

Annual Audit Report 2020 – Cwm Taf Morgannwg University Health Board

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Contents

Summary report	
About this report	4
Key messages	5
Detailed report	
Audit of accounts	7
Arrangements for securing efficiency, effectiveness and economy in the use of resources	9
Appendices	
Appendix 1 – reports issued since my last annual audit report	13
Appendix 2 – audit fee	15
Appendix 3 – financial audit risks	16

Summary report

About this report

- 1 This report summarises the findings from my 2020 audit work at Cwm Taf Morgannwg University Health Board the (Health Board) undertaken to fulfil my responsibilities under the Public Audit (Wales) Act 2004. That Act requires me to:
 - examine and certify the accounts submitted to me by the Health Board, and to lay them before the Senedd;
 - satisfy myself that expenditure and income have been applied to the purposes intended and are in accordance with authorities; and
 - satisfy myself that the Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2 I report my overall findings under the following headings:
 - Audit of accounts
 - Arrangements for securing economy, efficiency and effectiveness in the use of resources
- 3 This year's audit work took place at a time when public bodies were responding to the unprecedented and ongoing challenges presented by the COVID-19 pandemic. Given its impact, I re-shaped my planned work programmes by considering how to best assure the people of Wales that public funds are well managed. I considered the impact of the current crisis on both resilience and the future shape of public services and aimed to ensure my work did not hamper public bodies in tackling the crisis, whilst ensuring it continued to support both scrutiny and learning. All on-site audit work was suspended whilst we continued to work and engage remotely where possible through the use of technology. This inevitably had an impact on the delivery of some of my planned audit work but has also driven positive changes in our ways of working.
- 4 The delivery of my audit of accounts work was not without its challenges, not only in how and where we undertook the work, but also in taking account of new considerations for financial statements arising directly from the pandemic. The success in delivering to the amended timetable reflects a great collective effort by both my staff and the Health Board's officers to embrace and enable new ways of working and remain flexible to and considerate of the many issues arising.
- 5 At the onset of the pandemic I suspended the publication of some performance audit reports nearing completion, reflecting the capacity of audited bodies to support remaining fieldwork and contribute to the clearance of draft audit outputs. I have also adjusted the focus and approach of some other planned reviews to ensure their relevance in the context of the crisis. New streams of work have been introduced, such as my review of the Test, Trace and Protect programme, and my local audit teams have contributed to my wider COVID-19 learning work.

- 6 This report is a summary of the issues presented in more detailed reports to the Health Board this year (see **Appendix 1**). I also include a summary of the status of planned work currently being re-scoped.
- 7 **Appendix 2** presents the latest estimate of the audit fee that I will need to charge to cover the costs of undertaking my work, compared to the original fee set out in the 2020 Audit Plan.
- 8 **Appendix 3** sets out the financial audit risks set out in my 2020 Audit Plan and how they were addressed through the audit.
- 9 The Chief Executive and the Director of Finance have agreed the factual accuracy of this report. We presented it to the Audit Committee on 14 December 2020. The Board will receive the report at a later Board meeting and every member will receive a copy. We strongly encourage the Health Board to arrange its wider publication. We will make the report available to the public on the [Audit Wales website](#) after the Board have considered it.
- 10 I would like to thank the Health Board's staff and members for their help and co-operation throughout my audit.

Key messages

Audit of accounts

- 11 I concluded that the Health Board's accounts were properly prepared and materially accurate and issued an unqualified audit opinion on them. My work did not identify any material weaknesses in the Health Board's internal controls (as relevant to my audit).
- 12 However, I placed an Emphasis of Matter narrative in my report to draw attention to a disclosure in the accounts relating to a Ministerial Direction issued on 18 December 2019 to the Permanent Secretary of the Welsh Government, instructing her to fund NHS clinicians' pension tax liabilities incurred by NHS Wales bodies in respect of the 2019-20 financial year. The Health Board had disclosed the existence of a contingent liability at 31 March 2020. I did not qualify my audit opinion in respect of this matter.
- 13 I brought two important issues to the attention of officers and the Audit Committee. The issues related to the Health Board's high level of old accruals (amounts owed to third parties), and insufficient detail for certain assets recorded in the Health Board's fixed asset register.
- 14 The Health Board achieved financial balance for the three-year period ending 31 March 2020, and had no other material financial transactions that were not in accordance with authorities nor used for the purposes intended, so I issued an unqualified opinion on the regularity of the financial transactions within the Health Board's 2019-20 accounts.

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

- 15 My programme of Performance Audit work has led me to draw the following conclusions:
- the Health Board maintained overall good governance, but strategic oversight of workforce metrics and wellbeing could have been strengthened during the early stages of the pandemic and the response to COVID-19 has slowed progress on implementing new risk management arrangements;
 - the Health Board met its financial duties for 2019-20 and has continued to demonstrate effective financial controls but costs associated with responding to COVID-19 are having a significant impact on the financial position;
 - operational plans were informed by robust demand and capacity modelling and there is a clear commitment to staff wellbeing and adapting to the new ways of working with developing arrangements for reporting on progress;
 - the Health Board demonstrates a commitment to counter-fraud, has suitable arrangements to support the prevention and detection of fraud and is able to respond appropriately where fraud occurs; and
 - the Health Board has made reasonable progress in addressing the issues highlighted in my previous reviews of operating theatres, but further improvements could be made in respect of the use of theatre efficiency data and standardising preoperative processes across the Health Board.
- 16 These findings are considered further in the following sections.

Detailed report

Audit of accounts

- 17 This section of the report summarises the findings from my audit of the Health Board's financial statements for 2019-20. These statements are how the organisation shows its financial performance and sets out its net assets, net operating costs, recognised gains and losses, and cash flows. Preparing the statements is an essential element in demonstrating the appropriate stewardship of public money.
- 18 My 2020 Audit Plan set out the financial audit risks for the audit of the Health Board's 2019-20 financial statements. **Exhibit 4 in Appendix 3** lists these risks and sets out how they were addressed as part of the audit.
- 19 My responsibilities in auditing the Health Board's financial statements are described in my Statement of Responsibilities publications, which are available on the [Audit Wales website](#).

Accuracy and preparation of the 2019-20 financial statements

- 20 I concluded that the Health Board's accounts were properly prepared and materially accurate and issued an unqualified audit opinion on them. My work did not identify any material weaknesses in the Health Board's internal controls (as relevant to my audit). However, I placed an Emphasis of Matter narrative in my report to draw attention to disclosures in the accounts relating to a Ministerial Direction issued on 18 December 2019 to the Permanent Secretary of the Welsh Government, instructing her to fund NHS clinicians' pension tax liabilities incurred by NHS Wales bodies in respect of the 2019-20 financial year. The Health Board had disclosed the existence of a contingent liability at 31 March 2020. I did not qualify my audit opinion in respect of this matter.
- 21 I brought two important issues to the attention of officers and the Audit Committee, as summarised below:
 - the Health Board has a high level of old accruals (amounts owed to third parties), which carried a high risk of being invalid. I undertook extended audit testing and where necessary the Health Board removed confirmed invalid accruals. Further work is required in this area, which the Health Board and I are currently undertaking in respect of the 2020-21 financial year.
 - I consider certain entries in the Health Board's fixed asset register to be inadequate because they hold insufficient information to identify specific assets. While this was not a material matter for 2019-20, the lack of information for some assets prevented me from confirming their existence. The Health Board is strengthening its fixed asset records where necessary.

- 22 The Health Board submitted its draft Accountability Report and Financial Statements by the Welsh Government's 22 May deadline, and my audit and certification also accorded with the Welsh Government timetable.
- 23 I must report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My audit team reported these issues to the Health Board on 29 June 2020. **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
Uncorrected misstatements	There were no significant uncorrected misstatements.
Corrected misstatements	I reported the five most significant corrected misstatements. They related to accounting classifications and disclosures.
Other significant issues	I reported on two areas for improvement, on the matters set out in paragraph 21, which the Audit Committee considered on 19 October 2020.

- 24 I also undertook a review of the Whole of Government Accounts return. I concluded that the counterparty consolidation information was consistent with the Health Board's financial position at 31 March 2020 and the return was prepared in accordance with the Treasury's instructions.
- 25 My separate audit of the charitable funds' financial statements is currently ongoing. We received the draft financial statements on 2 November 2020 and I am due to report my findings to trustee members on 28 January 2021.

Regularity of financial transactions

- 26 The Health Board achieved financial balance for the three-year period ending 31 March 2020 and had no other material financial transactions that were not in accordance with authorities nor used for the purposes intended, so I have issued an unqualified opinion on the regularity of the financial transactions within the Health Board's 2019-20 accounts.
- 27 The Health Board's financial transactions must be in accordance with authorities that govern them. The Health Board must have the powers to receive the income

and incur the expenditure. Our work reviews these powers and tests that there are no material elements of income or expenditure which the Health Board does not have the powers to receive or incur.

- 28 Where a Health Board does not achieve financial balance, its expenditure exceeds its powers to spend and so I must qualify my regularity opinion. **Exhibits 2 and 3** show that the Health Board met both its revenue and capital resource allocations.

Exhibit 2: financial performance against the revenue resource allocation (£'000s)

	2017-18 £'000	2018-19 £'000	2019-20 £'000	Total £'000
Operating expenses	644,435	686,502	1,066,192	2,397,129
Revenue resource allocation	644,458	686,518	1,067,075	2,398,051
Under (over) spend against allocation	23	16	883	922

Exhibit 3: financial performance against the capital resource allocation (£'000's)

	2017-18 £'000	2018-19 £'000	2019-20 £'000	Total £'000
Capital charges	34,894	24,168	38,328	97,390
Capital resource allocation	34,902	24,178	38,332	97,432
Under (over) spend against allocation	8	10	24	42

Source: 2019-20 financial statements

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

- 29 I have a statutory requirement to satisfy myself that the Health Board has proper arrangements in place to secure efficiency, effectiveness and economy in the use of 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:

- undertaking a structured assessment of the Health Board's corporate arrangements for ensuring that resources are used efficiently, effectively and economically;
- reviewing the effectiveness of the Health Board's counter-fraud arrangements: and
- undertaking a follow-up review of progress against recommendations within Operating Theatres.

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

Structured assessment

31 My structured assessment work was designed in the context of the ongoing response to the pandemic. I ensured a suitably pragmatic and relevant approach to help me discharge my statutory responsibilities, whilst minimising the impact on NHS bodies as they responded to the next phase of the COVID-19 pandemic. The key focus of the work was on the corporate arrangements for ensuring that resources are used efficiently, effectively and economically. Auditors also paid attention to progress made to address previous recommendations where these related to important aspects of organisational governance and financial management especially in the current circumstances.

32 The structured assessment grouped our findings under three themes:

- governance arrangements;
- managing financial resources; and
- operational planning: to support the continued response to the pandemic balanced against the provision of other essential services.

Governance arrangements

33 My work considered the Health Board's ability to maintain sound governance arrangements while having to respond rapidly to the unprecedented challenges presented by the pandemic. My work found that the Health Board maintained overall good governance, but strategic oversight of workforce metrics and wellbeing could have been strengthened during the early stages of the pandemic and the response to COVID-19 has slowed progress on implementing new risk management arrangements .

34 I found that, in overall terms, the Health Board has maintained good governance arrangements during the pandemic. This has been assisted by a stable and resilient Board, and the rapid adjustment of governance arrangements to support agile decision making during the pandemic. There has been a commitment to conduct business in an open and transparent way and to use learning to help shape future arrangements.

35 Whilst there has been further development of elements of the Health Board's risk management system, the need to respond to the pandemic has understandably

slowed progress. The Health Board has continued to maintain systems to oversee the quality and safety of services during the pandemic and to address recommendations from audits and external reviews.

Managing financial resources

- 36 I considered the Health Board's financial performance, changes to financial controls during the pandemic and arrangements for monitoring and reporting financial performance. I found that the Health Board met its financial duties for 2019-20 and has continued to demonstrate effective financial controls but costs associated with responding to COVID-19 are having a significant impact on the financial position.
- 37 The Health Board has met its statutory requirement to break even over a rolling three-year period since it was first introduced. The Health Board also met its financial duties for 2019-20 but costs associated with responding to COVID-19 have had a significant impact on the financial position. A deficit of £58 million for 2020-21 was forecasted in Month 4, however, the Health Board has received additional Welsh Government funding to address this overspend. I found that the Health Board had established sound financial controls in respect of COVID-19, but there were some delays in recording key financial decisions.

Operational Planning

- 38 My work considered the Health Board's progress in developing and delivering quarterly operational plans to support the ongoing response to COVID-19 and to provide other essential services and functions in line with Welsh Government planning guidance. At the time of my work, the focus was on essential services with the aim of restoring normal and routine activities when it is safe and practicable to do so. My work found that operational plans were informed by robust demand and capacity modelling and there is a clear commitment to staff wellbeing and adapting to the new ways of working with developing arrangements for reporting on progress.
- 39 Operational plans were developed quickly with the Board, and informed by robust demand and capacity modelling. Plans demonstrate a commitment to staff wellbeing and adapting to new ways of work. The Board was updated on key achievements during quarter 1 and is continuing to develop processes for monitoring implementation, outcomes and impact. However, at the height of the pandemic, information provided to the Board on workforce metrics and staff safety was limited as noted earlier.

Effectiveness of counter-fraud arrangements

- 40 In June 2019, I published an [overview for the Public Accounts Committee](#) describing counter-fraud arrangements in the Welsh public sector. My team then undertook a more detailed examination across a range of Welsh public sector bodies to examine how effective counter-fraud arrangements are in practice and to make recommendations for improvement. In July 2020 I published [Raising Our Game – Tackling Fraud in Wales](#) setting out a summary of my findings and seven 'key themes' that all public bodies need to focus on in raising their game to tackle fraud more effectively.
- 41 Whilst this work was not included in the Health Board's audit plan, I also published an additional report setting out the Health Board's specific arrangements for preventing and detecting fraud. I found that the Health Board demonstrates a commitment to counter-fraud, has suitable arrangements to support the prevention and detection of fraud and is able to respond appropriately where fraud occurs.

Follow-up of Operating Theatres

- 42 My work considered the progress that the Health Board had in addressing the recommendations made in our 2014-15 follow-up of Operating Theatres. The follow-up work also included a review of recommendations previously made to Abertawe Bro Morgannwg University Health Board in respect of services to Bridgend, given the transfer of healthcare services for the people to Bridgend to the Health Board on 1 April 2019. I found that the Health Board has made reasonable progress in addressing the issues highlighted in the previous review, but further improvements could be made in respect of the use of theatre efficiency data and standardising pre-operative processes across the Health Board.
- 43 I found that since my previous work there had been significant improvements in the use of pre-list and post-list briefings and theatre session and list planning had improved following the appointment of scheduling managers.
- 44 However, my work highlighted the need for further action to address the inconsistent models of pre-operative assessment across the hospital sites. In addition, although operating theatre performance information is available there was a lack of focus and scrutiny on theatre efficiency, productivity and utilisation across the Health Board.

Appendix 1

Reports issued since my last annual audit report

Exhibit 4: reports issued since my last annual audit report

The following table lists the reports issued to the Health Board in 2020.

Report	Month
Financial audit reports	
Audit of Financial Statements Report	June 2020
Opinion on the Financial Statements	July 2020
Audit of Accounts Report Addendum	September 2020
Performance audit reports	
Follow-up of Operating Theatres	December 2020
Structured Assessment 2020	October 2020
Effectiveness of counter-fraud arrangements	August 2020
Other	
2020 Audit Plan	February 2020

Exhibit 5: performance audit work still underway

There are 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 month
Orthopaedics	December 2020
Review of Welsh Health Specialised Services Committee	December 2020
Test, Track and Protect	December 2020
Unscheduled care	Phase 1 – February 2021 Further work to be included as part of 2021 plan
Joint Review Follow-up of Quality Governance Arrangements	February 2021
Medical Agency Staff	March 2021

Appendix 2

Audit fee

The 2020 Audit Plan set out the proposed audit fee of £402,681(excluding VAT). I expect the actual fee to be higher than my estimate. This is mainly because of the:

- extended audit work that I undertook in respect of the Health Board's old accruals; and
- due to the transfer of the Bridgend County Borough on 1 April 2019, the requirement to undertake a 'full audit', as opposed to a 'limited audit', of the charitable funds' 2019-20 financial statements.

I expect to be able to confirm my actual fee in January 2021, which I will report to the Audit Committee in my 2021 Audit Plan.

Appendix 3

Financial audit risks

Exhibit 6: financial audit risks

My 2020 Audit Plan set out the financial audit risks for the audit of the Health Board's 2019-20 financial statements. The table below lists these risks and sets out how they were addressed as part of the audit.

Audit risk	Proposed audit response	Work done and outcome
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p> <p>The financial pressures on the Health Board increase the risk that management judgements and estimates could be biased to achieve its statutory financial duties.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business. 	<p>I reviewed a number of the accounting estimates and a sample of transactions that included journal entries. My audit findings were materially satisfactory, although as set out in this report I reported to the Audit Committee in respect of the Health Board's high level of old accruals. I undertook extended audit work in respect of 2019-20. I have also recently commenced extended audit testing in respect of 2020-21.</p>
<p>On 1 April 2019 the Health Board took responsibility for healthcare services for the people of Bridgend County Borough. As part of the handover, significant assets and liabilities were transferred to the Health Board. After the transfer, as an interim measure the new Swansea Bay</p>	<p>My audit teams will test the transferred balances to establish whether both Health Boards have formally agreed and 'signed off' their transfer.</p> <p>My audit team will also test whether the balances are correctly recorded in the Health Board's accounting records.</p>	<p>I tested the accounting for transfer and concluded that it was materially true and fair.</p>

<p>University Health Board (SBUHB) has administered, on behalf of the Health Board, the 2019-20 transactions associated with the transferred balances. There is a risk that the recorded assets and liabilities that were transferred at 1 April 2019, and the associated transactions handled by SBUHB during 2019-20, are inaccurate.</p>		
<p>Under the NHS Finance (Wales) Act 2014, health boards ceased to have annual resource limits with effect from 1 April 2014. Health boards instead moved to a rolling three-year resource limit for both revenue and capital, with the first three-year period therefore running to 31 March 2017.</p> <p>The Health Board currently forecasts that it will operate within its revenue and capital resource limits for the three years to 31 March 2020; there is a risk that it will not do so, particularly for the revenue limit.</p> <p>The Health Board has achieved very small surpluses in each of the three years to 31</p>	<p>My audit team will continue to monitor the Health Board's financial position for 2019-20 and the cumulative three-year position to 31 March 2020.</p> <p>This review will also consider the impact of any relevant uncorrected misstatements over those three years.</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 2019-20 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>As set out in this report, my audit confirmed that the Health Board met its three-year resource allocations for both revenue and capital.</p>

<p>March 2019. Therefore, there is a risk that the Health Board may operate a deficit against one or both of its resource limits for the three years to 31 March 2020.</p> <p>With regard to this risk, my audit team have noted that the Health Board's financial position for 2019-20 may be under an increased strain due to its new responsibility (since 1 April 2019) for healthcare services for the people of Bridgend County Borough.</p>		
<p>I audit some of the disclosures in the Remuneration Report, such as the remuneration of senior officers and independent members, to a far lower level of materiality due to their sensitivity.</p> <p>Also, during 2019-20 there have been numerous changes to the Health Board's Executive Directors and, as part of the changes, there was a settlement payment to the former Chief Executive.</p> <p>There is a risk of material misstatement due to the number of executive changes during the year and the fact that relatively small</p>	<p>My audit team will examine the relevant remuneration report disclosures to establish whether they are materially accurate and appropriately disclosed. As part of this work my audit team will verify whether the Health Board has accurately reflected all known changes to senior positions within the disclosures; and whether the Health Board obtained the appropriate authorisation for the settlement payment.</p>	<p>I substantively tested the Remuneration Report as intended. My audit results were satisfactory.</p>

<p>misstatements could be material to my audit. There is also the risk of a material irregularity if the former Chief Executive's settlement payment was not approved by the appropriate authority.</p>		
<p>On 18 December 2019 the First Minister issued a formal Ministerial Direction to the Welsh Government's Permanent Secretary requiring her to implement a 'scheme pays' initiative in respect of NHS Wales's pension tax arrangements for clinical staff.</p>	<p>We are considering the accounting treatment and audit implications of the direction (the first in Wales since devolution in 1999) in conjunction with the National Audit Office who are currently addressing the same issue in respect of NHS England.</p>	<p>I tested the accounting for and regularity of this Direction. My audit results were satisfactory, although as set out in this report I included an 'emphasis of matter' narrative in my audit certificate.</p>
<p>For 2019-20 there is an increase of 6.3% (to 20.3%) in an employer's pension contributions, which represent a significant additional cost to the Health Board. We understand that the Welsh Government will bear the 2019-20 cost of this increase.</p>	<p>My audit team will test these additional costs to confirm whether the Health Board has disclosed and accounted for them correctly.</p>	<p>I substantively tested this matter, with a satisfactory audit conclusion.</p>
<p>The Introduction in 2020-21 of 'International Financial Reporting Standard 16 Leases' may pose implementation risks if the Health Board has not made good</p>	<p>My team will undertake some early work to review preparedness for the introduction of IFRS 16 Leases.</p>	<p>The introduction of this accounting standard was subsequently postponed for public bodies to 2021-22, and I therefore postponed my review.</p>

progress to date with
its preparatory work.



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