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Annual Audit Report 2016 – **Cardiff and Vale University Local Health Board**

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The team who helped me prepare this report comprised Anne Beegan, Alison Butler, John Herniman and Dave Thomas.

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Summary report

Summary

- 1 This report summarises my findings from the audit work I have undertaken at Cardiff and Vale University Local Health Board (the Health Board) during 2016.
- 2 The work I have done at the Health Board allows me to discharge my responsibilities under the Public Audit (Wales) Act 2004 (the 2004 Act) in respect of the audit of accounts and the Health Board's arrangements to secure efficiency, effectiveness and economy in its use of resources.
- 3 My audit work has focused on strategic priorities, as well as the significant financial and operational risks facing the Health Board, and which are relevant to my audit responsibilities. More detail on the specific aspects of my audit can be found in the separate reports I have issued during the year. These reports are discussed and their factual accuracy agreed with officers and presented to the relevant Committee. The reports I have issued are shown in [Appendix 1](#).
- 4 This report has been agreed for factual accuracy with the Executive team. It will be presented to the Board on 30 March 2017. As part of the Health Board's routine procedures, this report will be made publically available as part of its Board papers. Following Board consideration, the report will also be made available to the public on the [Wales Audit Office website](#).
- 5 The key messages from my audit work are summarised under the following headings.

Section 1: audit of accounts

- 6 I have issued an unqualified opinion on the 2015-16 financial statements of the Health Board, although in doing so I have brought several issues to the attention of officers and the Audit Committee. These relate to improving accounting practices and financial reporting and the quality of the draft Annual Governance Statement. I have also raised concerns about the governance and decision making arrangements in respect of a contract variation, the award of a consultancy contract and a payment to a member of staff.
- 7 In addition, I placed a substantive report on the Health Board's financial statements alongside my audit opinion. My report explains the two financial duties introduced on 1 April 2014 by the NHS Finance (Wales) Act 2014, the Health Board's performance against them, and the implications for 2016-17.
- 8 The Health Board met its resource allocation at the end of 2015-16. I set out more detail about the financial position and financial management arrangements in Section 2 of this report.

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

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

The Health Board continues to monitor and report budgets and savings plans, but the scale of the financial pressures and the planned deficit in the current year means that the financial position is not sustainable and it is unlikely to achieve its statutory financial duties for 2016-17

10 Key findings from my review of the Health Board's financial management arrangements are as follows:

- the 2016-17 plan required various iterations in consultation with Welsh Government, despite this some cost reduction plans were unsupported and longer-term plans do not demonstrate a sustainable position;
- having met the annual resource allocation for 2015-16, the Health Board's financial performance in the current year is significantly behind plan, cost reduction plans have not been met and the Health Board is reporting that it will not achieve financial balance at the end of 2016-17;
- there is a framework in place to ensure appropriate financial control and stewardship, but there are some areas of non-compliance which require management action; and
- financial reporting arrangements provide reasonably robust information for board decision making and support corrective action if required.

The Board has articulated its assurance requirements and is largely effective but in-year issues have posed some governance risks, scrutiny of the delivery of the plan needs strengthening and limited progress has been made in addressing issues identified in last year's structured assessment

11 Key findings from my review of the Health Board's governance and assurance arrangements are as follows:

- the Health Board's arrangements have failed to achieve an approved plan and scrutiny of delivery against plan by the Board and its committees is fragmented, and although there is an ambitious change management programme in place, capacity to implement the change needed is limited;

- the board assurance framework continues to evolve and the Board and its committees are generally effective, however a number of issues identified during the year have posed some significant risks to the maintenance of sound governance arrangements; and
- the Health Board has been slow to address the issues identified in last year's structured assessment and its arrangements for tracking progress against recommendations from our other audit work need to be improved.

While my performance audit has identified examples of good practice and positive developments, there are a number of improvement opportunities particularly in relation to addressing my previous recommendations

- 12 Key findings from my performance audit reviews are as follows:
- partners are working well together to manage delayed transfers of care, whilst realising their plans for a whole systems model;
 - the Health Board is taking positive steps to improve estate management, but would benefit from introducing a strategic plan to direct activities;
 - the Health Board has made reasonable progress with consultant job planning, but few of our previous national and local recommendations have been implemented fully; and
 - the Health Board is not effectively monitoring all of my previous recommendations, however, where updates are provided, the Health Board has made some progress in addressing my recommendations on operating theatres but many remain outstanding.
- 13 We gratefully acknowledge the assistance and co-operation of the Health Board's staff and members during the audit.

Detailed report

About this report

- 14 This Annual Audit Report 2016 to the Board members of the Health Board sets out the key findings from the audit work that I have undertaken between January 2016 and December 2016.
- 15 My work at the Health Board is undertaken in response to the requirements set out in the Public Audit (Wales) 2004 Act. 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.
- 16 In relation to (c), I have drawn assurances or otherwise from the following sources of evidence:
 - the results of audit work on the Health Board's financial statements;
 - work undertaken as part of my latest structured assessment of the Health Board, which examined the arrangements for financial management, governance and assurance;
 - performance audit examinations undertaken at the Health Board;
 - the results of the work of other external review bodies, where they are relevant to my responsibilities; and
 - other work, such as certification of claims and returns.
- 17 I have issued a number of reports to the Health Board this year. The messages contained in this annual audit report represent a summary of the issues presented in these more detailed reports, a list of which is included in [Appendix 1](#).
- 18 The findings from my work are considered under the following headings:
 - Section 1: audit of accounts; and
 - Section 2: arrangements for securing economy, efficiency and effectiveness in the use of resources.
- 19 [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 2016 Audit Plan.
- 20 Finally, [Appendix 3](#) sets out the main audit risks and issues highlighted in my 2016 Audit Plan and how they were addressed through the audit.

Section 1: audit of accounts

- 21 This section of the report summarises the findings from my audit of the Health Board's financial statements for 2015-16. These statements are the means by which the organisation demonstrates its financial performance and sets out its net operating costs, recognised gains and losses, and cash flows. Preparation of an organisation's financial statements is an essential element in demonstrating appropriate stewardship of public money.
- 22 In examining the Health Board's financial statements, I am required to give an opinion on:
- whether they give a true and fair view of the financial position of the Health Board and of its income and expenditure for the period in question;
 - whether they are free from material misstatement – whether caused by fraud or by error;
 - whether they are prepared in accordance with statutory and other requirements, and comply with all relevant requirements for accounting presentation and disclosure;
 - whether that part of the remuneration report to be audited is properly prepared; and
 - the regularity of the expenditure and income.
- 23 In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).

I issued an unqualified opinion on the 2015-16 financial statements of the Health Board, although in doing so, I brought several issues to the attention of officers and the Audit Committee and placed a substantive report alongside my audit opinion

The Health Board's accounts were properly prepared and materially accurate, but there is scope for improvement in some areas

- 24 The draft financial statements were submitted on a timely basis to meet 29 April 2016 deadline. There was also clear evidence that the financial statements had been subject to quality assurance checks, including a comprehensive analytical review and a report summarising the major judgements and estimates.
- 25 I am required by ISA 260 to report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My report was presented to the Audit Committee and Board on 2 June 2016 and the key issues reported are summarised in **Exhibit 1**.

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

Issue	Auditors' comments
Contract variation relating to future accounting periods	The Board approved a contract variation of £0.8 million on 31 March 2016. This contract variation was included within 2015-16 expenditure as premises costs, but relates to future accounting periods and therefore should not have been included in the 2015-16 accounting statements.
Asset under construction brought into use during the year	During the year the 'The Plaza' at University Hospital Llandough came into use, but was not transferred from 'Assets Under Construction' to 'Buildings'. As such, no valuation was undertaken, no impairment/revaluation was recognised and no depreciation on the asset was charged. Without a valuation, the Health Board was unable to accurately quantify the impact. I am satisfied that the impact was not material, since the chartered surveyors overseeing the project have advised that the total cost of the work on the Plaza was only £1.9 million.
Accruals for goods and services received but not yet invoiced	Purchase order accruals are automatically generated from the Health Board's Oracle and Hospital Pharmacy systems to ensure that the cost of goods and services received but not yet invoiced by suppliers is reflected in the correct accounting period. It is estimated that around £1.7 million of these automated purchase order accruals relate to goods and services received prior to 31 March 2015, with around £0.7 million relating to periods prior to 31 March 2014. These items have not been matched to invoices received. Given the length of time they have remained in the system, it is very likely that the accrual is overstated. The Health Board should review the processes in place to ensure purchase order accruals are valid.
Public sector payment performance – Measure of Compliance	<p>The Health Board reported that it did not meet the Welsh Government Public Sector Performance Policy (PSPP) target for paying 95% of non-NHS creditors within 30 days of delivery. The reported performance could be overstated because of the following issues:</p> <ul style="list-style-type: none"> • Not all manual invoices are date stamped by departments on receipt, so it is not possible to confirm whether the Health Board 'starts the 30 day clock' when the invoice is actually received by the Health Board rather than when it reaches the Accounts Payable Department within NHS Wales Shared Services Partnership (NWSSP). • Where invoices are in dispute, guidance requires that the '30 day clock' is stopped when an invoice goes into dispute and is restarted again when the dispute is resolved. However, all invoices which have been in dispute are considered as paid within 30 days.

Issue	Auditors' comments
Provision for continuing healthcare costs	<p>The Health Board has received over 240 'phase 3' continuing healthcare claims for which the assessment process remains incomplete. Powys Teaching Health Board is reviewing these cases on behalf of all NHS Wales organisations, however progress in reviewing individual cases is slow. Noting that the claims may result in significant additional costs to each of the NHS Wales organisations, it is of concern that the cases are not yet reviewed sufficiently to allow an assessment of possible costs to be provided for.</p> <p>The Health Board should work with Powys Teaching Health Board to increase the pace at which the cases are reviewed so that potential liabilities may be quantified.</p>
Reports generated from the Oracle ledger	<p>The automated Accounts Payable system feeder is producing spurious entries in the ledger, which greatly inflate both debit and credit postings. Although these 'net off' to the correct amount, this issue needs to be addressed.</p>
Annual Governance Statement	<p>I raised some concerns about the quality of the draft Annual Governance Statement submitted to Welsh Government and suggested a number of amendments which were incorporated into the final version. Looking ahead to next year, there will be a requirement to produce the accountability and performance reports earlier. The Health Board will need to ensure the production of these documents is planned and co-ordinated to meet this deadline and allow sufficient time for quality assurance and audit committee review.</p>

- 26 As part of my financial audit, I also undertook the following reviews:
- Whole of Government Accounts return – I concluded that the information was consistent with the financial position of the Health Board at 31 March 2016.
 - Summary Financial Statements and Annual Report – although no separate audit opinion is issued, I concluded that the summary financial statements and the Annual Report were consistent with the full statements. There is however scope to improve the quality and contents of the draft Annual Report that is presented for audit consideration.
- 27 My separate audit of the Health Board's Charity financial statements is currently underway. The Trustee will consider my report on the financial statements in January 2017.

My work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts, although there are some weaknesses which require management action

- 28 I reviewed the Health Board's 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, however, consider them for the purposes of expressing an opinion on their operating effectiveness of internal control. My review did not identify any significant deficiencies in the Health Board's internal controls, although there are some weaknesses which require management action.
- 29 I identified a number of weaknesses in the governance and decision-making arrangements relating to a contract variation and a payment to a member of staff. I have reported on these matters separately, with concerns relating to the Board and Remuneration and Terms of Service Committee decision-making processes and the accuracy, completeness and relevance of the information provided to support their decisions.
- 30 I am currently reviewing the award of a consultancy contract and I will report my findings over the coming months.
- 31 Last year I reported weaknesses in the Health Board's authorisation controls as two items of capital expenditure had not been approved by the Board. This year our sample testing has identified one further example of non-compliance with the Scheme of Delegation and Earned Autonomy Framework:
- The Health Board entered a contract with an estimated value of between £0.5 million and £1 million and notified the Welsh Government accordingly. However, there were delays in finalising an all-Wales contract, actual costs incurred on the extant contract exceeded £1 million and consequently the Health Board should have requested Welsh Government approval. The Health Board should review its arrangements for monitoring actual expenditure against the contract, and ensure that Ministerial approval is obtained where appropriate.
- 32 I have issued a separate report to the Health Board on other less significant issues arising. I will consider the progress made by the Health Board in implementing the recommendations as part of next year's audit.

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

- 33 I have a statutory requirement to satisfy myself that NHS bodies have proper arrangements in place to secure efficiency, effectiveness and economy in the use of their resources. I have undertaken a range of performance audit work at the Health Board over the last 12 months to help me discharge that responsibility. This work has involved:
- reviewing the Health Board's financial management arrangements, including the progress being made in delivering cost saving plans and their contribution to achieving financial balance;

- assessing the effectiveness of the Health Board's governance and assurance arrangements through my structured assessment work, including review of the progress made in addressing structured assessment recommendations made last year;
- specific local audit reviews, which include a review of partnership arrangements for managing delayed transfers of care and a review of the management of estates; and
- assessing the progress the Health Board has made in addressing the issues identified by previous audit work on the consultant contract and reviewing the Health Board's arrangements for tracking progress against external audit recommendations.

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

The Health Board continues to monitor and report budgets and savings plans, but the scale of the financial pressures and the planned deficit in the current year means that the financial position is not sustainable and it is unlikely to achieve its statutory financial duties for 2016-17

35 My structured assessment work in 2016 has considered the action that the Health Board is taking to achieve financial balance and create longer-term financial sustainability. I have assessed the financial position of the organisation, the approach to financial planning, financial controls and stewardship, and the arrangements for financial monitoring and reporting. My key findings are summarised in the following paragraphs.

The 2016-17 plan required various iterations in consultation with Welsh Government, despite this some cost reduction plans were unsupported and longer-term plans do not demonstrate a sustainable position

36 The financial planning process for 2016-17 has been protracted as elements of the plan were clarified in consultation with Welsh Government. The three-year plan for 2016-17 to 2018-19 does not bring the Health Board into financial balance.

Having met the annual resource allocation for 2015-16 following the receipt of additional funding, the Health Board's performance in the current year is significantly behind plan, cost reduction plans have not been met and the Health Board is reporting that it will not achieve financial balance at the end of 2016-17

37 The Health Board has met its annual resource allocation for 2015-16 following the receipt of additional funding from the Welsh Government.

38 The Health Board's financial performance in the current year is significantly behind plan and cost reduction plans have not been met. With a £30.9 million forecast deficit for 2016-17, the Health Board anticipates an aggregate deficit of £52.3 million for the three-year period ending 31 March 2017. This means that the Health Board is likely to fail its statutory duty to balance its books over a three-year rolling period.

There is a framework in place to ensure appropriate financial control and stewardship, but there are some areas of non-compliance which require management action

39 Our report on the 2015-16 financial statements did not identify any material weaknesses in the Health Board's internal controls, although some areas for improvement have been identified relating to long-standing accruals, procedures for monitoring and approving contracts and the governance arrangements in respect of a contract variation, the award of a consultancy contract and a payment to a member of staff.

Financial reporting arrangements provide reasonably robust information for Board decision making and support corrective action if required

40 The finance reports to the Board provide valuable insight, but the Board meets bi-monthly which means that the latest available monthly finance report is sometimes out of date. The recent establishment of a dedicated Finance Committee should help address this issue as it will meet more frequently.

The Board has articulated its assurance requirements and is largely effective but in-year issues have posed some governance risks, scrutiny of the delivery of the plan needs strengthening and limited progress has been made in addressing issues identified in last year's structured assessment

41 My governance and assurance work has assessed the Health Board's strategic planning and reporting arrangements and the approach for developing and reviewing a board assurance framework. I have also considered the overall effectiveness of the Board and its governance structures and the progress made in addressing previous structured assessment recommendations and improvement issues.

The Health Board's arrangements have failed to achieve an approved plan and scrutiny of delivery against plan by the Board and its committees is fragmented, and although there is an ambitious change management programme in place, capacity to implement the change needed is limited

- 42 In the absence of an approved IMTP, the Health Board has been required to develop an annual operating plan. Whilst there is a clear strategic planning model for developing the plan which supports local ownership, there is a need to ensure that the plan's longer term outcomes are transparent. More generally, the Health Board could benefit from evaluating whether it has sufficient planning capacity.
- 43 Arrangements to monitor and report progress on the delivery of the plan at an operational level are effective but scrutiny on progress at Board and sub-committee level is fragmented. Delivery of the plan is supported by an ambitious change management programme but capacity to drive through these changes is an issue, driving a reliance on external support, with a risk that the pace of change will not be sufficient nor sustainable

The board assurance framework continues to evolve and the Board and its committees are generally effective however a number of issues identified during the year have posed some significant risks to the maintenance of sound governance arrangements

- 44 In reaching this conclusion I found:
- The Health Board continues to develop and evolve its assurance arrangements which generally compares well against other NHS bodies, although there are opportunities to define its objectives in a way which can be easily measured; and
 - the Board and its committees are generally operating effectively, however, long-term vacancies and the capacity of the corporate governance team have posed significant risks, delaying proposed changes to further strengthen the committee structure, and a number of in-year governance issues have raised concerns with the decision-making process.

The Health Board has been slow to address the issues identified in last year's structured assessment and its arrangements for tracking progress against recommendations from our other audit work need to be improved

- 45 The Health Board has been slow to address the issues identified in last year's structured assessment with little or no progress made against three of the five recommendations. Progress to address a number of improvement opportunities has been more positive although remains mixed.

46 In addition to reviewing the actions taken to address our 2015 structured assessment recommendations, I also considered the effectiveness of the Health Board's wider arrangements to respond to my audit recommendations. I found that the current tracking arrangements need to be improved. A tracking report is produced for the Audit Committee which summarises the high level progress of the action plans relating to my specific pieces of work, and the committees which are responsible for overseeing that recommendations are addressed. The tracking report however does not provide a summary of how many recommendations are addressed, how many are outstanding and excludes my financial audit work. The tracking report is also reliant on information being received from the relevant committees and action plans being closely monitored by those committees which is not always the case.

While my performance audit has identified examples of good practice and positive developments, there are a number of improvement opportunities particularly in relation to addressing my previous recommendations

Partners are working well together to manage delayed transfers of care, whilst realising their plans for a whole systems model

A delayed transfer of care is when a hospital inpatient is ready to move to the next stage of care, but for one or more reasons is unable to do so. They are a complex problem often involving patients who need a care package or move to a different care setting such as a care home, and require effective partnership working by health and social care organisations.

- 47 My work has found that strategies are in place that guide short-term improvements and wider long-term transformation, and plans to integrate health and social care services are well underway, with recognition that some joint working will take time to embed. Activities demonstrate a commitment to promoting the independence of older people with good use of the Intermediate Care Fund monies, but there are no plans in place if the Fund was to stop.
- 48 There is a consensus that relationships between partners have improved over the past year and there is a strong and well integrated governance structure in place. Partners jointly own delayed transfers of care and collective action is being taken to tackle the issue. My work found that the partnership has a learning culture and a lot of energy has gone into identifying barriers to progress. Performance is widely and regularly reported across the partnership and demonstrates a steady improvement, although delayed transfers of care within the Health Board area remain the second highest in Wales. Concerns exist, however, about how delayed transfer of care performance is measured, particularly in relation to the short time allowed for partners to agree the date and the inability for the current measures to recognise the complexity of cases.

The Health Board is taking positive steps to improve estate management, but would benefit from introducing a strategic plan to direct activities

- 49 My work found that the strategic approach to estates management is improving but this is not yet captured within a specific strategic plan for estates. The new Service Board is taking positive steps to raise the profile of the team and accountability, and clarity around roles and responsibilities have been strengthened. Despite a lack of an overall estates strategy, I found that service leaders are clear about priorities for the service. Efforts are being made to collate comprehensive asset data, but progress has been delayed because of limited resources and the need to reprioritise the funds that are available. Processes for prioritising and monitoring capital works have been introduced, and these are in line with the new Service Board structure.
- 50 Performance management and staff engagement are improving but the service is under resourced relative to the size and condition of the estate. My work found that there is an imbalance between reactive repairs and planned maintenance, which represents poor value for money, and it is unclear how benchmarking and market testing are being used to plan long-term efficiencies. The new performance dashboard however is a positive development and management are taking positive steps to address low staff satisfaction, improve communication and find sustainable solutions to recruit and retain trade staff.

The Health Board has made reasonable progress with consultant job planning, but few of our previous national and local recommendations have been implemented fully

- 51 Consultant job plan coverage is good, but more focus is needed on quality and outcomes if the Health Board is to realise the potential benefits of job planning. More than 90% of consultants have a job plan, but many have not had the required annual review and few have evidence of being agreed by all parties. Consultants' awareness of job planning guidance is patchy and the approach to training needs to be more systematic. About half of job plan review meetings did not meet the Health Board's guidance because only one manager was present. Not enough staff understand the nature of appraisal and job planning and the relationship between them, and the Health Board does not have adequate assurance about the quality and effectiveness of job planning.
- 52 When done well, job planning has allowed some consultants to discuss service development, but more work is needed to ensure that all consultants get that opportunity. The Health Board is committed to obtaining best value from Supporting Professional Activities (SPA), but many job plans still do not contain relevant outcomes. Since 2010, the Health Board has halved the number of job plans with excessive workloads, but the Health Board reports that the consultant contract has had little significant effect on recruitment and retention.

The Health Board is not effectively monitoring all of my previous recommendations however where updates are provided, the Health Board has made some progress in addressing my recommendations on operating theatres but many remain outstanding

- 53 In addition to reviewing the effectiveness of the Health Board's arrangements to manage and respond to recommendations made as part of my nationally mandated and local programme of audit work as discussed in paragraph 46, I have reviewed the extent to which progress is being made against audit recommendations through the Health Board's own tracking arrangements.
- 54 A review of the tracking arrangements relating to my audit work finalised over the last two years has identified that whilst the initial action plan and management response is considered by the relevant committee at the time the report is finalised, progress updates are not always followed through. I have therefore been unable to take a view on progress being made on a number of previous recommendations, with the exception of those relating to my review of operating theatres which is being considered at the imminent People, Planning and Performance Committee meeting. The most recent management response has identified that while some good progress has been made, there are still a number of issues outstanding, and that for some particular issues, progress is slow.

Appendix 1

Reports issued since my last annual audit report

Exhibit 2: reports issued since my last annual audit report

Report	Date
Financial audit reports	
Audit of Financial Statements Report	June 2016
Opinion on the Financial Statements	June 2016
Senior Officer Remuneration	July 2016
Contract variation (letter)	December 2016
Audit of Financial Statements – Action Plan (other issues)	January 2017
Performance audit reports	
Review of Delayed Transfers of Care	October 2016
Follow-up Review of Consultant Contract	November 2016
Review of Estates	January 2017
Structured Assessment 2016	January 2017
Other reports	
2016 Audit Plan	April 2016

Exhibit 3: performance audit work still underway

Report	Estimated completion date
Review of Radiology Services	February 2017
Review of GP Out-of-Hours Services	March 2017
Review of Discharge Planning	May 2017
Management of Follow-up Outpatients (progress update)	May 2017

Appendix 2

Audit fee

The 2016 Audit Plan set out the proposed audit fee of £420,652 (excluding VAT). I estimate, on the basis that some work remains in progress, that I will need to increase the fee. This increase is due to the additional work my team have undertaken in respect of the governance issues identified in the 2015-16 financial statements work. Once all of my work set out in the 2016 Audit Plan is complete, the actual fee will be reported to the Board.

Appendix 3

Main audit risks and issues

Exhibit 4: Main audit risks and issues

Audit risks and issues	Proposed audit response	Work done and outcome
Control environment risks		
<p>The Health Board has a duty to ensure that robust accounting records and internal controls are in place to ensure the regularity and lawfulness of transactions.</p>	<p>My audit team will test accounting records and internal controls relevant to the audit to ensure accuracy, regularity and lawfulness of transactions.</p>	<p>I reviewed accounting records and assessed internal controls and did not identify any material issues to report.</p>
<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"> • 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 sample of transactions and did not identify any issues to report.</p>
<p>At all audits there is a risk of material misstatement due to fraud in revenue recognition and as such is treated as a significant risk [ISA 240.26-27], unless this presumption is specifically rebutted.</p>	<p>My audit team will consider the Health Board's income streams and assess whether there is a risk of material misstatement due to fraud related to revenue recognition. Where such risks exist, specific testing will be undertaken.</p>	<p>I considered the Health Board's income streams. No additional risks were identified.</p>

Audit risks and issues	Proposed audit response	Work done and outcome
Preparation of the accounts risks		
<p>There is a risk that the Health Board will fail to meet its annual revenue resource allocation. The month 10 position showed a year-to-date deficit of £10.8 million and forecast a year-end deficit of £11.4 million.</p> <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 allocation.</p>	<p>My audit team will focus its testing on areas of the financial statements which could contain reporting bias.</p> <p>I may choose to place a substantive report on the financial statements explaining the Board's performance against its statutory financial duties under the NHS Finance (Wales) Act 2014.</p>	<p>The Health Board met its annual revenue resource allocation following receipt of additional funding from the Welsh Government.</p> <p>I placed a substantive report on the financial statements explaining the Board's performance against its statutory duties under the NHS Finance (Wales) Act 2014.</p> <p>I reviewed a sample of estimates and did not identify any issues to report.</p>
<p>There is a risk that the Health Board will face severe pressures on its cash position at year-end. The month 10 monitoring report forecasts a cash shortfall at year-end of £10.4 million.</p> <p>A shortfall of cash is likely to increase creditor payment times and impact on Public Sector Payment Policy (PSPP) performance.</p> <p>Public Sector payment policy and disclosures remain a risk area, given concerns last year that Welsh Government guidance had not been complied with and the target was not met. We note that PSPP disclosures for 2015-16 will exclude Primary Care payments in accordance with updated Welsh Government requirements.</p>	<p>My team will audit the PSPP disclosures and consider any implications the cash pressures have on the Health Board's administrative target.</p>	<p>The Health Board reported that it did not meet this administrative target in 2015-16. I reviewed the PSPP disclosures and reported some concerns regarding compliance with Welsh Government guidance (see Exhibit 1).</p>

Audit risks and issues	Proposed audit response	Work done and outcome
Financial statements risks		
<p>The timetable for producing and certifying the annual accounts is demanding.</p> <p>A new three part Annual Report is to be produced for 2015-16 of which the accountability report section is to be produced alongside the financial statements in June. The performance report section will be produced by September.</p> <p>The Health Board will need to put in place appropriate arrangements to prepare the accountability report at the same time as the financial statements and ensure adequate working papers are provided for audit on a timely basis.</p>	<p>My audit team will work closely with Health Board staff to monitor progress, and seek to resolve any issues of timing as soon as possible so that the accounts certification timetable can be met.</p>	<p>The Health Board prepared the Accountability Report and submitted this to Welsh Government in accordance with the deadline. However, the initial submission guidance was unclear and there was no requirement for this report to be certified alongside the financial statements.</p>
<p>The annual accounts are compiled under International Financial Reporting Standards (IFRS) and NHS Manual for Accounts. The Health Board must have a full understanding of these requirements, keeping up to date with changes and ensuring that risks and issues are identified and dealt with appropriately.</p> <p>Specific risk areas include:</p> <ul style="list-style-type: none"> • estimates, particularly for the continuing health-care provision and primary care expenditure; • capital developments, with complex accounting requirements; • significant transactions with related parties; • contract approval/procurement arrangements; and • accuracy and completeness of the Remuneration Report, including exit packages and changes to Executive Members during the year. 	<p>My audit team will audit the financial statements with particular focus on these risk areas, by undertaking focused testing.</p>	<p>I assessed the Health Board's arrangements and carried out appropriate focused testing. I identified some issues to report in respect of:</p> <ul style="list-style-type: none"> • the provision for continuing healthcare costs (see Exhibit 1); • the accounting treatment of assets under construction that have been brought into use during the year (see Exhibit 1); • contract variations and contract approvals (see paragraphs 29-31); and • senior officer remuneration (see paragraph 29).

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We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.