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Annual Audit Report 2019 – Swansea Bay University Health Board

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Summary report

About this report

- 1 This report summarises the findings from the audit work I have undertaken at Swansea Bay University Health Board¹ (the Health Board) during 2019. I did that work to carry out my responsibilities under the Public Audit (Wales) Act 2004. That Act requires me to:
 - a) examine and certify the accounts submitted to me by the Health Board, and to lay them before the National Assembly;
 - b) satisfy myself that the expenditure and income to which the accounts relate have been applied to the purposes intended and in accordance with the authorities which govern it; and
 - c) satisfy myself that the Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2 I have reported my findings in Key messages under the following headings:
 - Audit of accounts
 - Arrangements for securing economy, efficiency and effectiveness in the use of resources
- 3 I have issued several reports to the Health Board this year. This annual audit report is a summary of the issues presented in these more detailed reports, a list of which is included in [Appendix 1](#).
- 4 [Appendix 2](#) presents the latest estimate on the audit fee that I will need to charge to cover the actual costs of undertaking my work at the Health Board, alongside the original fee that was set out in the 2019 Audit Plan.
- 5 [Appendix 3](#) sets out the financial audit risks highlighted in my 2019 Audit Plan and how they were addressed through the audit.
- 6 The Chief Executive and the Director of Finance have agreed this report is factually accurate. We presented it to the Audit Committee on 16 January 2020. The Board will receive the report at a later Board meeting and every member will receive a copy. We strongly encourage the Health Board to arrange wider publication of this report. We will make the report available to the public on the [Wales Audit Office website](#) after the Board have considered it.
- 7 I would like to thank the Health Board's staff and members for their help and co-operation during the audit work my team has undertaken over the last 12 months.

¹ Swansea Bay University Health Board was formed 1 April 2019 following the Bridgend boundary change. The accounts work for 2018-19 detailed in this report relates to the former Abertawe Bro Morgannwg University Health Board.

Key messages

Audit of the Accountability Report and Financial Statements

- 8 I have concluded that the Health Board's accounts were properly prepared and materially accurate, and my work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts. I have therefore issued an unqualified opinion on their preparation.
- 9 The Health Board did not achieve financial balance for the three-year period ending 31 March 2019 and so I have issued a qualified opinion on the regularity of the financial transactions within its 2018-19 accounts.
- 10 Alongside my audit opinion, I placed a substantive report on the Health Board's financial statements to highlight its failure to achieve financial balance and also its failure to have an approved three-year plan in place.

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

- 11 My programme of Performance Audit work at the Health Board has led me to draw the following conclusions:
 - the Health Board is organising itself to deliver an ambitious transformation programme. There is a systematic approach to strengthening governance arrangements, including important aspects of quality governance. Progress is being made to address workforce issues. However, action to improve finances and performance have not yet secured the improvements needed. It is unlikely that the Health Board will achieve financial balance in 2019-20.
 - the Health Board has made progress in applying the sustainable development principle but recognises there is more work to do; and
 - my performance audit work has identified positive progress in addressing issues identified by previous audits but there is scope to secure further improvements.
- 12 These findings are considered further in the following sections.

Detailed report

Audit of the Accountability Report and Financial Statements

- 13 This section of the report summarises the findings from my audit of the Health Board's financial statements for 2018-19. These statements are how the organisation shows its financial performance and sets out its net assets, net operating costs, recognised gains and losses, and cash flows. Preparing the statements is an essential element in demonstrating appropriate stewardship of public money.
- 14 My responsibilities in auditing the Health Board's financial statements are described in my [Statement of Responsibilities](#) publications, which are available on the Wales Audit Office website.

I have issued an unqualified opinion on the accuracy and proper preparation of the 2018-19 financial statements of the Health Board

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

- 15 I received draft accounts by the deadline and the supporting working papers were of good quality.
- 16 I reviewed those internal controls that I considered to be relevant to the audit to help me identify, assess and respond to the risks of material misstatement in the accounts. I did not consider them for the purposes of expressing an opinion on the operating effectiveness of internal control. My review did not identify any significant deficiencies in the Health Board's internal controls.
- 17 I must report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues to the Health Board's Audit Committee on 29 May 2019. [Exhibit 1](#) summarises the key issues set out in that report.

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

The following table summarises and provides comments on the key issues identified.

Issue	Auditors' comments
Uncorrected misstatements	There were no uncorrected misstatements.
Corrected misstatements	There were several adjustments made to the draft accounts which in the main related to additional narrative to provide more clarity.
Other significant issues	I qualified my regularity opinion and issued a substantive report because the Health Board did not achieve its financial duty to achieve financial balance for the three years ending 2018-19.

- 18 I also undertook a review of the Whole of Government Accounts return. I concluded that the counterparty consolidation information was consistent with the financial position of the Health Board at 31 March 2019 and the return was prepared in accordance with the Treasury's instructions.
- 19 My separate audit of the charitable funds financial statements is complete and I issued an unqualified opinion on the accounts in November 2019.
- 20 I also undertook an audit of the s1 and s2 forms for the transfer of assets and liabilities from the Health Board to Cwm Taf Health Board as part of the Bridgend Transfer. I concluded that subject to the amendments made to the forms arising from the audit, nothing has come to my attention to indicate that the entries in the form do not agree with the accounting records of the Health Board.

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

The Health Board did not achieve financial balance for the three-year period ending 31 March 2019 and so I have issued a qualified opinion on the regularity of the financial transactions within its 2018-19 accounts

- 21 The Health Board's financial transactions must be in accordance with authorities that govern them. It must have the powers to receive the income and incur the expenditure that it has. Our work reviews these powers and tests that there are no material elements of income or expenditure which the Health Board does not have the powers to receive or incur.

22 Where a Health Board does not achieve financial balance, its expenditure exceeds its powers to spend and so I must qualify my regularity opinion. In 2018-19, the Health Board reported a year-end deficit of £9.879 million. In addition, the Health Board breached its cumulative resource limit by spending £81.612 million over the £3,290 million that it was authorised to spend in the three-year period 2016-17 to 2018-19.

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

23 I have the power to place a substantive report on the Health Board's accounts alongside my opinions where I want to highlight issues. Due to the Health Board's failure to meet its financial duties I issued a substantive report setting out the factual details: it failed its duty to achieve financial balance (as set out above) and it does not have an approved three-year plan in place and is currently working to a one-year plan.

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

24 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:

- undertaking a structured assessment of the Health Board's arrangements for overall governance, strategic planning, turnaround and transformation, finance and performance and managing workforce productivity and efficiency; and
- specific use of resources work on clinical coding and the consultant contract.

25 In order to discharge my responsibilities under the Well-being of Future Generations Act 2015, I have also undertaken work to review the Health Board's arrangements for implementing the Act.

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

With a clear strategic direction, a focus on partnership working and maturing planning and reporting arrangements, the Health Board is starting to implement its clinical services plan

- 27 My structured assessment work examined how the Board engages partners and sets the strategic direction for the organisation. I also assessed how well the Health Board plans the delivery of its objectives and how it monitors progress in delivering the plans. My findings are set out below.
- 28 With a clear strategic direction, a focus on partnership working and maturing planning and reporting arrangements, the Health Board is starting to implement its clinical services plan. While working to an annual plan the Health Board is aiming to produce an approvable integrated medium-term plan for 2020-2023. Monitoring of annual plan delivery is now aligned to organisational objectives but reporting on clinical services plan critical paths will need development.

An ambitious transformation programme is helping the Health Board reshape how it operates and organises itself to deliver its strategic objectives but there is a tension between transformation and turnaround

- 29 My structured assessment work examined the Health Board's arrangements to support transformational change and whether structures better promote whole system working. My findings are set out below.
- 30 The Health Board has clear aims and ambition for transformation and with the Bridgend transfer complete, is now developing a new operating model and structures for better whole system responses. The Health Board's ability to progress its transformation ambitions had been limited by the capacity needed to deliver the Bridgend boundary change by April 2019. With a Transformation Board and programmes now established, capacity is being marshalled to support programme management, change, and service improvement. The scale of re-design and improvement work is challenging and the need for immediate financial and performance improvement is creating a tension between transformation and turnaround.

The Health Board is focussed on delivering greater value and efficiency, although actions have not yet secured the improvements needed and financial and performance challenges remain

- 31 My structured assessment work examined the actions the Health Board is taking to achieve financial balance, improve performance and efficiency and create longer-term financial sustainability. My findings are set out below.

- 32 Financial performance has improved over the last three years, however, with a worsening in-year position, achievement of financial balance for the year ending 2019-20 is unlikely, with the Health Board currently predicting a £12.3 million year-end deficit. The Health Board is developing a focus on value and efficiency to achieve sustainable financial and performance improvements but with loss of finance staff, the intended developments in costing, budget setting and driving sustainable efficiencies have not progressed fast enough. Service performance is also not where it needs to be despite good oversight and scrutiny, and unscheduled care is a particular challenge. The Health Board's new operating model and planned performance management framework are, however, positive steps in improving performance management.
- 33 The National Fraud Initiative (NFI) is a biennial data-matching exercise that helps detect fraud and overpayments by matching data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. In January 2019, the Health Board received 7,363 NFI data-matches with 674 high-risk recommended matches identified, mostly relating to payroll, creditor payments or procurement. By December 2019, the Health Board had conducted initial review of most recommended payroll matches and made good progress reviewing creditor and procurement matches. Whilst we are satisfied with review work to date, and that it is timelier this year, there is still opportunity to start reviews earlier in future.

The Board is displaying visible leadership and strengthening its overall governance arrangements but is aware that some aspects of quality governance need improvement

- 34 My structured assessment work examined the Health Board's governance arrangements and the way in which the Board and its sub-committees conduct their business. I found the following.
- 35 There is effective scrutiny with attention to continually improving governance and leadership. There is also a maturing approach to risk management, but the Board Assurance Framework is yet to be implemented. Plans are in place to address acknowledged weaknesses in quality governance, such as: implementing the quality governance framework; improving the effectiveness of the quality assurance group; and ensuring clinical audit fully contributes to the system of assurance.
- 36 The Health Board has well-established arrangements for tracking progress against internal and external audit recommendations and the Audit Committee routinely receives reports identifying the number of recommendations complete, on-track or overdue. These are broken down by executive portfolio and how many days outstanding recommendations are overdue. The Committee uses this information to hold officers to account and our assessment of progress against previous

structured assessment recommendations is broadly consistent with management's reported status.

The Health Board has developed a more strategic approach to workforce management and, while acting to address workforce risks, recognises that there is more to do

- 37 My structured assessment work examined the actions that the Health Board is taking to ensure that its workforce is well managed and productive. I also assessed arrangements for addressing training and development needs and action to engage and listen to staff and address wellbeing needs. My findings are set out below.
- 38 The Health Board has developed a Workforce and Organisational Development framework with a clear focus on developing organisational values, staff engagement and wellbeing. However, HR capacity is limited and there is reliance on short-term funding. Mandatory training rates have improved, and two-thirds of staff have had an appraisal. Steps to improve workforce efficiency and productivity are being taken, with a proactive approach to attracting staff. But recruitment and retention challenges, high sickness levels and increasing agency expenditure remain a challenge.

The Health Board has made progress in applying the sustainable development principle but recognises there is more work to do

- 39 I reviewed the extent to which the Health Board is applying the sustainable development (SD) principle and the five ways of working in order to do things differently. My work considered how the SD principle is being embedded in core arrangements and included examination of a step being taken by the Health Board to meet one of its wellbeing objectives. The step reviewed was the Health Board's approach to developing Swansea Bay Biophilic Wales (the project). The project is a partnership designed to improve green spaces in the Swansea Bay area, improve grasslands and protect Wales' most threatened species.
- 40 Steps have been taken to embed the sustainable development principle in planning and engaging with service users. Embedding the SD principle in the organisational culture remains a challenge given the scale and complexity of the organisation, the recent organisational boundary change and significant performance and financial challenges. In terms of the project, my team found a strong focus on the five ways of working, but the Health Board acknowledges it could collaborate and involve other groups, organisations and staff to secure long-term benefits and support delivery of wellbeing objectives and national wellbeing goals.

My performance audit work has identified positive progress in addressing issues identified by previous audits but there is scope to secure further improvements

The Health Board has invested in its clinical coding service and has generally good quality coded data although its use as business intelligence remains underdeveloped

41 Clinical coding involves the translation of written clinical information (such as a patient's diagnosis and treatment) into a code format. Good quality clinically coded data plays a fundamental role in the management of hospitals and services. It can be used to support healthcare planning, resource allocation, cost analysis and assessments of treatment effectiveness. My review found that clinical coding performance is generally good, albeit accuracy has deteriorated slightly. The importance of clinical coding has been recognised through new investment, although coded data could be better used for business intelligence. The Health Board has made reasonable progress in addressing previous audit recommendations.

The Health Board has implemented some of the recommendations set out in my previous reports on the consultant contract and is now well placed to implement those that remain

42 Robust job planning is essential for securing the intended benefits of the amended consultant contract. The Health Board is updating its guidance and rolling out electronic job planning. In the interim, a database is used to capture job planning completion rates. At the time of my fieldwork, 86% of consultants and SAS doctors had a job plan or a planned review date. The HR team were also assessing the quality of completed job plans. Existing guidance sets a clear position on Supporting Professional Activity sessions and the Health Board has also clarified its expectations about the linkage between appraisal and job planning.

43 A range of information informs job planning although assurance on the development and use of information to assist job planning in individual specialties is needed. A programme of training has been delivered for those involved in job planning and is available on request between major rollouts, although this needs to be further publicised. The introduction of electronic job planning is being supported by a training programme, but uncertainty remains about the resources to provide ongoing training after the initial project implementation. It is unclear whether the job planning process for those consultants with an academic contract is wholly effective. However, with the steps taken to date, the Health Board is now better positioned to address remaining recommendations.

Appendix 1

Reports issued since my last annual audit report

Exhibit 2: reports issued since my last annual audit report

The following table lists the reports issued to the Health Board in 2019.

Report	Date
Financial audit reports	
Audit of Financial Statements Report	May 2019
Opinion on the Financial Statements	June 2019
Audit of Financial Statements Report – Charitable Funds	October 2019
Opinion on the Financial Statements – Charitable Funds	November 2019
Audit of the s1 and s2 returns Report	November 2019
Performance audit reports	
Clinical Coding	May 2019
Well Being of Future Generations	October 2019
Consultant Contract Follow-up	December 2019
Structured Assessment 2019	December 2019
Other	
2019 Audit Plan	March 2019

Exhibit 3: performance audit work still underway

There are also some performance audits that are still underway at the Health Board. These are shown in the following table, together with the estimated dates for completion.

Report	Estimated completion date
Quality Governance	June 2020
Orthopaedics	February 2020
Local audit – audit time reserved to respond to any post Bridgend transition issues or risks ²	To be agreed

² Initial work had been planned to examine short-term and long-term agreements (STAs and LTAs) arising from the Bridgend transfer. Timing of this work was dependent on the Health Board's arrangements being established. In discussion with Internal Audit we deferred our work while Internal Audit considered the arrangements being put in place.

Appendix 2

Audit fee

The 2019 Audit Plan set out the proposed audit fee of £411,807 (excluding VAT). My latest estimate of the actual fee, on the basis that some work remains in progress, is in keeping with the fee set out in the plan. However, I will update officers should this position change.

Appendix 3

Financial audit risks

Exhibit 4: financial audit risks

My 2019 Audit Plan set out the financial audit risks for the audit of the 2018-19 financial statements. The table below lists these risks and sets out how they were addressed as part of the audit.

Audit risk	Proposed audit response	Work done and outcome
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>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>My audit team:</p> <ul style="list-style-type: none"> • tested journal entries; • reviewed accounting estimates, particularly primary care payments; and • did not identify any transactions outside of the normal course of business. <p>No matters arose from the work carried out.</p>
<p>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].</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • review and test the individual funding and income streams received by the Health Board; and • consider whether all funding and income streams have been identified. 	<p>My audit team reviewed income streams for completeness and tested for accuracy.</p> <p>No matters arose from the work carried out.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>There is a significant risk that the Board will fail to meet its first financial duty to break even over a three year period. The position at month 9 shows a year-to-date deficit of £13.8 million and a forecast year-end deficit of £10 million. These are after receipt of £10 million of additional funding from Welsh Government. This combined with the outturns for 2016-17 and 2017-18, predicts a three year deficit position.</p> <p>Where the Board fails this financial duty I will qualify my regularity opinion and will place a substantive report on the financial statements highlighting the failure.</p> <p>The current financial pressures on the Board increase the risk that management judgements and estimates could be biased in an effort to achieve the financial duty.</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 failure and the circumstances under which it arose.</p>	<p>My audit team reviewed year-end transactions, in particular accruals and cut-off. No matters arose from the work carried out.</p> <p>I chose to place a substantive report on the financial statements explaining the failure and the circumstances under which it arose.</p>
<p>Liabilities for continuing healthcare costs continue to be a significant financial issue for the Health Board. The 31 July 2014 deadline for the submission of any claims for continuing healthcare costs dating back to 1 April 2003 resulted in a large increase in the number of claims registered last financial year and the Health Board includes within its financial statements amounts relating to those uncertain continuing healthcare costs.</p>	<p>My audit team will audit Continuing Healthcare expenditure and ensure the correct accounting treatment.</p>	<p>My audit team sample tested Continuing Healthcare expenditure, creditors, provisions and contingent liabilities. No matters arose from the work carried out.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>There is a risk that these amounts are not correctly reflected in the financial statements and the financial statements could be materially misstated.</p>		
<p>Bridgend Boundary Transfer From 1 April 2019, the responsibility for providing healthcare services for people in the Bridgend County Borough Council area will move from Abertawe Bro Morgannwg University Health Board (ABM UHB) to Cwm Taf University Health Board (CT UHB). Whilst this will not present any direct risks over the transactions within the 2018-19 financial statements, the financial statements will still need to disclose this change from 1 April 2019. Health Board staff face significant additional work from this change, increasing the risk that the Health Board may not produce its 2018-19 financial statements by the required deadlines.</p>	<p>My audit team will liaise with finance staff to ensure that the accounts production plan is adhered to and appropriate disclosures made.</p>	<p>My audit team liaised with finance staff and ensured that the accounts production plan was adhered to and appropriate disclosures made in the financial statements.</p> <p>We also audited the s 1 and s2 returns for the transfer of assets and liabilities from the Health Board to Cwm Taf. We concluded that subject to the amendments made to the forms arising from the audit, nothing has come to my attention to indicate that the entries in the form do not agree with the accounting records of the Health Board.</p>
<p>New accounting standards IFRS 9 financial instruments applies from 1 April 2018 and brings in a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will</p>	<p>My audit team will assess the likely impacts of the new IFRSs and undertake work to respond to any identified risks of material misstatement.</p>	<p>My audit team assessed the impacts of the new accounting standards and ensured that the accounting treatment in the financial statements was correct. No matters arose from the work carried out.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>result in earlier recognition of expected credit losses and will impact on how the Health Board calculates its bad debt provision.</p> <p>IFRS 15 revenue from contracts with customers introduces a principles-based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration the body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.</p>		

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