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Auditor General for Wales

Annual Audit Report 2018 – **Betsi Cadwaladr University Health Board**

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This report was prepared for the Auditor General by Mike Usher, Dave Thomas, Amanda Hughes and Andrew Doughton.

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I have issued an unqualified opinion on the accuracy and proper preparation of the 2017-18 financial statements of the Health Board, although in doing so, I have brought some issues to the attention of officers and the Audit Committee

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

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While the Health Board is strengthening its governance and management arrangements, it continues to struggle to develop financially sustainable medium-term plans and improve priority areas of performance

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While strategic planning arrangements are developing, these have yet to result in an approvable Integrated Medium-Term Plan and the Health Board's approach to monitoring the delivery of its existing plans has not been strong enough

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The Health Board is continuing to experience significant challenges in managing its workforce, finances and physical assets, and it needs to develop a more transformational approach to improve service performance and efficiency

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Summary report

About this report

- 1 This report summarises the findings from the audit work I have undertaken at Betsi Cadwaladr 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 Audit Committee on 14 March 2019. 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 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 'true and fair' opinion on their preparation.
- 9 However, in issuing this unqualified opinion, I brought some issues to the attention of officers and the Audit Committee. These relate to accounting for the quinquennial revaluation of fixed assets and some issues that highlighted inconsistencies in accounting treatment and concerns over the accuracy of income and expenditure accruals.
- 10 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.
- 11 Alongside my audit opinion, I placed a substantive report on the Health Board's financial statements to highlight its continued failures to achieve financial balance and to have an approved three-year plan in place.

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

- 12 My 2018 structured assessment work at the Health Board has found that:
 - While the Health Board is strengthening its governance and management arrangements, it continues to struggle to develop financially sustainable medium-term plans and improve priority areas of performance.
 - While strategic planning arrangements are developing, these have yet to result in an approvable Integrated Medium-Term Plan and the Health Board's approach to monitoring the delivery of its existing plans has not been strong enough.
 - The Health Board is continuing to experience significant challenges in managing its workforce, finances and physical assets, and it needs to develop a more transformational approach to improve service performance and efficiency.
- 13 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 is making reasonable progress in delivering its recently developed plans for primary care, but many aspects of performance remain worse than average and significant workforce and financial challenges remain.

- My emerging findings on the Integrated Care Fund are showing some challenges.
- 14 The Health Board is participating in the National Fraud Initiative and has made good use of the data matches released in 2017.
- 15 These findings above are considered further in the detailed section of this report.
- 16 During the year, I also reported on Follow-up outpatient services, Radiology services and NHS Informatic Services at an all Wales level. My engagement team presented these reports to audit committee and highlighted the national and local aspects of good practice and any areas for improvement. Any recommendations made in my national reports and relevant to the local Health Board are routinely adopted into the Health Board's recommendation tracking system.

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 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.
- 18 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.
- 19 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, although in doing so, I have brought some issues to the attention of officers and the Audit Committee

- 20 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 'true and fair' opinion on their preparation.
- 21 The draft financial statements were available to me by the submission deadline of 27 April 2018 which was a significant achievement by the Finance team especially given that key members of that team had left the Health Board during the accounts preparation window.
- 22 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.

- 23 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 31 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 uncorrected misstatements contained within the financial statements. |
| Corrected misstatements | There were a number of corrected misstatements which were set out in Appendix 4 of my report. |
| Other significant issues | <p>There were some concerns about the qualitative aspects of the Health Board's accounting practices:</p> <ul style="list-style-type: none"> • transactions reflecting the impact of the quinquennial revaluation of fixed assets had not been accounted for or disclosed correctly in Note 11.1 (Property, Plant and Equipment) to the accounts; and • there were a number of issues identified that highlighted inconsistencies in accounting treatment and concerns over the accuracy of income and expenditure accruals. |

- 24 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.
- 25 My separate audit of the charitable funds held on trust financial statements was completed with satisfactory results, and I issued an unqualified opinion on the charitable funds financial statements in January 2019. There were no issues arising from my audit work.

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

- 26 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.

- 27 Where a Health Board does not achieve financial balance, its expenditure exceeds its powers to spend and so I must qualify my regularity opinion. As the Health Board did not achieve financial balance for the three-year period ending 31 March 2018, I issued a qualified opinion on the regularity of the financial transactions within its 2017-18 accounts. The Health Board breached its revenue resource limit by spending £88.147 million over the £4,163 million that it was authorised to spend in the three-year period 2015-16 to 2017-18.
- 28 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 does not have an approved three-year Integrated Medium-Term Plan in place. The Health Board, which was placed in Special Measures in October 2015, was once again not in a position to submit a three-year plan for approval by the Minister. Instead, and as in previous years, the Health Board operated under annual planning arrangements, with the agreement of the Welsh Government.

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

- 29 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 resources including its finances, workforce, assets and procurement;
 - specific work on Primary Care services and regional partnership working; and
 - assessing the application of data-matching as part of the National Fraud Initiative (NFI).
- 30 My conclusions based on this work are set out below.

While the Health Board is strengthening its governance and management arrangements, it continues to struggle to develop financially sustainable medium-term plans and improve priority areas of performance

- 31 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 it oversee and challenge performance and monitor the achievement of organisational objectives. I found the following.
- 32 **The Health Board has good arrangements to support board and committee effectiveness, and shows recent signs of strengthened scrutiny, but needs to develop a strong focus on fewer, but key priorities.** My work found good operational governance arrangements and committee scrutiny has been good and continues to strengthen. The Board has also set out a clearer picture of the strategic direction. However, until recently, the quality of challenge at a board level has been variable. The Health Board has a range of significant challenges and risks that it is facing, but it needs focus on the key aspects which would result in greatest performance improvement. The executive team recognises this and is taking this forward with the wider Board.
- 33 **Work is still on-going to develop a board assurance framework and supporting risk management processes; this is now helpfully supported by a comprehensive underpinning legislative assurance framework.** As part of its board assurance framework development, the Health Board is logically linking its current objectives and its required assurances using a board assurance map, although this has taken some time. Supporting this, the Health Board has developed a comprehensive legislative assurance framework which will help provide assurance in key statutory areas. The Board's strategic risk management arrangements are, in general, fit to support the operation of the Board and its committees and it is continuing to refine these arrangements by clarifying risk appetite and reviewing its risk management strategy in December 2018.
- 34 **While formal internal controls are in place, there needs to be stronger accountability for the delivery of financial, performance and service change plans within divisions.** My work found that there is a well-focussed programme of work for Internal Audit, Local Counter Fraud service and the Post-Payment Verification team. I also considered the clinical audit programme and found that clinical audit planning and reporting needs to be strengthened. Standing Orders, Scheme of Reservation and Delegation and Standing Financial Instructions are current and are reviewed in line with national and local requirements. There are also improving arrangements for declarations of interests and gifts and hospitality. The Health Board is taking a proactive approach to preparing and responding to

the requirements of the General Data Protection Regulations (GDPR) and addressing recent Information Commissioners Office (ICO) recommendations.

The Health Board continues to strengthen its quality governance arrangements including better escalation of risks and issues and its wider roll-out the harms quality dashboard is helping to improve and reduce infection rates. 'Putting Things Right' processes and complaints response arrangements are slowly improving, but there is more to do to ensure timeliness of response and ensure lessons are learnt and applied across operational services and sites. In respect of the Health Board's performance management, I found that whilst the Health Board's performance framework is clear, logical and formal, it has not resulted in the required improvements in performance. I found a need to strengthen accountability and focus more on the timeliness and impact of remedial action for poor performance. I also agree with the Board's own assessment that the formats of performance reports make it hard to focus on the priorities and recognise it is working to improve this.

35 **Gaps in management capacity have limited the extent and pace of improvement, particularly in secondary care, but changes to executive roles and lines of accountability create a better spread of responsibilities across the executive team.** While there has not been significant change to the operational structure, revised lines of executive accountability provide a better spread of responsibility amongst the Executive Directors. In previous years' work, I highlighted concerns about capacity within services and the ability to secure improvements and service change. The Health Board, with financial support from the Welsh Government, is strengthening the management capacity in its Secondary Care Division, with a clinical, nursing and management triumvirate introduced to focus on emergency and urgent care access. These arrangements should help strengthen clinical engagement, which remains an ongoing challenge, and provide capacity and capability to drive service management and improvement.

36 **The Health Board has an embedded process for tracking Internal Audit and External Audit recommendations and reporting actions and progress to the Audit Committee.** The Health Board's monitoring system allows the progress against target deadlines to be reported, enabling the Audit Committee to challenge senior management where progress is not sufficient. My structured assessment review this year indicates a number of areas where the Health Board is making progress against my previous recommendations. However, there remains more to do before these actions are completed in full. Those areas outstanding and in progress include:

- strengthening financial savings and efficiency approaches;
- improving clinical audit planning and reporting;
- building change management capacity and capability;
- strengthening recruitment approaches; and
- further strengthening approaches for applying lessons learnt from incidents and complaints.

While strategic planning arrangements are developing, these have yet to result in an approvable Integrated Medium-Term Plan and the Health Board's approach to monitoring the delivery of its existing plans has not been strong enough

- 37 My work examined how the Board engages partners and sets strategic direction for the organisation. I also assessed how well the Health Board plans the delivery of its objectives, whether plans are sufficiently joined up and how progress in delivering the plans is monitored. My findings are set out below.
- 38 **The Health Board's engagement approach continues to develop and inform strategy development but there is a need for greater clarity on the shape of services.** The Health Board has continued its regular public engagement approach as part of its 2017-19 engagement strategy and focused on building public confidence, driving greater public and patient involvement. It has used this to inform its ten-year 'Living Healthier Staying Well'¹ strategy, which the Health Board approved in March 2018. The strategy identifies three main programmes of Health Improvement and Health Inequalities, Care Closer to Home and care for more serious health needs. While the strategy provides a high-level intent for the direction of travel for services, it doesn't provide the detail on the shape of services which will be needed when the Health Board develops its implementation plans.
- 39 **I found that the Health Board has strengthened its planning approach but it has not yet been able to generate an approvable IMTP; it has the ambition to do this for the 2019-22 IMTP although this will present a significant challenge for the Health Board.** Throughout 2017, the Health Board had a clear and agreed planning approach, but it didn't result in an approved IMTP in 2018. The Health Board has since been working to an annual operating plan and it also prepared a three-year plan. While there is still no agreed clinical strategy, it is positive that there are a growing number of clinical plans for individual services which are at various stages of development. It is important, however, that greater clarity is provided around the future models of care. The Health Board is now starting to prepare its 2019-22 IMTP although this is likely to present a significant challenge, particularly in relation to the financial position.
- 40 **Arrangements to monitor delivery of the annual operating plan have not ensured effective delivery of it.** As part of my structured assessment review I considered the level of scrutiny on Annual Operating Plan (AOP) delivery. I found that scrutiny arrangements are in place at a committee level, but board level oversight of AOP delivery is limited, progress reports are often lengthy, and scrutiny, support and challenge of officers did not result in improved delivery of plans. Of the 615 actions in the 2017-18 annual operating plan, only just over half were delivered and performance was broadly similar for the first Quarter of 2018-19.

¹ 'Living Healthier Staying Well' www.bcugetinvolved.wales/lhsw

The Health Board is continuing to experience significant challenges in managing its workforce, finances and physical assets, and it needs to develop a more transformational approach to improve service performance and efficiency

- 41 My Structured Assessment work examined the Health Board's arrangements for managing its workforce, its finances and other physical assets, in supporting the efficient, effective and economical use of resources. I also considered the arrangements for procuring goods and services, and the action the being taken to maximise efficiency and productivity. My findings are set out below.
- 42 **Whilst aspects of financial governance and management are improving, the Health Board is projecting a significant year end deficit and is still some way from being able to reach a position of financial balance.** The Health Board's financial position remains a significant and long-term challenge. For the year 2017-18, the Health Board reported a £38.8 million deficit against the revenue resource limit and this contributed to a growing three-year cumulative deficit of £88.1 million at the end of March 2018. For 2018-19 it is predicting an annual £35 million deficit.
- 43 Our annual accounts work has consistently identified that the Health Board has adequate budgetary financial management and control arrangements which ensure accurate recording and propriety over its income and expenditure. However, irrespective of the sufficiency of these controls the Health Board is not able to contain its net expenditure to within its allocation. Factors include growth in service demand, the high cost of out of county specialist placements and the non-delivery of some planned cost efficiencies. The finance team has continued to support budget holders and the newly developing turnaround function is adopting improving approaches to help strengthen financial savings arrangements, but this needs to focus more on achieving recurring savings, productivity and efficiency. My work also identified good operational procurement arrangements, but also potential to adopt a more strategic approach to use procurement to help deliver wellbeing of future generation objectives and to deliver better overall long-term value.
- 44 **My work found that new executive leadership and a commitment to develop a workforce strategy by the end of 2018 create an opportunity to address a number of existing and challenging workforce issues.** In particular, issues relating to medical, nursing and allied healthcare staff vacancies remains a significant concern. The Health Board has continued with its ongoing Train.Work.Live.² recruitment approach and it has also developed a new retention process to reduce the staff turnover rate. The Health Board must meet requirements of the Nurse Staffing (Wales) Act 2016 and while it has put arrangements in place, nursing staff shortfalls present ongoing challenges. The Health Board is taking a proactive approach for staff development and has good mandated training uptake and a range of leadership and management training

² Train work live www.trainworklivenorthwales.co.uk/

programmes. In addition, there are a range of staff engagement approaches in place which are showing a positive impact as demonstrated in the recent biennial NHS staff survey. The Health Board has a newly appointed Director of Workforce and OD. With the appointment has come greater clarity on the function and structure of the workforce teams and their priorities as well as an aim to develop a workforce strategy to inform the 2019-22 IMTP.

- 45 **Within a context of a large legacy estate and asset base and limited discretionary capital, day-to-day administration and maintenance of assets is managed reasonably well, but there is a need for a more strategic approach.** The Health Board has a large legacy estate and asset base, and while some of this is relatively new or recently refurbished, I found that some parts of the current estate are unlikely to support new service models, promote efficient ways of working and will be difficult to bring up to the required environmental standards. This is demonstrated by the level of high-risk estate maintenance backlog, currently estimated at £49 million. The Health Board has no over-arching asset or estate management strategy, although this is in development. In the absence of a strategy, the Health Board has used asset management and prioritisation arrangements to support both proactive and reactive approaches to operational asset management.
- 46 **The Health Board is not delivering against key access targets and service productivity and efficiency needs to be improved.** Whilst some performance metrics have improved, achievement of waiting time targets remain a significant challenge. The Health Board is failing to deliver against its four-hour emergency department target having recorded a significant deterioration over the summer. Follow-up outpatients is a growing concern for the Health Board. My work this year has also considered the Health Board's efficiency and productivity arrangements. This indicated that the Health Board actively engages in benchmarking exercises and clubs to identify areas where there are inefficiencies, but it needs to become better at securing improvements in efficiency and productivity.
- 47 **There is a good strategic approach in the informatics service, but this will require focussed investment and there also needs to be stronger oversight on the effect of national system risks on the Health Board.** The Health Board has an agreed five-year strategic outline programme for informatics which is currently being redrafted and reprioritised in line with overall Health Board priorities and budget availability. Overall informatics resources were increased in 2017-18 and the new server rooms at the Wrexham Maelor and Glan Clwyd sites are a positive investment. However, there remain several risks relating to medical records storage, and delays relating to the national roll-out of systems.

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 is making reasonable progress in delivering its recently developed plans for primary care, but many aspects of performance remain worse than average and significant workforce and financial challenges remain

48 I found that the Health Board has a planning framework for primary care but not a detailed delivery plan and its capacity to support cluster working is stretched and still at an early stage of development. It is developing its Care Closer to Home programme that is aligned to the national plan and the Health Board can point to some specific examples of shifting resources towards primary care, but several factors are hampering large-scale change. It is well recognised that workforce challenges pose a significant threat to the sustainability of GP practices and the Health Board is being stretched by needing to directly manage several practices. The Health Board is in the early stages of implementing multi-professional primary care teams as part of its plans to develop primary care and in response to challenges caused by a shortfall in GPs and growing list sizes. However, there are barriers to further progress including a shortage of non-medical professionals. The Health Board has recognised the need to strengthen primary care leadership and has recently has recruited a Director of Primary and Community Care.

My emerging findings on the Integrated Care Fund are showing that whilst the Fund is having some positive impacts, there are also a number of 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 already presented local findings to Regional Partnership Boards. Key messages for the North Wales Regional Partnership Board are as follows:

- The Integrated Care Fund (the fund) has had a positive impact in bringing organisations together across North Wales, although it is unclear whether partnership working would continue if the fund ceased to exist, and a number of members identified a preference to work at sub-regional level.
- 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 largely delegated to sub-groups of the regional partnership board, but the level of understanding within partner organisations of the work of the North Wales 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 North Wales region is attempting to demonstrate outcomes more clearly, but this presents an ongoing challenge.

The Health Board has made effective use of the National Fraud Initiative to detect fraud and overpayments

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 In January 2017, the Health Board received 896 high-risk data-matches from the 2016 data matching exercise. The Health Board has made good progress in reviewing them and while no frauds had been identified, the review of the matches helped to provide assurance that its counter-fraud arrangements were working effectively. In October 2018, participating bodies submitted data for the next data matching exercise. 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 |
|--|---------------|
| Financial audit reports | |
| Audit of Financial Statements Report | May 2018 |
| Opinion on the Financial Statements | June 2018 |
| Audit of the Charity Financial Statements Report | December 2018 |
| Opinion on the Charity Financial Statements | January 2018 |
| Performance audit reports | |
| Structured Assessment 2018 | December 2018 |
| Primary Care | November 2018 |
| Other reports | |
| 2018 Audit Plan | April 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 follow-up | March 2019 |
| Orthopaedic Services follow-up | October 2019 |
| Operating Theatres follow-up | May 2019 |
| Review of legacy IT systems and infrastructure | June 2019 |

Appendix 2

Audit fee

The 2018 Audit Plan set out the proposed audit fee of £457,953 (excluding VAT). My latest estimate of the actual fee, on the basis that some work remains in progress, is consistent with the fee set out in the outline. I will keep this under review and inform the Health Board if this changes.

Appendix 3

Significant financial audit risks

Exhibit 4: 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 |
|---|--|---|
| The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33]. | My audit team will: <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. | I completed focussed audit testing as planned on the relevant areas of the financial statements. No evidence found of biased judgements or estimates. |
| There is an inherent risk of material misstatement due to fraud in revenue recognition and as such this is treated as a significant risk [ISA 240.26-27]. | My audit team will consider the completeness of miscellaneous income. | I completed audit work as planned and no evidence was found of material misstatement due to fraud in revenue recognition. |
| It is highly probable that the Health Board will fail to meet its statutory financial duties. The month 10 position showed a year-to-date deficit of £34.735 million and forecast a year-end deficit of £36 million. I am likely to place a substantive report on the financial statements, explaining the failure and the circumstances under which it arose. The current financial pressures on the Health | My audit team will focus its testing on areas of the financial statements which could contain reporting bias. | I reviewed the Health Board's financial management arrangements, significant financial standing issues and areas of the financial statements which could contain financial balance. The Health Board reported an overspend against resource allocation of £38.8 million and a cumulative overspend over the three-year period 2015-15 to 2017-18 of £88.1 million. As a result, the Health Board failed to meet its first statutory financial duty. |

| Significant audit risk | Proposed audit response | Work done and outcome |
|---|--|--|
| <p>Board increase the risk that management judgements and estimates could be biased in an effort to achieve any financial duties set.</p> | | |
| <p>There is a significant risk that the Health Board will face severe pressures on its cash position at the year-end. A shortfall of cash is likely to increase creditor payment times and impact adversely on Public Sector Payment Policy (PSPP) performance.</p> | <p>My audit team will audit the PSPP performance bearing in mind the cash pressures on the Health Board.</p> | <p>I completed audit testing as planned and concluded that in all material respects, its performance was correctly stated.</p> |
| <p>I have identified a number of disclosures as being material by nature. These include the disclosure of Related Parties and the Remuneration note.</p> | <p>My audit team will design detailed testing to obtain the required assurance that disclosures identified as material by nature are complete, accurate and in line with the requirements of the Manual for Accounts issued by the Welsh Government.</p> | <p>I completed focussed audit testing as planned on the disclosures deemed material by nature. I concluded that the disclosures were complete, accurate and in line with the requirements of the Manual for Accounts issued by the Welsh Government.</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

Website: 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

Gwefan: www.archwilio.cymru