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Annual Audit Report 2015

Aneurin Bevan University Health Board

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Status of report

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The team who assisted me in the preparation of this report comprised John Herniman, David Thomas, Andrew Doughton and Claire Worrall.

Contents

Summary report

1. This report summarises my findings from the audit work I have undertaken at Aneurin Bevan University Health Board (the Health Board) during 2015.

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 Audit Committee. The reports I have issued are shown in Appendix 1.

4. This report has been agreed for factual accuracy with the Chief Executive and the Director of Finance. It will be presented to the Board on 27 January 2016 and a copy provided to every member of the Health Board. We strongly encourage wider publication of this report by the Health Board. Following Board consideration, the report will also be made available to the public on the Wales Audit Office's own website (www.audit.wales).

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 2014-15 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 corrected misstatements and one matter relating to the oversight of the financial reporting process concerning the compilation and use of the Annual Governance Statement.

7. In addition, I placed a substantive report on the Health Board's financial statements alongside my audit opinion. My report explains the two new financial duties introduced on 1 April 2014 by the NHS Finance (Wales) Act 2014, the local health board's performance against them, and the implications for 2015-16.

8. I have also concluded that:

- the Health Board's accounts were properly prepared and materially accurate;
- the Health Board had an effective control environment to reduce the risk of material misstatements to the financial statements; and
- the Health Board's control activities that we considered as part of the audit were appropriately controlled and operating as intended.

9. The Health Board achieved financial balance at the end of 2014-15. 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

10. 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, the adequacy of its governance 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 control budgets and monitor savings plans effectively but the scale of the savings required in the next three years means that the desired financial position may be increasingly difficult to maintain

11. In 2014-15, as in previous years, the Health Board demonstrated effective in-year financial management and this, together with additional funding received during the year, ensured that the Health Board achieved financial balance in 2014-15.

12. There is a shortfall in planned savings in 2015-16 and the Health Board is relying on additional Welsh Government funding to achieve its planned deficit position, suggesting that a balanced financial position is not achievable or sustainable in the medium term.

The Health Board has set a clear vision and is promoting a quality-focused culture with evidence of ongoing improvements to its governance, risk and performance management arrangements

13. The Health Board's Integrated Medium Term Plan (IMTP) sets out its strategic objectives and has been subject to good Board consideration and challenge, with the plan gaining ministerial approval in June 2015. However, the Health Board's plan is heavily dependent on key decisions that are likely to be made in 2016 on the Clinical Futures and the Specialist Critical Care Centre business cases. A deferment or rejection of the business case may result in increasingly fragile services because there is no clear alternative plan.

14. The Health Board has benefited from continuity of organisational structure. This has helped to ensure that there is formal delegated operational accountability for all areas of the business. However, it is not clear that the organisation's structure fully enables the type of cross-divisional pathway change that will enable the delivery of the Health Board's vision and objectives.

15. The organisation has an effective Board and demonstrates that it manages present issues and risks; however, its arrangements will need to evolve to meet requirements of new Well-being of Future Generations (Wales) Act 2015 legislation.

16. The committee structure supports good governance and there is evidence of continual improvements to arrangements. There is also reasonable inter-operability between the

various committees that supports cross referral of concerns. However, the assurances provided from sub-committees and groups to committees are not yet fully effective. There also needs to be clearer approaches for tracking and monitoring action that the Health Board is taking in response to external audit recommendations.

17. The Health Board continues to iteratively develop its management information to help ensure that it supports effective scrutiny and decision making. It is also refining its approach to risk management to make it more patient-centred and develop a clearer understanding for risk appetite.

18. The Board is appropriately informed on its performance, related key risks and corrective actions, where appropriate. Given the pressure on services and a backdrop of austerity, the Health Board is maintaining a reasonable level of performance in a number of areas. However, both scheduled and unscheduled care services are under increasing pressure.

19. An appropriate framework is in place to support good information governance. Caldicott arrangements are well developed and there is scope to make further improvements.

My performance audit work has identified opportunities to secure better use of resources in a number of key areas

20. My work during the year has found:

- The Health Board has set an ambitious change agenda and strategic change programmes are starting to underpin the delivery of the IMTP. The Health Board is using its engagement approach to gather the views of stakeholders to inform on quality of services. It is also making a number of improvements to address operational workforce risks, but it needs to more clearly articulate its workforce design as part of service transformation.
- My Orthopaedic service review found that there is scope to improve the efficiency and effectiveness of orthopaedic services in order to tackle growing demand and to secure improved outcomes for patients.
- My review of Medicines Management found that despite low staffing levels and high workload, there are good relationships between pharmacy staff and ward staff together with effective aspects of corporate arrangements and some medicines management processes.
- I reviewed how the Health Board manages its follow-up outpatient appointments as part of my mandated work programme. This work found that information on the scale of delayed follow-up outpatient appointments has improved but the Health Board has more to do to identify genuine demand, assess clinical risks, improve Board scrutiny and to modernise outpatient services.
- Despite a lower level of investment in ICT, my diagnostic work indicates that the current ICT resources in the Health Board are generally supporting the delivery of healthcare, although there is scope to integrate systems and to strengthen training arrangements.

- Whilst the Health Board is taking steps to improve the district nursing service as part of wider community service provision, many of the issues I identified in my previous audit work still need to be addressed. The Health Board now intends to focus its improvements on integrated models of community and primary care.
- The Health Board has made progress in responding to my joint follow-up review of Data Quality, IT Disaster Recovery and Business Continuity and Caldicott arrangements, however more still needs to be done:
  - whilst information governance arrangements and the updated data quality policy provide the foundations to improve data quality, challenges remain to improve the accuracy of the Health Board's information;
  - the Health Board has a standard approach to disaster recovery and business continuity planning, although the testing of business continuity plans is limited and there is scope to strengthen the approach in some divisions; and
  - Caldicott arrangements are well developed but there is scope to make further improvements by agreeing the strategic approach to information governance.
- The Health Board has made good overall progress in addressing the recommendations to improve catering and nutrition services. It now needs to focus on strengthening nutritional screening and documentation processes and Board reporting, as well as ensuring that all patient areas are prepared for mealtimes and patients receive prompt help with eating.

21. We gratefully acknowledge the assistance and co-operation of the Health Board's staff and members during the audit.

Detailed report

About this report

22. This Annual Audit Report to the Board members of the Health Board sets out the key findings from the audit work that I have undertaken between December 2014 and November 2015.

23. My work at the Health Board is undertaken in response to the requirements set out in the 2004 Act[1]. 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.

24. 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 accountability, and use of resources;
- 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 the certification of returns.

25. 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.

26. The findings from my work are considered under the following headings:

- Section 1: Audit of accounts
- Section 2: Arrangements for securing economy, efficiency and effectiveness in the use of resources

27. 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 2015 Audit Plan.

28. Finally, Appendix 3 sets out the main financial audit risks highlighted in my 2015 Audit Plan and how they were addressed through the audit.

[1] Public Audit (Wales) Act 2004

Section 1: Audit of accounts

29. This section of the report summarises the findings from my audit of the Health Board's financial statements for 2014-15. These statements are the means by which the organisation demonstrates its financial performance and sets out its financial position, 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.

30. 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.

31. In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).

32. In undertaking this work, auditors have also examined the adequacy of the:

- Health Board's internal control environment; and
- control activities considered relevant to the audit.

I have issued an unqualified opinion on the 2014-15 financial statements of the Health Board, although in doing so, I have 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

33. The tight timetable for the production of accounting statements that are materially correct and well supported is a challenge for the Board and, in particular, its finance team. In line with previous years, the Board's finance team prepared a detailed closedown plan for 2014-15 identifying responsible officers and key deadlines, and included time for a review of the financial statements by management and the Audit Committee and the preparation of supporting schedules in time for audit. This systematic approach helped the process and ensured that the financial statements were ready to meet the tight clearance timetable.

34. 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 Financial Audit Engagement Lead reported these issues to the Health Board's Audit Committee and Board on 2 and 4 June 2015 respectively. 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
Accounting Practices and Financial Reporting	**Public Sector Payment Performance** As reported in note seven to the accounts, the Health Board did not meet the Welsh Government Public Sector Payment Performance (PSPP) target for paying 95 per cent of non-NHS creditors within 30 days. The Welsh Government's Manual for Accounts requires Health Boards to include payments made to primary care contractors in their compliance figures. The Exeter system used by the Health Board to process primary care payments does not provide any statistical information on the number of days it has taken to make payments. The Health Board therefore assumes that all payments are made within 30 days per the contractual obligations. The PSPP data for this target for both NHS and non-NHS payments in note 7.1 may be misstated. Also, the PSPP continues to be misstated due to the way the Health Board reports invoices in dispute. Invoices which have been in dispute are considered as paid within 30 days and as such produce a favourable performance. There is no information to confirm that these invoices are paid within 30 days once the dispute has been resolved.
Other matters significant to the oversight of the financial reporting process	In previous years we have reported that the Health Board should review the Annual Governance Statement (AGS) throughout the year as a means of recording its review and assessment of governance arrangements. In 2014-15 the Health Board has continued to review and develop its 'Board Assurance Framework'. The AGS should be considered regularly throughout the year as part of the assessment of the effectiveness of the Board Assurance Framework.

35. The NHS Finance (Wales) Act 2014 requires the Health Board to meet two new statutory financial duties. I issued a narrative report alongside my audit certificate to explain the new duties, the performance of the Health Board against them, and the implications for 2015-16.

- The first financial duty gives additional resource flexibility to Health Boards by allowing them to balance their income with their expenditure over a three-year rolling period, replacing the duty to balance their books over a one-year period.

The first three-year period under this duty is 2014-15 to 2016-17, so health boards' performance against this duty will not be measured until 2016-17. From 2014-15 onwards, I will be collating uncorrected misstatements from the audits of years one, two and three and considering their cumulative impact on the Health Board's performance against the duty when it is measured at year three. A small number of insignificant errors were identified in 2014-15.

- The second financial duty is a new duty requiring health boards to prepare, and have approved by the Welsh Ministers, a rolling three-year IMTP. The Health Board did not meet its second financial duty to have an approved three-year IMTP in place for the period 2014-15 to 2016-17. Instead the Health Board prepared an interim one-year operational and financial plan for 2014-15, as it did not believe that its draft three-year plan met fully either the Board's requirements or those set out in the NHS Finance (Wales) Act 2014. The Welsh Government confirmed in June 2014 that the Health Board's draft three-year plan did not meet statutory requirements and therefore Ministerial approval was not given. The Health Board's interim one-year operational and financial plan for 2014-15 was approved by the Board in March 2014.
- The Health Board's IMTP for 2015-2018 received Ministerial approval on 2 June 2015. The approved plan identifies a potential financial deficit of £19.7 million in 2015-16 and the Health Board is seeking cost improvement and savings opportunities to close this gap.

36. As part of my financial audit, I also undertook the following reviews:

- 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 2015 and the return was prepared in accordance with the Welsh Government's instructions.
- Remuneration Report – I concluded that the Remuneration Report had been properly prepared in accordance with the National Health Service (Wales) Act 2006 and directions made thereunder by Welsh Ministers.
- Summary Financial Statements and Annual Report – I concluded that the summary statements were consistent with the full statements and that the Annual Report was largely compliant with Welsh Government guidance. We will continue to work closely with Health Board staff to agree an achievable plan for the compilation of the Annual Report in line with expected revised Welsh Government requirements, to ensure we can develop and strengthen procedures further for 2015-16.

37. My separate audit of the Charitable Funds financial statements is nearing completion. The Trustee will consider my draft report on the audit of the financial statements in January 2016.

The Health Board had an effective control environment to reduce the risks of material misstatements to the financial statements

38. My work focuses primarily on the accuracy of the financial statements, reviewing the internal control environment to assess whether it provides assurance that the financial statements are free from material misstatement whether caused by error or fraud. The control environment includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. It includes a review of closedown processes and the computer-based infrastructure and application controls. I did not identify any material weaknesses in the Health Board's internal control environment.

The Health Board's control activities that we considered as part of the audit were appropriately controlled and operating as intended to reduce the risks of material misstatements to the financial statements

39. I did not identify any material weaknesses in the Health Board's control activities which would impact on my opinion. There were a number of detailed issues arising from my financial audit work, including the matters referred to in Exhibit 1 above, and these were reported to the Audit Committee in June 2015. More detailed financial and accounting system observations were included in a separate report on the financial statements which included agreed actions in response to my recommendations. This was reported to the Audit Committee in October 2015.

40. Internal Audit's reviews of the Health Board and NWSSP managed financial systems confirmed that a generally sound system of internal financial control is in place, with six of the nine financial audit reviews during the year providing substantial assurance and three providing reasonable assurance that the internal controls are suitably designed and applied effectively.

41. However, Internal Audit identified some weaknesses in compliance with policies and procedures in some divisions of the Health Board. They concluded that these weaknesses could put the achievement of particular system objectives at risk. Internal Audit's findings require ongoing management action and action plans have been developed to strengthen the control weaknesses identified and progress is continuing to be scrutinised by the Audit Committee.

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

42. 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 arrangements through my Structured Assessment work, including review of the progress made in identified improvement areas since last year;
- specific use of resources work on medicines management, outpatient follow-up appointments, orthopaedic services and ICT service capacity;
- assessing the progress the Health Board has made in addressing the issues identified by previous audit work on catering and patient nutrition and District Nursing; and
- a combined follow-up review of data quality, IT disaster recovery and business continuity and the Health Board's Caldicott arrangements and a review of the Health Board's arrangements for tracking external audit recommendations.

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

The Health Board continues to control budgets and monitor savings plans effectively but the scale of the savings required in the next three years means that the desired financial position may be increasingly difficult to maintain

In 2014-15, as in previous years, the Health Board demonstrated effective in-year financial management and this, together with additional funding received during the year, ensured that the Health Board achieved financial balance in 2014-15

44. The Health Board successfully achieved the year-end requirement to achieve spend within the revenue resource limit, by containing costs, reducing activity and working with stakeholders.

45. The Annual Plan identified the total financial challenge for 2014-15 as £44.8 million. The Health Board planned a total of £25.84 million in cost reductions which was made up of £19 million in savings plans and £6.84 million in cost improvement. This left a planned deficit of £19 million.

46. Throughout the year, the Health Board reported that it was on target to achieve the planned deficit of £19 million using a combination of cost improvement, cost avoidance and savings plans. To support this, a number of contingency measures were also drawn up in case it was necessary to take further action to meet the revenue resource limit.

47. The Health Board reported the achievement at year-end of £14.2 million savings and cost containment measures. The difference between the £14.2 million achieved savings and the £25.84 million savings originally budgeted, was met through activities such as short-term cost containment at divisional level, a revised Frailty programme repayment profile agreed with the Welsh Government, and reduced expenditure on external contracts. Additional Welsh Government funding of £26.7 million was also provided in December 2014.

48. The revenue resource limit was achieved at year-end with a modest surplus of £407,000. However, the fact that the Heath Board was reliant on extra Welsh Government funding to achieve the target as well as non-recurring and short-term costs containment measures means that this approach is not sustainable. The Health Board recognises this.

There is a shortfall in planned savings in 2015-16 and the Health Board is relying on additional Welsh Government funding to achieve its planned deficit position, suggesting that a balanced financial position is not achievable or sustainable in the medium term

49. The NHS Finance (Wales) Act 2014 has introduced a more flexible finance regime. It provides a new legal financial duty for local health boards to break even over a rolling three financial years rather than each and every year. The Act allows local health boards to focus their service planning, workforce and financial decisions and implementation over a longer, more manageable, period and moves away from a regime which encourages short-term decision making around the financial year. The financial flexibilities are, however, contingent upon the ability of NHS bodies to prepare suitably robust IMTPs, and the formal approval of those plans by Welsh Ministers.

50. The Health Board's approved three-year plan identifies net deficits in each year: in year one - 2015-16 £19.7 million, in year two - 2016-17 £13.8 million, and £11.5 million in year three - 2017-18. The Health Board have noted that these net deficits will need to be addressed through further efficiency opportunities and primarily through service change, and further that the results of year one will have an impact on the scale of the remaining challenge for years two and three.

51. The total financial challenge for 2015-16 originally identified in the Health Board's IMTP was £72.4 million, of which it was assumed that additional funding of £33.7 million would be made available. This left a remaining financial challenge of £38.7 million before consideration of potential opportunities through improved efficiencies and the impact of innovative service change. £19 million of budgeted cost reductions have been identified, comprising £13 million in savings and a further £6 million in cost containment. This leaves an over-commitment or planned deficit of £19.7 million and the Health Board is seeking further cost improvement and savings opportunities to reduce the potential deficit.

52. The level of budgeted savings and cost containment measures is clearly insufficient to achieve financial balance in 2015-16, and the Health Board's plan highlighted this to the Welsh Government. The IMTP has been approved by the Minister on the basis that the Health Board does not exceed its planned deficit of £19.7 million in the current year and that its cumulative deficit over three years, reduces.

53. The Health Board is seeking to prepare sustainable services in the medium term, and the robust in-year financial planning, control and management seen in 2014-15 continued during 2015-16. The organisation appropriately monitors and reassesses its financial position on a monthly basis and reports in a transparent manner to the Board and Welsh Government. However, the financial consequences of their approach to planned service provision may not be sustainable, because it relies on in-year, short-term measures such as reducing agency nursing spend, controlling spend on continuing healthcare, and reducing planned spend on medicines.

54. The Health Board has had a high use of agency nursing from a supplier that is not on the national framework contract. As well as risks relating to economy and quality, the absence of formal contractual arrangements is not in compliance with Standing Financial Instructions. We will consider these risks as part of the 2015-16 audit. We note that the use of this agency is now starting to reduce.

55. The Health Board has reported at November 2015 a deficit of £15.6 million, and a projected deficit of £22.6 million at the year-end. Savings of £7 million have been achieved by month seven against a target of £13 million. The Health Board will therefore need to achieve a proportionately greater level of savings in the remaining five months of the year, as well as the £6 million of cost containment measures to enable the planned deficit position of £19.7 million to be reached. The Health Board is taking action to recover the position and there is evidence of engagement in the financial plans and service change plans by those charged to deliver the schemes.

56. While the Health Board has a track record of achieving its savings schemes to address growing financial pressures, the level of achievable savings forecast in future years is decreasing. The Health Board has forecast its longer-term savings for 2016-17 and 2017-18 at a reduced level of £9.6 million and £5.6 million respectively, suggesting that a balanced financial position is increasingly difficult to achieve.

The Health Board has set a clear vision and is promoting a quality-focused culture with evidence of ongoing improvements to its governance, risk and performance management arrangements

57. This section of the report considers my findings on governance and board assurance, presented under the following themes:

- strategic planning;
- organisational structure;
- board assurance and internal controls;
- performance management; and
- information governance.

The Health Board's strategic planning provides a good basis for taking the organisation forward which guides improvement activity, but its future is heavily dependent on the approval of the business case for a Specialist and Critical Care Centre

58. The IMTP sets out the Health Board's strategic objectives and has been subject to good Board consideration and challenge, with the plan gaining Ministerial approval in June 2015.

59. The 2015-18 IMTP introduces 10 Service Change Plans (SCP) which provide relatively clear and prioritised improvement aims and cover a broad range of the Health Board's clinical service areas. At its core is the long-standing Clinical Futures strategy. This sets out a vision for rebalancing clinical services in Gwent based on providing care in the most appropriate setting. A key component of the Clinical Futures vision is the creation of a Specialist and Critical Care Centre which would provide a highly specialised environment for the treatment of patients with more complex an acute healthcare needs.

60. During 2015-16, the Health Board submitted the full business case for the Specialist and Critical Care Centre, together with the overarching Clinical Futures Programme business case to Welsh Government. The Health Board does not have a clear alternative strategy, if the business case is rejected. In the meantime, the Health Board is relying on contingency and holding plans for fragile services such as neonatal, obstetrics and paediatrics.

The Health Board has benefitted from a stable organisation structure, but needs to consider whether the current structure sufficiently supports service modernisation and operational accountability

61. The Health Board has benefited from continuity of organisational structure. This has helped to ensure that there is formal delegated operational accountability for all areas of the business. This stability ensures that management can concentrate on service improvement without a backdrop of complex restructuring.

62. The Health Board's ambition is to provide the right care in the right setting. This is likely to result in service remodelling, disinvestment in some services, but greater investment in in new services or expanding the role of some services. To date, service pathway changes appear to have occurred through the commitment and drive of a few key individuals. However, the Health Board will need to keep its organisational structure under review to ensure that it fully enables the type of cross-divisional pathway change that forms part of the Health Board's vision.

63. Over the past year, there were a number of instances where officers have reported issues, such as completeness of medical record keeping and compliance with organisation policies to the Health Board's committees. It is not clear whether these compliance problems occurred as a result of the lines of accountability within the organisational structure, or whether they simply reflected weaknesses in managerial accountability which would have occurred regardless of the organisational structure.

The organisation has an effective Board and demonstrates that it manages present issues and risks; however, its arrangements will need to evolve to meet requirements of new Well-being of Future Generations (Wales) Act 2015 legislation

64. The Board clearly seeks high standards and expects its leadership to demonstrate these standards through setting an example through their actions and decision making, and by participating in a range of all Wales developments. There is a clear quality-focussed tone from the top. The Board seeks to put the patient experience first and is open in its discussions. The Board's governance arrangements will need to evolve to meet new requirements arising from the introduction of the Well-being of Future Generations (Wales) Act 2015 that, from April 2016, places a well-being duty on the Health Board.

65. The committee structure supports good governance and there is evidence of continual improvements to arrangements. Committees are well established. Each committee has a clear terms of reference and these are reviewed an updated annually. The committee structure allows committees to spend sufficient time concentrating on discrete areas of business and organisational risk. There is also reasonable interoperability between the various committees that supports cross referral of concerns. However, there is scope to strengthen the mechanisms by which committees receive assurances from sub-committees and groups which report in to them.

66. The Health Board continues to iteratively develop its management information to help ensure that it is presented and used in support of effective scrutiny and decision making. Independent members often demonstrate that they use information and knowledge gained through a wide range of sources, including their own experience and observation of services. This triangulates information and helps increase the rigour of scrutiny and challenge. Board and committee reports are usually well written and presented. Reports regularly and fairly identify strengths and weaknesses. However, the Board information has a tendency to focus more on hospital service provision, with more limited assurances on services commissioned from other service providers.

67. The Health Board's risk management arrangements assist the Board and committees to manage key organisational risks, and work is in progress to strengthen them further.

68. Whilst the organisation has an approach for tracking internal audit recommendations, arrangements for tracking and monitoring the effectiveness of response to external audit recommendations not fully in place. With the exception of progress reports against structured assessment recommendations, it is difficult for the Audit Committee to assess and scrutinise progress against actions that have been agreed by the Board in response to audit report recommendations.

The Board is appropriately informed on its performance and its promising work on outcomes development may give the Health Board a better balance of focus to determine the impact of its efforts, but access to planned and un-scheduled care is under increasing pressure

69. The Health Board effectively scrutinises the performance and is taking action to improve the level of real-time performance information to allow managers to make informed decisions. The Health Board is also starting to develop its approach to recording and reporting outcome measures. It is engaging with the International Consortium for Health Outcomes Measurement and looking to other healthcare institutions to seek good practice.

70. Given the pressure on services and a backdrop of austerity, the Health Board is maintaining a reasonable level of performance in a number of areas. However, both scheduled and unscheduled care services are under increasing pressure which may increase over the winter period. If resource and capacity is diverted from scheduled to unscheduled care over the winter period, plans should also be put in place to recover the scheduled care position later in the year.

An appropriate framework is in place to support good information governance. Caldicott arrangements are well developed and there is scope to make further improvements

71. The Health Board has an information governance strategy in place covering information governance matters including data protection, Caldicott and the Wales accord for sharing personal information. This strategy has expired, but the Health Board is in the process of updating it.

72. There is an annual framework of internal review to help ensure compliance with information standards. This has shown an improvement in compliance that is linked to a range of development activity such as rollout of its information steward programme, patient, and staff education arrangements.

My performance audit work has identified opportunities to secure better use of resources in a number of key areas

The Health Board has set an ambitious change agenda and is increasingly targeting the way it deploys its resources to help it deliver against its change objectives and corporate aims

73. My Structured Assessment work has reviewed how a number of key enablers of efficient, effective and economical use of resources are managed. This work has indicated that the Health Board is making progress on a number of areas relating to the management of resources that I highlighted in previous years' Structured Assessments and is working to build sufficient change management and IT capacity. Key findings are summarised in Exhibit 2.

Exhibit 2: Structured Assessment – key enablers of effective use of resources

Issue	Summary of findings
Change management capacity	Strategic change programmes are starting to underpin the IMTP, but this momentum needs to grow, with the leaders of complex change initiatives becoming increasingly supported by enhanced change management capacity. The Health Board's service change plans present complex, large scale and inter-dependent change requirements, but track record indicates that the Health Board has had some challenges delivering these types of changes within a planned timeframe. In response, the Chief Executive is setting up a programme office to create extra change capacity.
Workforce planning	The Health Board is taking relevant action to address operational workforce risks, but it could better articulate workforce transformation as an integrated part of the IMTP and clinical futures. The Health Board has improved the rate of completion of performance appraisals, demonstrates a positive performance culture and is taking action to manage and reduce its reliance on temporary clinical staffing. The Board approved its Workforce and Organisational Development strategy in September, however, it needs to more clearly articulate its workforce design as part of service transformation.
Stakeholder engagement and partnership working	The Health Board is using its engagement approach to gather the views of stakeholders and the public to inform it on the overall quality of services, as well as to identify specific issues that need to be addressed as part of a 'you said, we did' approach. However, it could further strengthen its engagement activity on its clinical futures programme. The Health Board demonstrates a positive track-record of partnership working both at an organisational-wide level, as well as county and neighbourhood care network level.

Issue	Summary of findings
Use of technology	The Health Board is now in the process of developing a revised IM&T strategy. This provides an opportunity to develop technology that enables community focused healthcare and the clinical futures strategy. Investments should be made where this will create efficiency, economy and improve quality of service.

My conclusion on the efficiency, effectiveness and economy of orthopaedic services at the Health Board is based upon the data gathered as part of my national review of orthopaedic services in Wales, which was published in June 2015. My Orthopaedic service review found that there is scope to improve the efficiency and effectiveness of orthopaedic services in order to tackle growing demand and to secure improved outcomes for patients.

74. GP referrals for orthopaedic services are increasing and are now the highest in Wales. With the exception of the Monmouthshire area, the proportion of residents aged 65 is in line with the average for Wales. The age of the population would therefore not appear to be a contributory factor to the high referral rate. This would suggest that there is a higher rate of inappropriate referrals than elsewhere in Wales, which may be due to a lack of clear referral criteria and GP behaviours.

75. Despite a good range of alternative services being in place, such as community pain services, lifestyle programmes and physiotherapy, investment in primary care is low and decreasing. Over the three years between 2010 and 2013, the Health Board has reduced its primary care spend on musculoskeletal services by 1.9 per cent. This level of spending is one of the lowest in Wales. In addition, the staffing levels for the Clinical Musculoskeletal Assessment and Treatment Service at the Health Board are the lowest across Wales and less than one-third of the average.

76. Secondary care based outpatient and physiotherapy services are generally meeting demand. The Health Board is currently working to an internal target of 16 weeks for first outpatient appointment, which may create pressure on the inpatient element of the RTT pathway to meet the 26-week wait target. The Health Board generally sees patients that require physiotherapy to treat musculoskeletal problems quicker than in other parts of Wales. Outpatient physiotherapy services are provided in a wide range of settings across the Health Board, although the Health Board has not yet implemented a process of self-referral.

77. Access to all radiology tests requested by GPs and Consultants in this Health Board was consistently better than the all Wales average until 2012. Since then, performance has deteriorated, particularly for GP referrals to the radiology service. There is also scope to improve orthopaedic outpatient efficiency, day surgery rates, length of stay and use of theatre capacity. In addition, some indicators indicate that some outcomes are less positive than elsewhere in Wales with higher rates of elective orthopaedic mortality and a lower rate of improvement following knee replacement surgery.

My review of medicines management found that despite low staffing levels and high workload, there are good relationships between pharmacy staff and ward staff together with effective aspects of corporate arrangements and some medicines management processes

78. The Health Board does not have a strategy for medicines management, nor does medicine management sufficiently feature in key strategic developments. Executive involvement in medicines management has mainly focused on financial issues and financial scrutiny. The pharmacy service also has limited involvement in senior decision-making forums and it is often the case that other key service developments do not properly consider the resource implications for pharmacy.

79. My work found that Pharmacy services are generally accessible and responsive and that the majority of pharmacy service users were satisfied with the accessibility of the service during normal working hours, but not so out of hours, particularly at Ysbyty Ystrad Fawr. The pharmacy team has the lowest staffing levels in Wales relative to inpatient activity. However, results from my survey indicate that staff are more positive than compared with the rest of Wales about the focus on medicines-related training, and also about the level of pharmacy staff resources.

80. The Health Board has taken direct action in response to Trusted to Care, although we found a comparatively high proportion of cases where it was unclear if a dose had been omitted or not. The Health Board had the highest proportion of patients who needed additional support to take their medication and it needs to do much more to ensure that patients' compliance needs are consistently assessed and met. The Health Board also needs to strengthen record keeping and controls. My audit has found issues with the recording of patient allergy statuses and variation across sites in the proportion of patients that had a comprehensive medication review.

81. Management reports consider a good range of medicines-related indicators. There remains scope to strengthen performance reporting by including a summary to help guide the reader to key issues, considering analysis by ward to enable more detailed analysis and to improve the consistency of reporting.

82. There is mixed evidence about the effectiveness of learning processes. The pharmacy team plays a key role in ensuring that safe medication practices are embedded in the Health Board. However, the rate of medication-related admissions is slightly higher than the Wales average and the Health Board needs to do more work to understand the reasons for this.

Information on the scale of delayed follow-up outpatient appointments has improved but the Health Board has more to do to identify genuine demand, assess clinical risks, improve Board scrutiny and to modernise outpatient services

83. Since January 2015, all Health Boards in Wales are required to submit reports to Welsh Government on their follow-up outpatient waiting lists. My review has found that the Health Board has a good understanding of the Welsh Government data standard requirements and it is improving the range of information available on outpatient follow-up. This information helps Welsh Government, senior management and operational management to understand the level of performance attained.

84. Most Health Boards in Wales are currently in the process of validating their follow-up waiting lists to address issues relating to the quality of the data. This validation work helps ensure that errors are removed and only patients with clinical need are seen. The Health Board has adopted a systematic approach to validate its follow-up outpatient list but more work is needed to assess the clinical risks and any harm to patients waiting beyond their target date.

85. Welsh Government has set a target for the Health Boards to achieve a reduction in the numbers of patients waiting on the follow-up waiting list. The Health Board has reduced the number of patients waiting for a follow-up appointment, although it still has a significant number of patients who are waiting beyond their target date. As at June 2015, there were over 87,000 patients on the follow-up waiting list who were not yet booked for an appointment, of which just over 30,000 patients were delayed. Of the 30,000 patients delayed, around 45 per cent of patients were waiting twice as long as they should have waited for an appointment.

86. Backlogs and delays in outpatient follow-up appointments have been an issue for many health boards for a number of years. However, until recently, few health boards across Wales routinely analysed or reported follow-up outpatient information as part of their performance reporting. The Health Board's Quality and Safety Committee receive regular assurances on follow-up outpatients, which have often focused on ophthalmology follow-up outpatient services. The Health Board needs to improve the reporting of follow-up outpatients in terms of performance, but also focusing on clinical risk and any potential areas of harm, should they occur.

87. The Health Board is developing plans to improve the management of outpatients, but successful delivery of these plans will be challenging. Short-term operational arrangements are in place to help reduce the number of delayed follow-up outpatient appointments. In early 2014, the Health Board established an operational group called the Follow-up Outpatient Improvement Group. In a short space of time, the group has successfully reduced the numbers of patients on the follow-up waiting list and is making improvements to the operational management and processes. The Health Board has also developed key foundations in some specialties to improve outpatient services, but further work is required and the pace of change is a concern.

Despite a lower level of investment in ICT, my diagnostic work indicates that the current ICT resources in the Health Board are generally supporting the delivery of healthcare, although there is scope to integrate systems and to strengthen training arrangements

88. The Welsh Government's previous strategy Improving Health in Wales in 2001 recognised that expenditure on ICT needed to be at least two per cent of total revenue expenditure. For the financial year 2013-14, the total level of spend on ICT in the Health Board ICT was also below the all-Wales average at 0.73 per cent. Overall ICT staffing levels are average for Wales, although there is a greater proportion of information management staff, but the lowest proportion of technical ICT staff. However, my survey of Health Board staff indicate that senior management commitment to ICT and the doctors' perception of IT facilities is the highest in Wales, which helps to provide some assurance on value for money.

89. As part of my staff surveys, we asked both medical and nursing staff how often they were unable to use a computer to undertake tasks and obtain information due to insufficient computers being available. I identified some opportunity to better integrate clinical systems and to ensure better access to technology, however, clinical ICT systems are generally supporting doctors to deliver patient care. Nursing staff at the Health Board were less positive than other nurses across Wales about ward access to computers.

90. As well as permanent staff, it is also important that temporary staff employed to work in clinical areas (including those who hold honorary contracts) are also provided with the necessary IT and Information training. The Health Board identified no groups of temporary staff (agency nurses, bank nurses, locum doctors, and medical staff with honorary contracts) in receipt of training. This is contrary to the position across Wales, where some or all of these temporary staff groups receive training.

Whilst the Health Board is taking steps to improve the district nursing service as part of wider community service provision, many of the issues I identified in my previous audit work still need to be addressed

91. Nursing leadership play an active role in the development of district nursing services across Wales and locally has a high-level vision for delivering more care in the community. To support this vision, it is moving towards integrated health and social care services. However, the vision will need to be developed into clear service models, and it hasn't yet defined the remit and the workforce requirements of the district nursing service within the new integrated community nursing service. Its divisional structure provides clear managerial and professional lines of accountability to support delivery of the district nursing service and these arrangements are working well.

92. The Health Board has limited understanding at an organisational level of demand for district nursing services, but work is underway to address this. Some localised actions have been taken to improve demand management but it needs to improve at a health board-wide level. Because of this, it is still difficult to assess whether there is sufficient capacity, despite continuing increases in workforce numbers. There is also unexplained variation in the deployment and distribution of staff, which means that the Health Board still cannot take assurance that it effectively deploys staff in a way that matches the caseload. For example:

- staff spend a higher proportion of their time on direct patient care compared with other health boards, but unexplained variation remains in the way that district nursing teams are deployed locally; and
- workloads remain unevenly distributed between individual district nursing teams; and more needs to be done to improve caseload management.

93. The Health Board is taking steps to improve its ability to systematically monitor and report performance and there are a number of forums to support professional and operational communication, which it is working to strengthen further. The Health Board has a plan for addressing its information needs for monitoring and reporting performance, including patient feedback. It is also investing in formal training for its

district nursing service but low compliance with the appraisal process and with some statutory and mandatory training presents corporate and operational risks.

The Health Board has made progress in responding to my joint follow-up review of Data Quality, IT Disaster Recovery and Business Continuity and Caldicott arrangements, however more still needs to be done

94. **Review of data quality** – my review found whilst information governance arrangements and the updated data quality policy provide the foundations to improve data quality, challenges remain to improve the accuracy of the Health Board's information. The Information Development Group should ensure that data quality improvement remains on the Health Board's agenda.

95. **Review of IT disaster recovery and business continuity** - my review found that the Health Board has a standard approach to disaster recovery and business continuity planning, although the testing of business continuity plans is limited and there is scope to strengthen the approach in some divisions. Since I published my follow-up review, we have been made aware of issues that have arisen such as water damage to a radiology system and a network outage that impacted on operational service delivery in Royal Gwent Hospital in the Autumn.

96. **Review of Caldicott arrangements** - my review found that Caldicott arrangements are well developed at the Health Board, but there is scope to make further improvements by agreeing the strategic approach to information governance which is included in the e-Health strategy, completing the information governance steward development programme and informing patients of the use of their information.

The Health Board has made good overall progress in addressing the recommendations to improve catering and nutrition services. It now needs to focus on strengthening nutritional screening and documentation processes and board reporting, as well as ensuring that all patient areas are prepared for mealtimes and patients receive prompt help with eating

97. Arrangements for meeting patients' dietary and nutritional needs are improving but documentation processes associated with nutritional screening need to be strengthened. Patients are screened for nutritional problems but documented screening information is fragmented and incomplete.

98. There is scope to improve some aspects of the mealtime experience, but it is promising that patients are generally positive about food services. Patients have access to food and beverages 24 hours a day, with compliance with the nutritional care pathway regularly monitored. They can also access written information on what to expect in hospital, although this information is not widely disseminated. Not all patients receive prompt help at mealtimes and there is more to do to prepare the ward environment prior to meal services, including fully applying protected mealtime principles.

99. Cost control mechanisms and IT systems are used for managing the service. While patient meal costs are comparable with the Wales average, food costs for patient catering increased by around 15 per cent over a three-year period, albeit cost per patient meals remain relatively stable. Non-patient catering services operate at a small loss with the gap between income from restaurant charges and cost of supply reducing. Food waste is regularly audited with wastage below the national target but monitoring at ward level is inconsistent.

100. Structures for oversight and scrutiny of catering and nutrition services remain robust at operational and sub-committee levels. There is clear executive accountability, regular monitoring of progress at the Quality and Patient Safety Committee and operational accountability for delivery through the Clinical Nutrition Steering Group. Performance is regularly monitored but Board reporting is not comprehensive and relies on the annual Fundamentals of Care Audit.

Appendix 1

Reports issued since my last Annual Audit Report

Report	Date
Financial audit reports	
Audit of Financial Statements Report	June 2015
Opinion on the Financial Statements	June 2015
Audit of the Charitable Funds Financial Statements Report	December 2015
Opinion on the Charitable Funds Financial Statements	Due early January 2016
Performance audit reports	
Review of Orthopaedic Services	December 2014
Review of Medicines Management	July 2015
Review of Follow-up Outpatient Appointments	September 2015
Diagnostic Review of ICT Capacity and Resources	November 2015
Follow-up Review of Hospital Catering and Patient Nutrition	November 2015
Structured Assessment 2015	December 2015
Review of Gwent Frailty – Phase 2	December 2015
Combined follow-up of Informatics and Communications Technology audits	May 2015
District Nursing Review	February 2015
Other reports	
2015 Audit Plan	March 2015

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

Report	Estimated completion date
Follow-up Review of Consultant Contract	July 2016
Review of Radiology Services	July 2016
Review of Nursing Agency and Locum Doctors	February 2016

Appendix 2

Audit fee

The 2015 Audit Plan set out the proposed audit fee of £426,655 (excluding VAT). My latest estimate of the actual fee, on the basis that some work remains in progress, is in accordance with the fee set out in the Audit Plan.

Included within the fee set out above is the audit work undertaken in respect of the shared services provided to the Health Board by the Shared Services Partnership.

Appendix 3

Main audit risks

My 2015 Audit Plan set out the main financial audit risks for 2015. 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
Control environment risks		
The Health Board has a duty to ensure that robust **accounting records** and **internal controls** are in place to ensure the regularity and lawfulness of transactions.	My audit team will test accounting records and internal controls in place to ensure the regularity and lawfulness of transactions.	Accounting records and internal controls tested as planned and found to be robust. No evidence found of irregular or unlawful transactions.
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	My audit team will: • 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.	Audit work carried out as planned and no evidence found of management override of controls.
Preparation of the accounts risks		
There may be a significant risk that the Health Board will fail to meet statutory financial duties. However, it is unclear at this stage what those statutory financial duties will be, and guidance is due to be issued by Welsh Government shortly. The month 10 position showed a year-to-date deficit of £1.7 million and forecast a year-end deficit of £2.2 million. I may choose to place a substantive report on the financial statements explaining any failures and the circumstances under which they arose.	My audit team will consider their testing focus and other implications for my work once financial duties are clarified.	The NHS Finance (Wales) Act 2014 requires the Health Board to meet two new statutory financial duties. I issued a narrative report alongside my audit certificate to explain the new duties, the performance of the Health Board against them, and the implications for 2015-16. The **first financial duty** gives additional resource flexibility to health boards by allowing them to balance their income with their expenditure over a three-year rolling period, replacing the duty to balance their books over a one-year period. The first three-year period under this duty is 2014-15 to 2016-17.

Audit risk	Proposed audit response	Work done and outcome
Preparation of the accounts risks		
The current financial pressures on the Health Board increase the risk that management judgements and estimates could be biased in an effort to achieve any financial duties set.		The **second financial duty** is a new duty requiring health boards to prepare and have approved by the Welsh Ministers a rolling three-year integrated medium-term plan.
Pending Welsh Government guidance, a similar significant risk may be present relating to the annual capital resource limit. The month 10 position showed a year to date underspend of £0.4 million but forecast a break-even year-end position. The current financial pressures on the Health Board increase the risk that management judgements and estimates could be biased in an effort to achieve any financial duties set.	My audit team will consider their testing focus and other implications for my work once financial duties are clarified.	Please see comments in the box above.
There is a high risk that the Health Board will not meet its PSPP targets for 2014-15 because of the treatment of invoices being investigated and transaction processing pressures due to staff shortages at the accounts payable function in the Shared Services partnership. Public Sector payment policy and disclosures are a risk area given concerns last year that Welsh Government guidance had not been complied with.	My audit team will audit the PSPP bearing in mind the administrative target on the Health Board.	Audit work carried out as planned and the results were reported to those charged with governance in the Audit of Financial Statements report in June 2015. The administrative target was not met. Exhibit 1 of this report provides further detail.

Audit risk	Proposed audit response	Work done and outcome
Preparation of the accounts risks		
There are specific risk areas which we will review following previous years' audits: • there is a risk to the correct and consistent treatment of upward revaluations of plant, property and equipment resulting from indexation, following the uncertainty in 2013-14 over the application to new builds; and	My audit team will audit the financial statements with particular focus on these risk areas, by undertaking focused testing.	Audit work carried out as planned and concluded: • that the treatment of indexation to estimate the value of assets is now in accordance with the Welsh Government's Manual for Accounts; and • that estimated liabilities in respect of Continuing Healthcare Claims are fairly stated.
a significant number of new Continuing Healthcare Cases have been received by the NHS in Wales and this increases the risk of misstatement in the financial statements due to the uncertainty over the level of liability falling to the Health Board.		
Financial statements risks		
The **timetable** for producing and certifying the **annual accounts** remains demanding. The Health Board will need to put in place appropriate arrangements to prepare the accounts and ensure adequate working papers are provided for audit on a timely basis.	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.	The audit team worked with Health Board staff as planned to meet the accounts certification timetable.

Audit risk	Proposed audit response	Work done and outcome
Financial statements risks		
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. Specific risk areas include: • estimates, particularly for the continuing healthcare provision, primary care expenditure and specialised services; • significant transactions with related parties; and • accuracy and completeness of the Remuneration Report, given a number of changes in Executive and Non-Officer Members during the year.	My audit team will audit the financial statements with particular focus on these risk areas, by undertaking focused testing.	Focused audit testing carried out as planned on the relevant areas of the financial statements. I did not find any significant issues to report.

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500
Fax: 029 2032 0600
Textphone: 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