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Annual Audit Report 2018 – **Abertawe Bro Morgannwg University Local Health Board**

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About this report

- 1 This report summarises the findings from the audit work I have undertaken at Abertawe Bro Morgannwg University Local Health Board (the Health Board) during 2018. I did that work to carry out my responsibilities under the Public Audit (Wales) Act 2004. That Act requires me to:
 - a) examine and certify the accounts submitted to me by the Health Board, and to lay them before the National Assembly;
 - b) satisfy myself that the expenditure and income to which the accounts relate have been applied to the purposes intended and in accordance with the authorities which govern it; and
 - c) satisfy myself that the Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2 I have reported my findings under the following headings:
 - Key messages
 - Audit of accounts
 - Arrangements for securing economy, efficiency and effectiveness in the use of resources
- 3 I have issued several reports to the Health Board this year. This annual audit report is a summary of the issues presented in these more detailed reports, a list of which is included in [Appendix 1](#).
- 4 [Appendix 2](#) presents the latest estimate on the audit fee that I will need to charge to cover the actual costs of undertaking my work at the Health Board, alongside the original fee that was set out in the 2018 Audit Plan.
- 5 [Appendix 3](#) sets out the significant financial audit risks highlighted in my 2018 Audit Plan and how they were addressed through the audit.
- 6 The Chief Executive and the Director of Finance have agreed this report is factually accurate. We presented it to the Audit Committee on 24 January 2019. The Board will receive the report at a later Board meeting and every member will receive a copy. We strongly encourage the Health Board to arrange wider publication of this report. We will make the report available to the public on the [Wales Audit Office website](#) after the Board has considered it.
- 7 I would like to thank the Health Board's staff and members for their help and co-operation during the audit work my team has undertaken over the last 12 months.

Key messages

Audit of accounts

- 8 I have concluded that the Health Board's accounts were properly prepared and materially accurate, and my work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts. I have therefore issued an unqualified opinion on their preparation.
- 9 The Health Board did not achieve financial balance for the three-year period ending 31 March 2018 and so I have issued a qualified opinion on the regularity of the financial transactions within its 2017-18 accounts.
- 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 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 2018 structured assessment work at the Health Board has found that:
 - the new Board is improving governance and leadership arrangements, though work remains to improve quality governance and whole system working.
 - whilst working to an annual plan, the Health Board is showing ambition in developing its longer-term strategic planning but will need to ensure sufficient capacity to drive through the necessary change.
 - there are signs of the Health Board managing its resources more strategically with an evolving values-based approach, but finance, performance and efficiency challenges remain with workforce and asset management presenting key risks.
- 12 My wider programme of work has included reviews of primary care and the integrated care fund and the progress in addressing my previous recommendations. This work found some aspects of good practice as well as opportunities to strengthen arrangements for securing efficient, effective and economical use of resources:
- 13 The Health Board is participating in the National Fraud Initiative and has made generally good use of the data matches released in 2017.
- 14 These findings are considered further in the following sections.

Detailed report

Audit of accounts

- 15 This section of the report summarises the findings from my audit of the Health Board's financial statements for 2017-18. These statements are how the organisation shows its financial performance and sets out its net operating costs, recognised gains and losses, and cash flows. Preparing the statements is an essential element in demonstrating appropriate stewardship of public money.
- 16 In examining the Health Board's financial statements, I must give an opinion on:
- whether they give a true and fair view of the financial position of the Health Board and of its income and expenditure for the period in question;
 - whether they are prepared in accordance with statutory and other requirements, and meet the relevant requirements for accounting presentation and disclosure;
 - whether that part of the remuneration report to be audited is properly prepared;
 - whether the other information provided with the financial statements (usually the annual report) is consistent with them; and
 - the regularity of the expenditure and income in the financial statements.
- 17 In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).

I have issued an unqualified opinion on the accuracy and proper preparation of the 2017-18 financial statements of the Health Board

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.

- 18 I received draft accounts by the deadline and the supporting working papers were of good quality.
- 19 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.
- 20 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 30th May 2018. **Exhibit 1** summarises the key issues set out in that report.

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

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

Issue	Auditors' comments
Uncorrected misstatements	There were no uncorrected misstatements.
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 2017-18.

- 21 As part of my financial audit, I also undertook a review of the Whole of Government Accounts return. I concluded that the counterparty consolidation information was consistent with the financial position of the Health Board at 31 March 2018 and the return was prepared in accordance with the Treasury's instructions.
- 22 My separate audit of the Charitable Funds financial statements is complete and I issued an unqualified opinion on the accounts in December 2018.

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 2018 and so I have issued a qualified opinion on the regularity of the financial transactions within its 2017-18 accounts.

- 23 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.
- 24 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 2017-18, the Health Board reported a year-end deficit of £32.417 million. In addition, the Health Board breached its resource limit by spending £71.647 million over the £3,186 million that it was authorised to spend in the three-year period 2015-16 to 2017-18.

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 its failure to have an approved three-year plan in place

25 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.

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

26 I have a statutory requirement to satisfy myself that NHS bodies have proper arrangements in place to secure efficiency, effectiveness and economy in the use of their resources. I have undertaken a range of performance audit work at the Health Board over the last 12 months to help me discharge that responsibility. This work has involved:

- assessing the effectiveness of the Health Board's governance and assurance arrangements;
- reviewing the Health Board's approach to strategic planning;
- examining the arrangements in place for managing the Health Board's finances, workforce, assets and procurement;
- specific use of resources work on Primary Care services and regional partnership working;
- reviewing the Health Board's arrangements for tracking progress against external audit recommendations; and
- assessing the application of data-matching as part of the National Fraud Initiative (NFI).

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

The new Board is improving governance and leadership arrangements, although work remains to improve quality governance and whole system working

28 My structured assessment work examined the Health Board's governance arrangements, the way in which the Board and its sub-committees conduct their business, and the extent to which organisational structures are supporting good governance and clear accountabilities. I also looked at the information that the Board and its committees receive to help them oversee and challenge performance and monitor the achievement of organisational objectives. I found the following.

- 29 **The new Board is rapidly establishing itself as a cohesive team, and while arrangements to support board and committee effectiveness are generally good, Quality & Safety Committee arrangements require improvement.** My work found that following significant changes to Board membership, a focused development programme is helping to form an effective Board. There is a new energy and sense of ambition at Board meetings, an openness to the Board's consideration of issues, and realism about the challenges to get finances and performance to where they need to be. The Board has reviewed its committee structure and memberships, and I found a generally good flow of assurance and scrutiny at the Audit and Performance and Finance Committees. Work to re-frame the focus of the Workforce and Organisational Development Committee has moved forward positively, although aspects of the Quality and Safety (Q&S) Committee operation need to be strengthened. Substantive appointments to the Nursing and Medical Director posts have now brought stability to inform and support the work of this Committee. The Health Board is also progressing work to rebalance the Committee's work plan; improve agenda management; and ensure a stronger risk-based approach to assurance reporting and scrutiny.
- 30 **The Health Board is developing a new Board Assurance Framework designed around principal risks to strategic objectives, as well as refreshing the corporate risk register and improving risk management arrangements.** Extant risk and assurance systems have operated whilst a new Board Assurance Framework (BAF) is developed. The BAF design is centred on principal risks to achieving organisational objectives. The Health Board has taken a systematic top down and bottom up approach to developing the BAF, alongside an overhaul of its risk management arrangements and risk registers. The new, fully populated BAF and redesigned corporate risk register (CRR) are expected to be in place early in 2019. The Board's committees will receive the relevant parts of the BAF and CRR on a quarterly basis for oversight and scrutiny.
- 31 **Internal controls are generally effective, but clinical audit and the Quality and Safety Forum, have yet to fully contribute to the system of assurance.** The Health Board has reviewed its Standing Orders and Scheme of Delegation. It also has a well-focussed programme of work for Internal Audit and the Local Counter Fraud service. Integrated performance reporting is largely sufficient to inform Board scrutiny and decision making and operational performance management arrangements are in place. However, the performance management framework needs updating, which the Health Board intends to address alongside development of an organisational operating model in 2019. The Q&S Committee receives information on quality and patient experience through various reports, including assurances from the executive-led Q&S Forum. However, there are risks of duplication and gaps in current reporting to the Committee, and work to simplify the sub-groups reporting to the Forum is ongoing. The Health Board intends to review reporting to the Q&S Committee alongside its review of the Forum's terms of reference. It also recognises that local clinical audit could be used more effectively to provide key assurances on quality and risks.

- 32 In respect of information governance (IG), I found that the Health Board's IG strategy is supported by relevant policies; risk management arrangements, training and audit programmes. The Health Board has taken a proactive approach to prepare for and respond to the requirements of the General Data Protection Regulation and is taking actions to mitigate the risks posed by cyber security threats. There is a well-established Information Governance Board (IGB) which is an effective forum for driving the IG agenda. However, its focus may not be sufficiently strategic to fully support the Health Board's wider digital ambition in the longer term.
- 33 **With strengthened leadership, attention is now focussed on building more effective whole system working and clear accountabilities across the organisation, but the impending boundary change is stretching capacity in the short term.** Substantive appointments to the Medical, Nursing and Workforce Director posts this year have significantly strengthened the executive team. The Chief Executive has reviewed executive portfolios to better balance the spread of executive responsibilities, and the revised portfolio scheme is currently being finalised. My work this year found that a stronger senior leadership team approach is developing between executives and unit triumvirate management teams, although a number of issues are still hampering effective whole system working across the organisation. The Health Board has appointed a Transformation Director to lead an organisational transformation programme to ensure that all the change programmes and effort within the organisation are aligned. The Health Board recognises the need to move from the current position of multiple disparate programmes and develop clearer accountabilities and connections across the organisational structure. While preparations for the Bridgend boundary change are taking up significant capacity at present, the Health Board is making reasonable progress in developing its transformation plans but has much more to do.
- 34 **The Health Board has a well-established system for tracking internal and external audit recommendations.** The Health Board has a well-established system for tracking internal and external audit recommendations. Reports to the Audit Committee highlight progress and show how long actions take to address recommendations. This information informs the Committee's scrutiny and holding to account of officers on progress and pace. The Q&S Committee receives findings from clinical and quality related inspections, reviews and audits, but it does not have a tracking system to monitor progress against any improvement actions. The Health Board intends extending its tracking arrangements to address this gap. My structured assessment review this year indicates a number of areas where the Health Board is making progress against my previous recommendations but there remains more to do before these actions are completed in full. I discuss this further in [paragraphs 48 and 49](#).

Whilst working to an annual plan, the Health Board is showing ambition in developing its longer-term strategic planning but will need to ensure sufficient capacity to drive through the necessary change

- 35 My work examined how the Board sets the strategic direction for the organisation and plans for the short, medium and long term. I also assessed how well the Health Board plans how it will achieve its objectives, and whether there are effective arrangements to monitor progress in delivering its plans. My findings are set out below.
- 36 **The Board is setting a clear vision for the organisation and showing commitment and ambition in developing its longer-term strategy and clinical services plan.** During 2018, the Board has focussed on developing its vision for the organisation, expressed through a 10-year organisational strategy (the strategy) and supported by a five-year clinical services plan (CSP). The Board approved the draft strategy in November 2018, which sets out the Health Board's strategic aims and enabling objectives. The development of the Clinical Services Plan (CSP) has run concurrently with that of the strategy to ensure coherence and alignment. The work has presented an extremely challenging task in terms of timescales, complexity and organisational capacity. Capita has provided capacity and expertise, particularly for service demand modelling, and the work has considered regional service provision and the implications of the Bridgend boundary change due to take place in April 2019. Development of the CSP has been driven through clinical redesign groups and the Health Board continues to engage with statutory partners and stakeholders on its strategy and CSP. The draft CSP is due to be presented to Board for approval in January 2019.
- 37 **The Health Board is working to produce an approvable three-year integrated medium-term plan for 2019-2022.** For the past two years, the Health Board has been unable to produce a financially balanced three-year Integrated Medium-Term Plan (IMTP) and has worked to annual operating plans (AOPs). The Health Board is currently developing its AOP for 2019-20 and an IMTP for 2019-2022 which it sees as the route map for implementing the first three years of the organisational strategy and clinical services plan. The Health Board has aligned the timetable and planning processes for each, and the overall planning framework appears reasonable. Commissioning intentions have been set out, and a longer-term financial plan with greater focus on sustainability and transformation is emerging. Workforce planning has been better supported this year, but for the long term, more pace in progressing workforce redesign will be needed. The Board is due to receive the 2019-20 AOP for its approval in January 2019, together with the narrative for the IMTP which the Health Board intends to submit for approval later in 2019. Welsh Government approval of the IMTP during 2019-20 will be dependent on whether the three-year plan is financially balanced and viable in terms of required performance.

38 **There is good monitoring of annual plan delivery and work is planned to develop measures for new longer-term plans but capacity to deliver significant change is a challenge.** Delivery against the AOP receives scrutiny at each meeting of the Performance and Finance Committee. Key performance measures relevant to the AOP are included in the integrated performance report. The Board and Committee also receive quarterly progress reports which are RAG rated to identify whether delivery on each action is on track. Regular executive-led operational performance reviews also consider performance against the annual plan. With the move to a 10-year strategy, a five-year clinical services plan and a three-year IMTP, the Health Board needs to make sure that progress against plans can be measured against clear milestones and the information presented meets the needs of the Board. The Health Board is planning to include the outcome measures for strategy delivery in its three-year plan and is aware that it will need to define the portfolio of change programmes, critical paths and the measures of success for delivering the clinical services plan. However, programme and change management capacity to support strategic plans and service change remains a challenge.

There are signs of the Health Board managing its resources more strategically with an evolving values-based approach, but finance, performance and efficiency challenges remain with workforce and asset management presenting key risks

39 My structured assessment work examined the Health Board's arrangements for managing its workforce, its finances and other physical assets to support the efficient, effective and economical use of resources. I also considered the arrangements for procuring goods and services, and the action being taken to maximise efficiency and productivity. My findings are set out below.

40 **The Health Board faces some significant workforce risks but is making progress despite some ongoing challenges.** There is now much needed stability within the Workforce and Organisational Development (WFOD) team with the appointment of a new Workforce and Organisational Development Director. The establishment of a WFOD Forum is also supporting more systematic operational management and oversight of workforce and organisational development issues. The Director's stocktake of workforce risks has highlighted a number of significant risks and challenges, including employee relations issues and organisational culture. The Health Board has put actions in place and is making progress in addressing issues, with additional short-term resourcing made available for key improvement work. My work also found evidence of improving performance in key workforce measures such as: sickness absence; staff turnover; appraisals; and mandatory training rates. However, WFOD team capacity appears lean and managing the impending transfer of staff to Cwm Taf University Health

Board, as part of boundary changes in April 2019, is placing significant demands on the team at present.

- 41 **The use of financial resources appears to be moving in a positive direction, with strengthened management and scrutiny, but significant challenges remain.** The Health Board reported a £32 million deficit in 2017-18 (paragraph 24). For 2018-19, it initially forecast a deficit of £25 million but has been working to deliver to a £20 million control total deficit subsequently imposed by the Welsh Government. In December 2018, the Health Board received an additional £10 million of non-recurring Welsh Government funding and is now forecasting a year-end deficit of £10 million. My annual accounts work has consistently identified that the Health Board has adequate budgetary, financial management and control arrangements. However, historic overspending suggests that there has not been sufficient financial accountability.
- 42 My work this year has found improved financial stewardship, an increased focus on operational ownership of budgets, and strengthened monitoring and scrutiny. The use of costing and benchmarking data is developing, and the Health Board has sought to develop more sustainable savings through its recovery and sustainability workstreams. The value-based procurement workstream had delivered £1.2 million of savings by the end of November 2018, against a plan of £941,000 and an annual target of £2 million. Other workstreams have been slow to deliver, resulting in continued reliance on non-recurrent savings and other mitigating measures. However, these workstreams should be contributing to recurring savings in 2019-20. The Health Board is also developing a longer-term financial strategy for inclusion in its IMTP for 2019-22. with an intended focus on sustainability and transformation across the organisation. However, at the time of my audit work this had yet to be approved and finalised.
- 43 **Performance has improved in some key areas, but unscheduled care remains a challenge and an increased focus on efficiency and embedding a values-based approach is needed.** The Health Board has sustained its focus on improving organisational performance, particularly in the five areas associated with targeted intervention. Unscheduled care remains a challenge although metrics show improvement in the four other targeted intervention areas: waiting times from referral to treatment (RTT); waiting times for cancer treatment: stroke: healthcare acquired infections. The Health Board also recognises the need to make efficiencies and has several workstreams to improve productivity and efficiency. However, performance is mixed with, for example, more day case procedures being performed but scope to improve overall theatre utilisation. The principles of prudent and values-based healthcare are reflected in the Health Board's planning, and Neath Port Talbot Hospital is a pilot site for applying values-based principles. The Welsh Government has recently approved funding to develop a joint infrastructure with Hywel Dda University Health Board and Swansea University. This provides a platform for the Health Board to build its values-based approach.

- 44 **The Health Board has yet to define its asset management strategy and faces difficult decisions on resource prioritisation to support modernisation.** The Health Board does not have an overarching asset management strategy to underpin its strategic plans and enable prioritisation of limited resources. It faces £62 million of backlog maintenance, and at the end of 2017-18, had £80 million of assets operating beyond their economic life. To date, there has not been a review of the estate to help the Health Board to determine how it will prioritise and progress the estates issues it faces within limited capital funding. The Health Board is currently developing an estates strategy for Primary and Community Services, but it will need to consider its hospital estate to support resource prioritisation and its longer-term plans. The Health Board has a well-developed ICT strategy and a good track record for innovation but internal capacity and resource constraints present longer-term challenges for supporting modernisation.

My wider programme of work has found some aspects of good practice as well as opportunities to strengthen some arrangements for securing efficiency, economy and effectiveness

The Health Board has clear plans for primary care coupled with strong leadership and oversight of clusters but financial recovery and secondary care are taking focus from primary care planning and performance is not strong

- 45 I found that the Health Board's Primary and Community Strategy aligns with the national primary care plan although the pace of delivery is impeded by other priorities. The Health Board engaged with stakeholders to develop its plans. However, these are set in the context of financial recovery and the move of Bridgend services to Cwm Taf Health Board, which is challenging the pace of delivery.
- 46 Cluster plans reflect wider strategic plans although clusters are frustrated because they are unable to mainstream pilot projects. The Health Board has some examples of resources shifting closer to home, but the available data make it difficult to calculate overall investment in primary care and there are concerns about the lack of ongoing funding to sustain successful projects. Practice sustainability is well managed although gaps in staffing data hinder workforce planning, and a lack of suitably trained staff is a barrier to the development of multi-disciplinary teams.
- 47 The Health Board has strong leadership arrangements and clear oversight of clusters, but data limitations affect performance monitoring and there is scope to focus more on primary care at Board level. The Health Board is making some progress in delivering its plans, but it is not performing strongly against a number of key performance measures and several difficult challenges remain.

The Health Board has made some progress in addressing recommendations from my previous work but more focus is needed to progress overdue actions particularly in relation to consultant job planning

- 48 My work has found that the Health Board is making progress in addressing recommendations from my previous audit work, although in some areas, progress has been slow. Of the 368 recommendations included in the audit tracking report¹ presented to Audit Committee in November 2018, some 172 actions were reported as complete, 105 were in progress and within timescales, and 91 (25%) were overdue. A significant majority (78%) of the overdue actions relate to consultant contract and job planning.
- 49 As part of my 2018 Structured Assessment, I reviewed the progress made in addressing my 2017 recommendations. Of the 48 recommendations, 28 (58%) have been implemented and 16 (33%) have been partly addressed with further actions in progress. Two recommendations are no longer applicable due to structural changes during the last year and two have yet to be implemented.

My emerging findings on the Integrated Care Fund are showing that whilst the Fund is having some positive impacts, there are also a number of challenges that the Regional Partnership Board needs to manage

- 50 I have completed the fieldwork for my cross-sector Integrated Care Fund review. I intend to prepare a national summary report early in 2019, setting out my all-Wales findings. My audit team has already presented local findings to Regional Partnership Boards. The key messages for the Western Bay Regional Partnership Board (RPB) are:
- the Integrated Care Fund (the Fund) has had a positive impact in bringing organisations together across the Western Bay Region with cultural issues that previously hampered partnership working beginning to improve. The RPB membership is due to change during 2019 as Bridgend moves to the Cwm Taf footprint. Alongside these changes, the RPB will also need to consider if there is sufficient housing and financial representation, and if the balance of health board and local authority members is right. There is also scope to further clarify and improve links between the RPB and Public Service Boards on an ongoing and regular basis.
 - decisions surrounding the use of the Fund are largely delegated to sub-groups of the Regional Partnership Board, but the level of understanding within partner organisations of the work of the Western Bay Regional Partnership Board and its sub-groups, including what the Fund is being used for and its impact, needs to improve.

¹ Structured Assessment 2017 recommendations are monitored and reported to the Audit Committee via the Health Board's integrated governance workplan and are not included in the audit tracking figures discussed in paragraph 46.

- due to the annual nature of the Fund, the region recognises that it has not always used the Fund strategically to develop services based on need, with scope to strengthen aspects of project management for the projects supported by the Fund.
- there is general agreement that the Fund is supporting the right projects and having a positive impact on service users, but like other regional partnership boards across Wales, very few projects are being mainstreamed into core services. The Western Bay region is attempting to demonstrate outcomes more clearly, but this presents an ongoing challenge.

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

- 51 The National Fraud Initiative (NFI) is a biennial data-matching exercise that helps detect fraud and overpayments by matching data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. It is a highly effective tool in detecting and preventing fraud and overpayments and helping organisations to strengthen their anti-fraud and corruption arrangements.
- 52 The Health Board received the outcomes from the 2016 NFI data matching exercise in January 2017, and by 20 November 2017, had made good progress in reviewing 695 of the 728 recommended matches. No fraud was identified, and the review of data matches provided assurance that counter-fraud arrangements were working effectively. However, as at 20 November 2018, the Health Board had not reviewed the remaining 33 matches, although this was scheduled to take place in December 2018. The outstanding matches are potentially high-risk matches between payroll, creditor payments and Companies House data, and between staff and supplier bank accounts.
- 53 In October 2018 the Health Board submitted its data for the next NFI data matching exercise. The outcomes of this exercise will be available early in 2019 and it is important that the Health Board completes a timely review of recommended matches that emerge from this exercise.

Appendix 1

Reports issued since my last annual audit report

Exhibit 2: reports issued since my last annual audit report

The following table lists the reports issued to the Health Board in 2018.

Report	Date
Financial audit reports	
Audit of Financial Statements Report	May 2018
Opinion on the Financial Statements	June 2018
Audit of Financial Statements Report – Charitable Funds	November 2018
Opinion on the Financial Statements – Charitable Funds	December 2018
Performance audit reports	
Primary Care	December 2018
Structured Assessment 2018	January 2019
Other reports	
2018 Audit Plan	March 2018

Exhibit 3: performance audit work still underway

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

Report	Estimated completion date
Clinical coding	March 2019
Cross Cutting review on the Integrated Care Fund	March 2019
Follow-up review of waiting times	May 2019
Orthopaedic services follow-up	October 2019

Appendix 2

Audit fee

The 2018 Audit Plan set out the proposed audit fee of £416,807 (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 outline. However, I will update officers should this position change.

Appendix 3

Significant financial audit risks

Exhibit 4: significant financial audit risks

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

Significant audit risk	Proposed audit response	Work done and outcome
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	My audit team will: <ul style="list-style-type: none"> test the appropriateness of journal entries and other adjustments made in preparing the financial statements; review accounting estimates for biases; and evaluate the rationale for any significant transactions outside the normal course of business. 	My audit team: <ul style="list-style-type: none"> tested journal entries; reviewed accounting estimates, in particular primary care payments; and did not identify any transactions outside of the normal course of business. No matters arose from the work carried out.
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].	My audit team will: <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. 	My audit team reviewed income streams for completeness and tested them for accuracy. <p>No matters arose from the work carried out.</p>
There is a significant risk that the Health Board will fail to meet its revenue resource allocation . The month 9 position showed a forecast year-end deficit of £36 million. Should the Health Board fail to meet its revenue allocation, I will qualify my regularity opinion and may choose to place a substantive report on the financial statements explaining the failure and the circumstances under which it arose. <p>The current financial pressures on the Health Board increase the risk that management judgements and estimates could be biased in an effort to achieve the resource limit.</p>	My audit team will focus its testing on areas of the financial statements which could contain reporting bias. <p>I may choose to place a substantive report on the financial statements explaining the failure and the circumstances under which it arose.</p>	My audit team reviewed year-end transactions, in particular accruals and cut-off. No matters arose from the work carried out. <p>I chose to place a substantive report on the financial statements explaining the failure and the circumstances under which it arose.</p>

Significant audit risk	Proposed audit response	Work done and outcome
<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 in the last financial year and the Health Board includes within its financial statements amounts relating to those uncertain continuing healthcare costs.</p> <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>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>
<p>In 2017-18 the Health Board is required to revalue its land and buildings as part of the five-year revaluation programme. Given the value of these assets held by the Health Board is some £525 million they are material to the financial statements. In addition, the revaluation will be using a revised valuation approach.</p> <p>There is a risk that the revaluation is not correctly reflected in the financial statements and the financial statements could be materially misstated.</p>	<p>My audit team will audit the revaluation of land and buildings and ensure the correct accounting treatment.</p>	<p>My audit team reviewed the revaluation of land and buildings and ensured that the accounting treatment in the financial statements was correct. No matters arose from the work carried out.</p>
<p>Last year the Supreme Court delivered its ruling that Health Boards in Wales must revisit their approach to funding nursing care in care homes.</p> <p>Negotiations are ongoing but the impact at the Health Board could be material and the accounting approach in 2017-18 is likely to involve significant estimates and judgements. As such it is viewed as a significant risk.</p>	<p>My audit team will undertake specific work on the accounting treatment of the funding of nursing care to ensure accounting and reporting are materially correct.</p>	<p>My audit team reviewed the accounting treatment of the funding of nursing care in the financial statements. No matters arose from the work carried out.</p>
<p>The Health Board has agreed a number of severance packages with staff during 2017-18. These items are materially sensitive by nature and if the correct procedures are not followed there could be an impact on my regularity opinion.</p>	<p>My audit team will work with the Health Board during the year. My team will then review a sample of severance packages at the year-end.</p>	<p>My audit team worked with the Health Board during the year.</p> <p>In 2016-17 we reported that the Health Board needed to improve its governance arrangements for managing the departures of senior staff. We have not raised any further issues during 2017-18.</p>

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