



WALES AUDIT OFFICE  
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Auditor General for Wales

# Annual Audit Report 2018 – Hywel Dda University Health Board

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This report was prepared for the Auditor General by Anne Beegan and Jeremy Saunders under the direction of Ann-Marie Harkin and Dave Thomas.

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# Summary report

## About this report

- 1 This report summarises the findings from the audit work I have undertaken at Hywel Dda 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. We will present it to the Board on 31 January. 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 have 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 concluded that the Health Board's accounts were properly prepared and materially accurate, and my work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts. I have therefore issued an unqualified opinion on their preparation and accuracy.
- 9 The Health Board did not achieve financial balance for the three-year period ending 31 March 2018 and so I have issued a qualified opinion on the regularity of the financial transactions within its 2017-18 accounts.
- 10 Alongside my audit opinion, I placed a substantive report on the Health Board's financial statements to highlight its failure to achieve financial balance and its failure to have an approved three-year plan in place.

### 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:
  - while the Health Board has generally good governance arrangements, the Board has recognised that quality and safety governance arrangements still have room for improvement, and that the current organisational structure needs to be revisited to support delivery of its new strategy.
  - the Health Board is to be commended for its engagement and ambitious approach to longer-term strategic planning but needs to develop joined up and streamlined planning and delivery arrangements and ensure there is sufficient capacity to drive through the necessary change.
  - the management of workforce is improving, and the Health Board is strengthening arrangements for financial management and accountability, but significant financial challenges remain, and it needs to address asset management risks and to increase its focus on improving the efficiency of services.
- 12 My review of primary care services, maternity services, district nursing, operating theatres and a range of information governance aspects, as well as regional partnership working has found some positive aspects of securing efficient, effective and economical use of resources, but challenges remain, and several previous recommendations are outstanding.
- 13 The Health Board has now made effective use of the National Fraud Initiative to detect fraud and overpayments although this required a reminder from my team for action to be undertaken to review the data matches released in 2017.
- 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

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

- 18 The Health Board has high quality working papers and quality assurance processes over the financial statements. I received information in a timely and helpful manner and was not restricted in my work.
- 19 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.
- 20 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 30 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	None
Corrected misstatements	The amendments to the financial statements were minor by nature and there was no impact on the Health Board's net expenditure
Other significant issues	None

- 21 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.
- 22 My separate audit of the charitable funds financial statements is complete, and I intend issuing an unqualified audit opinion.

**I have issued a qualified audit opinion on the regularity of the financial transactions within the Health Board's financial statements and placed a substantive report alongside this opinion to highlight its failure to meet its statutory financial duties**

**The Health Board did not achieve financial balance for the three-year period ending 31 March 2018 and so I have issued a qualified opinion on the regularity of the financial transactions within its 2017-18 accounts**

- 23 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. My 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.
- 24 Where a Health Board does not achieve financial balance, its expenditure exceeds its powers to spend and so I must qualify my regularity opinion. At the end of 2017-18, the Health Board reported a financial deficit of £69.6 million, against an agreed deficit total of £58.9 million. A growing year-on-year cumulative deficit stood at £150 million at the end of March 2018. For 2018-19, the Welsh Government has recognised the demographic and scale challenges that the Health Board faces and

has allocated recurring funding of £27 million, with an agreed deficit total for the year of £35.5 million.

Alongside my audit opinion, I placed a substantive report on the Health Board's financial statements to highlight its failure to achieve financial balance and its failure to have an approved three-year plan in place

25 I have the power to place a substantive report on the Health Board's accounts alongside my opinions where I want to highlight issues. Due to the Health Board's failure to meet its financial duties I issued a substantive report setting out the factual details: it failed its duty to achieve financial balance (as set out above) and it was unable to meet the requirements of an approvable three-year plan in place, instead it is working to a one-year operational plan.

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

26 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 primary care services, maternity services, district nursing, operating theatres and aspects of information governance, as well as 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).

27 My conclusions based on this work are set out in the following paragraphs.

**While the Health Board has generally good governance arrangements, the Board has recognised that quality and safety governance arrangements still have room for improvement, and that the current organisational structure needs to be revisited to support delivery of its new strategy**

- 28 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.
- 29 **While there are generally good arrangements to support board and committee effectiveness, there are weaknesses in its quality and safety governance arrangements which the Health Board recognises and is addressing.** My work found that the Board continues to be generally well-run with the quality of Board-level scrutiny and challenge good. There is a full complement of independent members with a comprehensive programme of development in place. Board agendas are well structured, with a clear focus on governance items, strategic issues and performance, although more work is needed to get the right level of information within the papers. The Board rotates its meetings and has an improving focus on primary and community care but needs to give more time to the consideration of quality and safety of services. The Board's committees generally work well although there is recognition that the Quality Safety and Experience Assurance Committee (QSEAC) needs to further improve. Work has taken place to revisit and refine the QSEAC supporting structures, but agendas remain long, duplication exists between sub-groups and many issues discussed are best placed at an operational level. A further review of the structures supporting the QSEAC is due to take place in early 2019.
- 30 **There is a well-developed Board Assurance Framework in place which is being refreshed as new strategic objectives are developed.** In refreshing its Board Assurance Framework (BAF), my work found that the Health Board has also developed a comprehensive Regulatory and Review Body Assurance Framework, and over time has increased the level of information included in the BAF, including the Board's risk appetite. A well-documented Corporate Risk Register is also in place, and the Health Board has been working to further embed its revised risk management framework, following concerns I raised last year.
- 31 **Some aspects of governance are stable and well-organised, but others need to be further developed particularly in relation to quality and safety arrangements.** My work found Standing Orders are up-to-date, with a comprehensive interactive Scheme of Delegation recently approved, which I have identified as good practice. Standing Financial Instructions are current and arrangements for declarations of interests and gifts and hospitality are robust. A

comprehensive Internal Audit programme is in place, but capacity to support the Clinical Audit programme is an issue, resulting in some audits not being undertaken. The Health Board has implemented a new Quality Improvement Framework, but this is still in its infancy. A high-level quality and safety dashboard has been developed for QSEAC, but this has not yet been reported to the Board and directorate-based dashboards are still being developed. Performance against several quality and safety indicators are below Welsh Government targets, although the Health Board's approach to handling complaints is improving. Comprehensive executive performance reviews are now in place with each of the directorates, although there is scope to streamline the number of meetings that are held. The approach to responding to the General Data Protection Regulations (GDPR) is proactive but reliant on additional resources becoming available.

- 32 **The current organisational structure needs to be revisited to support strategic ambition, which has also been recognised by the Board. I have previously highlighted concerns about the organisational structure.** This year, I found better joint working across the executive team, helped by the development of the new Executive Performance Review framework. Executive officers are starting to be more engaged in operational issues and performance reviews, but visibility remains an issue. The visibility of the executive team was highlighted in the recent staff survey with just 45% of staff reporting that they know who the executive team are, although this proportion of staff was the highest across Wales. Primary and community services are now better aligned through the County structure, but the Board has recognised that if it is to deliver its strategic vision, primary and community services need to be much more prominent in the organisational structure. Although the organisation structure is "clinically-led", some of the medical leads are not as engaged in the operational management of services as they could be, largely due to their limited capacity to support as well as misalignment between clinical commitments and when management meetings take place. A business partnering model has recently been implemented in the finance department with consideration being made to roll out the model across other corporate services, which is welcomed by operational directorates. A lack of capacity in some services, however, means that this is not yet possible.
- 33 **The Health Board has a robust process for tracking recommendations by all external review bodies, not just those identified by External and Internal Audit, which I have identified as good practice.** The tracker is regularly reported to the Audit and Risk Assurance Committee (ARAC) and executive officers are held to account for the pace of delivery, with detailed progress updates reported back to ARAC at regular intervals. The pace of delivery can however be a problem, with an escalation process for late or non-delivery of recommendations recently implemented which will help focus attention on addressing recommendations. My structured assessment work this year indicates that the Health Board is making progress against my previous recommendations but there remains more to do before these actions are completed in full. I discuss this further in paragraph 47.

**The Health Board is to be commended for its engagement and ambitious approach to longer-term strategic planning but needs to develop joined up and streamlined planning and delivery arrangements and ensure there is sufficient capacity to drive through the necessary change**

- 34 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.
- 35 **The longer-term strategic approach and partnership planning is progressing well.** My work found that the Health Board has undertaken a substantial engagement exercise, with strong medical leadership, to develop options for its scheduled and unscheduled care services. During 2018, it consulted on the proposed options. The consultation outcome was considered at the Board meeting in September 2018, and a preferred option agreed. This formed the basis of the Health Board's ten-year Health and Care Strategy, which was approved at the Board meeting in November. The Health Board works well with its partners and alongside the strategy, good progress is also being made with developing a 20-year population health vision.
- 36 **There are ambitious plans to develop an Integrated Medium-Term Plan (IMTP) for 2019-22 but the planning process is not sufficiently joined up.** My work has found that the Health Board is aiming to submit its first IMTP to the Welsh Government for approval for 2019-22. Timescales are ambitious but considerable work is underway to make sure that the draft IMTP, which forms part of the ten-year strategy, is ready for consideration by the Board before submission to the Welsh Government. Comprehensive and robust mechanisms have been put in place to develop the three-year plan, however, more needs to be done to enable the directorate plans to be co-ordinated with each other, but the Health Board's limited planning capacity is hindering its ability to do this on a proactive basis.
- 37 **Arrangements for monitoring delivery against plan could be strengthened and capacity to deliver significant change is a challenge.** Arrangements to monitor delivery against plan are in place through the Business Planning and Performance Assurance Committee (BPPAC) but are not currently a formal part of the performance reviews with the directorates, other than consideration of plans to meet key performance deliverables by the year-end. Capacity to deliver significant strategic change has been an issue for the Health Board. Previous transformation programmes have largely been reliant on the relevant operational teams to deliver the change on top of the routine business, as well as additional capital and revenue funding being available. The Health Board has recognised that it will need additional capacity if it is to deliver against its intended timescale for implementation of its Health and Care Strategy. A request for additional capacity has been submitted to the Welsh Government and discussed through Joint

Executive Team and Targeted Intervention meetings, but at the time of fieldwork, funding had not been made available.

## The management of workforce is improving, and the Health Board is strengthening arrangements for financial management and accountability, but significant financial challenges remain, and it needs to address asset management risks and to increase its focus on improving the efficiency of services

- 38 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.
- 39 **The Health Board is managing its workforce effectively, but vacancies continue to present challenges and there is a need to put in place a learning and development plan for the workforce.** My work found that the Health Board is performing better than the rest of Wales on several workforce indicators but continues to have some hard-to-fill medical posts and is still reliant on the use of agency staff, despite these costs reducing. The Health Board has been proactive in implementing several workforce initiatives and is taking a phased approach to responding to the requirements of the Nurse Staffing (Wales) Act 2016. A comprehensive programme of organisational development is in place, however learning and development was identified as an issue in the recent NHS staff survey, and our work has found that the Health Board lacks an organisational wide learning and development plan to identify how it can more broadly develop its staff. A pilot is currently taking place with one directorate to start to take this forward, but up to this point, learning and development needs are largely addressed at a directorate level based on short-term gaps and performance appraisal and development reviews (PADR).
- 40 **Financial management and accountability has improved, but significant challenges remain.** My work has identified that for the year 2017-18, the Health Board reported a £69.6 million deficit against the revenue resource limit. For 2018-19, the Welsh Government has recognised the demographic and rurality challenges that the Health Board faces and has allocated recurring funding of £27 million, with an agreed deficit total for the year of £35.5 million. The cumulative three-year deficit for the period 2016-19 is predicted to be £154.7 million. At month nine, the Health Board was still forecasting a year end deficit of £35.5 million, with an adverse variance of £0.5 million. The Health Board has adequate budgetary financial management and control arrangements but there is not yet sufficient financial accountability as it continues to overspend. The new finance business partnering arrangement should help improve financial accountability and delivery across the Health Board. This is alongside the continuing turnaround process

which has provided much needed rigour to achieve savings. A Finance Committee has now been established as a sub-committee of the Board, chaired by an experienced Associate Member. The committee is providing good scrutiny and challenge on the areas of concern causing financial pressure.

- 41 **Some performance metrics are improving, but the Health Board needs to increase its focus on improving efficiency and embedding value-based healthcare.** My work has found that overall performance against several efficiency measures since April remain mixed with positive improvements in day case rates and stroke performance for example, but unscheduled care waits are deteriorating. Through the turnaround programme, the Health Board is focusing on efficiency and productivity of services, but this is limited to a small number of workstreams. The Health Board is still at the very early stages of adopting value-based healthcare (VBH) approaches. Two-year funding has recently become available to develop a joint VBH infrastructure with Abertawe Bro Morgannwg University Health Board and Swansea University. As part of its developing Quality Improvement Framework, a value-based healthcare steering group has recently been set up, but this is still in its infancy. An Innovation Hub however has been set up through the organisational development programme to help drive the improvement agenda.
- 42 **The Health Board's physical assets are deteriorating, and it needs to risk assess and prioritise action to replace them.** My work has found that the Health Board has a large legacy estate and asset base, and while some of this is relatively new or recently refurbished, there remains a significant backlog maintenance requirement. Although reduced, high-risk estate backlog maintenance is currently £59 million, along with out-of-life assets which now total a further £53 million. Some parts of the current estate are unlikely to support new service models and financial constraints also means that it is difficult to bring some of the estate to the required environmental standards. A capital estates audit is currently being undertaken in partnership with Welsh Government to ascertain the extent to which some of the Health Board's current estate stock could be repurposed. The Health Board has set out the estate requirements needed in the short-term and how these will be funded, but availability of discretionary capital is limited. The Health Board flexes and responds as necessary to meet new requirements, however, this can place financial pressure on the service with the estates department currently escalated in the turnaround process due to its inability to deliver against its savings target. An estates strategy to support the new clinical strategy is currently being drafted.

My performance audit work has identified some areas of good practice and positive progress in addressing previous issues that I have raised, but challenges remain both in primary care and in the regional partnership arrangements, and several recommendations are outstanding from my previous work

The Health Board has ambitious plans for primary care and is taking steps towards implementing key aspects of the national vision. However, financial pressures are making it difficult to redirect funds to primary care, workforce challenges are threatening the sustainability of services and national performance levels are generally worse than the rest of Wales

- 43 My work found that the Health Board has an ambitious plan for primary care that aligns with the national plan although there is scope to improve consultation and there is a lack of detailed financial planning. All clusters have plans that support the Health Board's vision, although cluster maturity varies, and cluster leads highlighted scope to improve the support provided to them by the Health Board.
- 44 Determining the resource consumption within primary care services is complex given the varied nature of the services provided and the different funding streams. As such, it is not possible to easily assess the total investment in primary care. The Health Board can point to some specific examples of shifting resources towards primary care but has not quantified the total resource shifted and financial difficulties are complicating efforts to redirect funds to primary care. The Health Board closely monitors cluster spending and whilst most cluster leads felt they had enough financial autonomy, some felt the level of monitoring slowed decision making. There has been increasing investment in primary care premises improvement grants and the Health Board has recognised the need for a primary care estates strategy, which will form part of the Health and Care Strategy.
- 45 The Health Board has mapped its primary care workforce and whilst there are gaps in the data, analysis suggests a shortfall in GPs and nurses, an ageing workforce and increased list sizes. The primary care workforce plan sets out future staffing requirements in each locality, but this needs to be updated to reflect the Health Board's new Health and Care Strategy. The budget for the Primary Care Support Unit has been increased and the number of GP practices directly managed by the Health Board has increased from two to three. Progress has been made with implementing multi-professional primary care teams but there are some barriers to their further development including funding issues, delayed processes and limited evaluation of successful schemes.
- 46 Members of the Board and Executive Team are experienced in leading primary care and while primary care has increased in profile, at the time of fieldwork it was seen as a lower priority than secondary care across the Health Board. Primary care performance and risks are reviewed at various levels, but monitoring is

hampered by a lack of data on some key aspects of primary care. Many aspects of the Health Board’s primary care performance against national targets are worse than the Welsh average. GPs provide leadership to most clusters and these leads gave positive views about the Health Board’s oversight, although there are concerns about the time available to lead the clusters.

**The Health Board has made good progress in addressing recommendations from my previous work, but a number remain outstanding, some of which are reliant on national guidance and improvements in IT systems**

- 47 My work has found that the Health Board is making progress in addressing recommendations from my previous audit work. Of the outstanding recommendations as at December 2018, 119 actions were complete, 22 were in progress and within timescales, and 38 were overdue.
- 48 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 concerns and recommendations arising from previous audit work on a range of service areas. The findings from this follow-up work are summarised in **Exhibit 2**.

**Exhibit 2: progress in implementing audit recommendations in specific service areas**

Area of follow-up work	Conclusions and key audit findings
Maternity services	The Health Board has substantially addressed the operational and strategic challenges posed by its maternity service which now has strong leadership, although Caesarean Section rates remain high.
District nursing	The Health Board has written a clear service specification for its district nursing service and has a greater understanding of demand, deployment and performance, although it is awaiting national guidance before it can fully address some issues.
Operating theatres	Management arrangements are stronger, and the Health Board has made some progress in monitoring staffing levels and skill mix, but theatres IT systems are not fit for purpose, so it is hard to get useful activity and performance data.
Follow-up Information Backup, Disaster Recovery and Business Continuity, and Data Quality	Historically, the Health Board has addressed recommendations slowly, but over the last 12 months, it has implemented the majority of recommendations, and work is underway to complete the remainder.

**My emerging findings on the Integrated Care Fund are showing that whilst the Fund is having some positive impacts, there are also several challenges that the Regional Partnership Board needs to manage**

49 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 presented local findings to Regional Partnership Boards. The key messages for the West Wales Regional Partnership Board (RPB) are:

- The Integrated Care Fund (the fund) has had a positive impact in bringing organisations together across West Wales but there is scope to further clarify and improve links between the RPB and the Public Service Boards on an ongoing and regular basis, and to review whether there is sufficient housing, financial and carer representation on the RPB and its sub-groups.
- There is currently limited regional use of the fund, with the allocation being distributed further to a county level. This has been the arrangement since the introduction of the fund, however the county allocation is not always viewed as fair. The RPB is taking steps to move to a more regional approach through the ICF forum, although members recognise that this will take time to embed. Due to the annual nature of the fund, the region also 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 largely delegated to the sub-groups of the RPB, but the level of understanding within partner organisations of the work of the partnerships 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 RPBs across Wales, very few projects are being mainstreamed into core services. The region is attempting to demonstrate outcomes more clearly, through the development of a regional outcomes framework which will start to bring together some common approaches to measuring impact across the three counties, although this is still in the early stages.

**The Health Board has now made effective use of the National Fraud Initiative to detect fraud and overpayments although this required a reminder from my team for action to be undertaken**

50 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.

- 51 The Health Board received the outcomes from the 2016 data matching exercise in January 2017 but due to turnover of staff in the Local Counter Fraud Team at that time, limited progress was made in reviewing the recommended matches during 2017. Plans were put in place to complete the work in early 2018, but our work in November 2018 identified that the matches had still not been reviewed. Once the Health Board was reminded of the need to look at the matches, proactive action was taken by the Director of Finance and all high-risk matches have now been reviewed and appropriate investigation work undertaken.
- 52 In October 2018, participating bodies submitted data for the next data matching exercise. The outcomes of this exercise will be available early in 2019. The Health Board will need to make sure that a clear plan of action is in place to review the matches once they are issued, to ensure that it is making effective use of NFI in a timelier manner than has previously been the case.

# Appendix 1

## Reports issued since my last annual audit report

### Exhibit 3: 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	June 2018
Opinion on the Financial Statements	June 2018
<b>Performance audit reports</b>	
Follow-up Information Backup, Disaster Recovery and Business Continuity, and Data Quality – Assessment of Progress	April 2018
District Nursing – Assessment of Progress	June 2018
Review of Operating Theatres – Assessment of Progress	August 2018
Maternity Services – Assessment of Progress	August 2018
Review of Primary Care Services	December 2018
Structured Assessment 2018	January 2019
<b>Other reports</b>	
2018 Audit Plan	February 2018

### Exhibit 4: performance audit work still underway

There are also several 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
Review of Operational Quality Governance Arrangements	February 2019
Clinical Coding Follow-Up	March 2019
Orthopaedics Follow-Up	September 2019

# Appendix 2

## Audit fee

The 2018 Audit Plan set out the proposed audit fee of £396,355 (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 financial audit risks

### Exhibit 5: significant audit risks

My 2018 Audit Plan set out the significant financial 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
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases;</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>	<p>My audit team:</p> <ul style="list-style-type: none"> <li>• tested material journals and no unusual items were identified.</li> <li>• reviewed material accounting estimates and all were assessed as reasonable.</li> <li>• did not identify any transactions outside the normal course of business</li> </ul>
<p>There is a significant risk that the Health Board will fail to achieve its forecast out-turn. The month 9 position showed a year-to-date deficit of £52.8 million and forecast a year-end deficit of £69.6 million. This combined with the outturns for 2015-16 and 2016-17, predicts a three-year deficit of £150.4 million.</p> <p>Should the Health Board fail to meet its revenue allocation, I will qualify my regularity opinion and may choose to place a substantive report on the financial statements explaining the failure and the circumstances under which it arose.</p>	<p>My audit team will focus its testing on areas of the financial statements which could contain reporting bias.</p>	<p>My audit team's testing did not indicate any reporting bias.</p>

Significant audit risk	Proposed audit response	Work done and outcome
<p>The current financial pressures on the Health Board increase the risk that management judgements and estimates could be biased in an effort to achieve the resource limit.</p>		
<p>In 2017-18 the Health Board is required to revalue its land and buildings as part of the five-year revaluation programme. Given the value of these assets held by the Health Board is some £239 million they are material to the financial statements. In addition, the District Valuer will be using a revised valuation approach.</p> <p>There is a risk that the revaluation is not correctly reflected in the financial statements and the financial statements could be materially misstated.</p>	<p>My audit team will audit the revaluation of land and buildings and ensure the correct accounting treatment.</p>	<p>My audit team tested revaluations of land and buildings. No material misstatements were identified.</p>



Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500  
Fax: 029 2032 0600  
Text phone.: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)  
Website: [www.audit.wales](http://www.audit.wales)

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500  
Ffacs: 029 2032 0600  
Ffôn testun: 029 2032 0660

E-bost: [post@archwilio.cymru](mailto:post@archwilio.cymru)  
Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)