope for more Board-level focus on primary care.

The Health Board is taking positive steps to improve estate management but would benefit from introducing a strategic plan, which reflects its vision for future healthcare provision

- 54 I found the Estates Team is involved in strategic planning through the Integrated Medium Term Planning process, but the Health Board lacks an agreed Estates Strategy. It is piloting a new approach to assessment and reporting of its estate, but this is taking longer than initially expected to complete.
- 55 In respect of the management of estates, there is clarity around accountability, roles and responsibilities for Estate Management and systems are in place to record asset data and to support maintenance.
- 56 The Health Board continues to improve its management of Estates and Facilities in key areas. It performs well against national indicators compared to the All Wales averages and there are clear systems for managing performance although there is scope to make better use of service user feedback and post-work inspections.
- 57 The Health Board spends a high proportion of its maintenance budget on reactive repairs which reflects the age and condition of the current estate. It has a clear policy for the disposal of an asset once it has become redundant and it uses national and local guidance to dispose of assets.

58 The Health Board is aware of risks and prioritises actions using feedback from users. It actively ensures that staff and contractors have the skills and behaviours required to deliver an effective service, and management is taking positive steps to improve staff satisfaction and sickness absence levels.

### My emerging findings on the Integrated Care Fund are showing some challenges

59 I have completed the fieldwork for my cross-sector Integrated Care Fund review. I intend to prepare a national summary report early in 2019, setting out my all-Wales findings. My audit team has already presented local findings to Regional Partnership Boards. The key messages for the Greater Gwent Regional Partnership Board are:

- the Integrated Care Fund (the fund) has had a positive impact in bringing organisations together across the Greater Gwent Region, but there is scope to further clarify and improve links between the Regional Partnership Board and the five Public Service Boards on an ongoing and regular basis.
- due to the annual nature of the fund, the region recognises that it has not always used the fund strategically to develop services based on need, with scope to strengthen aspects of project management for the projects supported by the fund.
- decisions surrounding the use of the fund are delegated to sub-groups of the regional partnership board, with the Strategic Partnership Boards responsible for developing business cases for proposed ICF projects. This approach appears to be working effectively, but the Strategic Partnership Board lacks third sector representation, which limits their involvement in developing ICF projects. Furthermore, the level of understanding within partner organisations of the work of the Greater Gwent Regional Partnership Board and its sub-groups, including what the fund is being used for and its impact, needs to improve.
- there is general agreement that the fund is supporting the right projects and having a positive impact on service users, but like other regional partnership boards across Wales, very few projects are being mainstreamed into core services. The Greater Gwent region is attempting to demonstrate outcomes more clearly, but this presents an ongoing challenge.

### The Health Board has generally made effective use of NFI as a component of its counter-fraud arrangements but has yet to review all recommended data matches

60 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. It is a highly effective tool in detecting and preventing fraud and

overpayments and helping organisations to strengthen their anti-fraud and corruption arrangements.

- 61 The Health Board received the outcomes from the 2016 data-matching exercise in January 2017 which included 7,989 data-matches, 458 of which were 'recommended matches'. In last year's Annual Audit Report, I noted that the Health Board had made good progress in reviewing the data-matches but has not reviewed three-way data-matches between payroll, creditor payments and Companies House. These are high risk matches because they can identify undeclared staff interests and possible corrupt practices.
- 62 In October 2018, participating bodies submitted data for the next data-matching exercise. The Health Board has reviewed 336 data-matches. We consider that the Health Board has generally made effective use of the NFI as a component of its counter-fraud arrangements. However, the NFI web application shows that whilst reviews of the recommended three-way data-matches between payroll, creditor payments and Companies House commenced in early 2018, it does not record that these reviews have been completed and matters arising resolved. It is essential that the Health Board ensures the review of these matches is completed as a matter of urgency. This is particularly important given that the reviewer notes within the NFI web application record instances where staff members had interests in companies that had not been declared to the Health Board. The outcomes of this exercise will be available early in 2019.

# 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 Health Board in 2018.

Report	Date
<b>Financial audit reports</b>	
Audit of Financial Statements Report	May 2018
Opinion on the Financial Statements	June 2018
<b>Performance audit reports</b>	
Structured Assessment 2018	December 2018
Primary Care	September 2018
Review of Estates	November 2018
<b>Other reports</b>	
2018 Audit Plan	January 2018

### Exhibit 3: performance audit work still underway

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

Report	Estimated completion date
Clinical coding	March 2019
Orthopaedics	October 2019
Local follow-up work to track progress against recommendations related to district nursing, medicines management in acute hospitals and GP out-of-hours services	July 2019

# Appendix 2

## Audit fee

The 2018 Audit Plan set out the proposed audit fee of £407,146 (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

## Significant audit risks

### Exhibit 4: significant audit risks

My 2018 Audit Plan set out the significant audit risks for 2018. 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 Health Board has a duty to ensure that robust accounting records and internal controls are in place to ensure the regularity and lawfulness of transactions.	My audit team will test accounting records and internal controls relevant to the audit to ensure accuracy, regularity and lawfulness of transactions.	Accounting records and internal controls tested as planned and found to be robust. No evidence found of irregular or unlawful transactions.
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.	My audit team will: <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; and</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>	Audit work carried out as planned and no evidence found of management override of controls.
There is a risk of material misstatement due to fraud in revenue recognition and as such is treated as a significant risk.	My audit team will consider the Health Board's income streams and assess whether there is a risk of material misstatement due to fraud related to revenue recognition. Where we determine that such risks do exist we will undertake specific testing.	Audit work carried out as planned and no evidence found of misstatement due to fraud in revenue recognition.

Significant audit risk	Proposed audit response	Work done and outcome
<p>There is a significant risk that the Board will fail to meet its first financial duty to break even over a three-year period. The position at the end of December shows an improved position with a year to date surplus of £0.676 million. This is a significant improvement from early in the year when there was a predicted deficit of £15 million, although the full extent of Welsh Government funding was unclear at that time. Whilst the Board does not have a cumulative deficit from prior years, risks still remain in the delivery of plans as they are based on the following:</p> <ul style="list-style-type: none"> <li>the current savings and cost avoidance plans deliver the anticipated reductions in costs;</li> <li>the full extent of operational financial pressures are contained for the remainder of the year;</li> <li>service delivery is improved to meet agreed targets linked to additional funding and the additional costs are within the funding envelope; and</li> <li>the costs associated with NICE remain consistent within the forecast financial position.</li> </ul> <p>Where the Board fails this financial duty I will place a substantive report on the financial statements highlighting the failure.</p> <p>The current financial pressures on the Board increase the risk that management judgements and estimates could be biased in an effort to achieve the financial duty.</p>	<p>My audit team will continue to monitor the Health Board's financial position for the 2017-18 financial year.</p> <p>If the Health Board fails to meet the three-year resource limits for revenue and/or capital, I would expect to qualify my regularity opinion on the 2017-18 financial statements. I would also expect to place a substantive report on the statements to explain the basis of the qualification and the circumstances under which it had arisen.</p> <p>My audit team will also focus its testing on areas of the financial statements which could contain reporting bias.</p>	<p>Audit work confirmed that the Health Board met its annual revenue resource allocation and its financial target to break even.</p>
<p>The current financial pressures on the Health Board, around its revenue and capital expenditure, and cash spend, increase the risk that management judgements and estimates could be biased in an effort to report within the financial limits put in place by the Welsh Government.</p>	<p>My audit team will identify those areas of the financial statements that they judge to be prone to reporting bias, and undertake focused audit testing where appropriate.</p>	<p>Focused audit testing carried out as planned and no evidence found of reporting bias.</p>

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