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Annual Audit Report 2017 – **Betsi Cadwaladr University Health Board**

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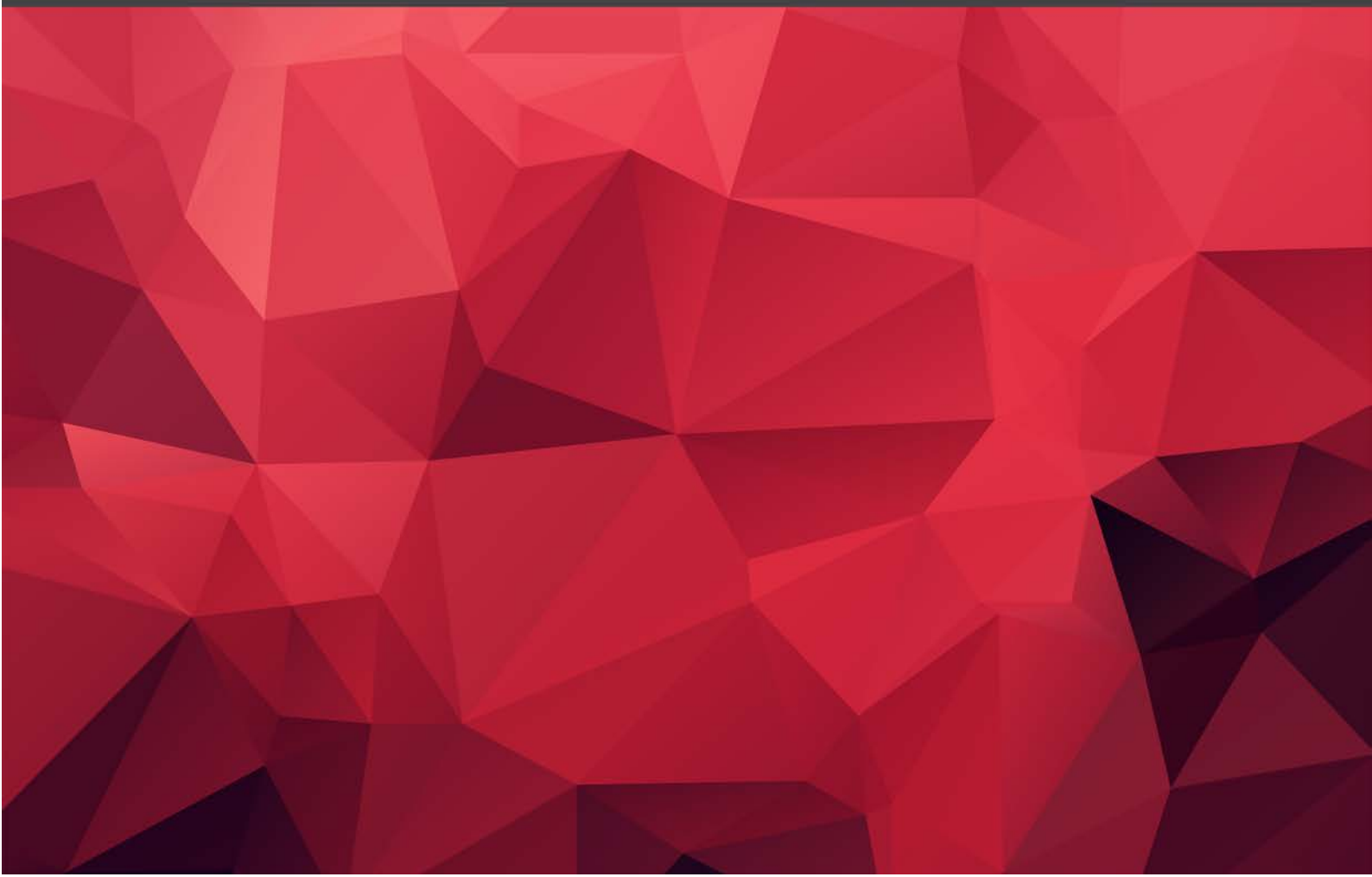

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

The team who prepared this report on my behalf comprised Amanda Hughes, Andrew Doughton, Dave Thomas and Mike Usher.

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Summary report

Summary

1 This report summarises my findings from the audit work I have undertaken at Betsi Cadwaladr University Health Board (the Health Board) during 2017. I did that work 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.

2 My audit work focused on strategic priorities and the significant financial and operational risks facing the Health Board, and which are relevant to my audit responsibilities. The separate reports I have produced during the year have more detail on the specific aspects of my audit. My team discuss these reports and agree their factual accuracy with officers before presenting it to the Audit Committee. My reports are shown in Appendix 1.

3 The Chief Executive and the Executive Team have agreed the factual accuracy of this report, which my team presented to the Board on 1 February. The Audit Committee will receive the report at its meeting on the 9 February. I strongly encourage the Health Board to arrange wider publication of this report. Following Board consideration, I will make the report available to the public on the Wales Audit Office website.

4 My audit work can be summarised under the following headings.

Section 1: audit of accounts

5 I have issued an unqualified 'true and fair' opinion on the 2016-17 financial statements of the Health Board together with a qualified regularity opinion, although in doing so I brought one issue to the attention of officers and the Audit Committee as set out in Exhibit 1 of this report.

6 I have also concluded that the Health Board's accounts were properly prepared and materially accurate.

7 My work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts.

8 Alongside my audit opinion, I placed a substantive report on the Health Board's financial statements to highlight its failure to meet its two financial duties.

9 The Health Board did not achieve financial balance for the three-year period ending 2016-17, nor had it prepared an approved integrated three-year medium term plan for the period 2016-17 to 2018-19, therefore it failed to meet both the first and the second statutory financial duties under the NHS (Wales) Finance Act 2014. Section 2 of this report has more detail about the financial position and financial management arrangements.

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

10 I have examined the Health Board's financial planning and management arrangements, its governance and assurance arrangements, and its progress on the improvement issues identified in last year's Structured Assessment. I did this to satisfy myself that the Health Board has made proper arrangements for securing efficiency, effectiveness and economy in the use of its resources. I have also undertaken Performance Audit reviews on specific areas of service delivery including reviews of estates, GP out-of-hours (OOH) services, discharge planning arrangements, emergency ambulance service commissioning arrangements, and follow-up outpatients services. My conclusions based on this work are set out below.

The Health Board continues to experience significant financial challenges and needs to develop a more transformational approach to savings schemes if it is to reduce its growing cumulative deficit

11 While the Health Board has a reasonable savings delivery track record, its savings approach is not sufficiently improving the overall financial sustainability and financial standing of the organisation. Over the period between 2012 and 2017, the Health Board has set savings plans targets of £193 million, and has achieved £192 million. For 2017/18, the plan at the beginning of the year included a £35.4 million savings target. However, as the year has progressed, a growth in unanticipated costs became apparent. In response, the Health Board has developed additional savings schemes, but had also revised its forecast in-year deficit from £26 million to £36 million. The forecast deficit for the three-year period ending 31 March 2018 now stands at £85.3 million.

12 The Health Board's arrangements for savings planning and delivery are strengthening, but its approach is predominantly based on an annual cycle and has been too focused on in-year cost control, placing too great a reliance on short-term and non-recurrent savings. Revised accountability arrangements for the Programme Management Office team are now broadening its focus, and there is also a good track record of finance department support for services. However while available if specifically requested, change management, workforce planning, procurement and informatics support for saving schemes, was not systematically provided to saving scheme owners. At present, the Health Board's savings approach is also impacted by growth of in-year costs, which is increasing the focus on short-term solutions. There is opportunity to increase the focus on service transformation, improving value and productivity, efficiency and reducing waste. The Health Board is developing arrangements to help secure more sustainable financial improvements and needs to progress these with increased urgency.

13 Financial savings monitoring and scrutiny arrangements are strengthening as a result of lessons learnt from previous years and significant financial risks faced in the current year. The Health Board's approach for monitoring savings delivery at a management level is well established. The PMO monitoring group oversees progress of financial savings plans and receives increasingly clear information on saving schemes. Board and committee savings monitoring has been sufficient to discharge a general duty to oversee the impact of financial savings, and the level of detailed information to enable effective support and scrutiny is improving.

Some governance processes are strengthening, but the Board urgently needs to demonstrate a positive impact on the organisation's performance and finances

14 Governance structures are well administered, but there are opportunities for further improvement and re-shaping of the terms of reference of the Finance and Performance Committee and strengthening Board decision making, with a greater focus on affordability. My work has identified good administration, process and management of Board and committee meetings. However, the demands on the Health Board and its governance arrangements are changing. In particular, I noted the demanding agenda of the Finance and Performance Committee. Whilst I acknowledge the establishment of the Financial Recovery Group in September, the Finance and Performance Committee's terms of reference may need to be reviewed. This should ensure the Committee can provide the oversight and stimulus for recovery of its finance and performance positions, once the Financial Recovery Group has had sufficient time to embed into the overall governance arrangements of the Board. I also considered performance monitoring arrangements are in place within the Health Board and noted a deterioration in performance in a number of key areas within the national delivery framework.

15 I also found:

- that board assurance framework arrangements are progressing well and continuing to develop, with the aim of introducing them early in 2018;
- the Health Board is supported by high-level key internal controls which are continuing to strengthen, although there is opportunity to strengthen clinical audit;
- the Health Board has made effective use of the national fraud initiative to detect fraud and overpayments;
- good information governance foundations are in place, and the Health Board has recognised and is investing resources to meet new General Data Protection Regulation requirements;
- recent minor changes to the organisational structure have proceeded as planned;
- the Health Board is addressing the issues identified in last year's structured assessment, although more work is needed; and

- in general, the arrangements for monitoring recommendations made by internal and external audit are improving.

The Health Board is making efforts to improve services, but its current arrangements are increasingly stretched

16 My work programme has included a review of medical equipment management and a follow-up of my previous consultant contract reviews. My conclusions are as follows:

- further work is needed to continue to develop important areas which enable the efficient, effective and economical use of resources:
  - the Health Board continues to have a clear programme of public engagement and a track record of gaining a wide representation of community groups. This may need to become specifically focussed on key service changes, and may need to include formal consultation, as plans start to progress.
  - the Health Board has continued with its living healthier staying well strategy development. The Health Board indicates it is on track to produce its integrated medium-term plan for 2018-21.
  - change management capacity and capability is an area that has been an issue for the Health Board for some time, and I have commented on the need to strengthen its arrangements since 2014.
  - workforce performance measures show that the Health Board performs well in some areas such as sickness absence. However, there also remain a number of significant workforce challenges faced across the organisation including recruitment and the reliance on temporary workforce.
- the Health Board is improving its approach to estates management, but is struggling to allocate sufficient resources to estates and lacks an overall strategy to tackle high-risk areas.
- the day-to-day operation of the radiology service is well managed, but increasing demand, workforce challenges, poor IT systems, aging equipment and weak strategic planning present risks to future delivery.
- the Health Board is planning more strategically and clearly to improve GP OOH services, but in a challenging environment is not yet achieving a modern, consistent, well-resourced and staffed service that meets national performance targets.
- the Health Board can demonstrate its intention to improve patient flow and discharge planning, but staff confidence and training remain challenging and performance remains poor.

- the Health Board has made progress in addressing recommendations from previous audit work although important actions remain outstanding in a few key areas.
- the Health Board has made progress responding to recommendations made in my 2015 follow-up outpatients report, but it still needs to improve the way it identifies clinical risks and incidents, quicken the pace of service improvement and reduce the backlog of delays.

17 I would like to thank the Health Board's staff and members for their assistance and co-operation during the audit.

Detailed report

About this report

18 This Annual Audit Report 2017 to the board members of the Health Board sets out the findings from the audit work that I have undertaken between December 2016 and November 2017.

19 I undertake my work at the Health Board 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.

20 In relation to (c), I have drawn assurances or otherwise from the following sources of evidence:

- the results of audit work on the Health Board's financial statements;
- work undertaken as part of my latest structured assessment of the Health Board, which examined the arrangements for financial management, governance and assurance;
- performance audit examinations undertaken at the Health Board;
- the results of the work of other external review bodies, where they are relevant to my responsibilities; and
- other work, such as data-matching exercises as part of the National Fraud Initiative (NFI) and certification of claims and returns.

21 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.

22 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

23 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 2017 Audit Plan.

24 Finally, Appendix 3 sets out the significant financial audit risks highlighted in my 2017 Audit Plan and how they were addressed through the audit.

[1] Public Audit (Wales) Act 2004

Section 1: audit of accounts

25 This section of the report summarises the findings from my audit of the Health Board's financial statements for 2016-17. These statements are the means by which the organisation demonstrates its financial performance and sets out its net operating costs, recognised gains and losses, and cash flows. Preparation of an organisation's financial statements is an essential element in demonstrating appropriate stewardship of public money.

26 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 prepared in accordance with statutory and other requirements, and comply with 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 (the annual report) is consistent with them; and
- the regularity of the expenditure and income in the financial statements.

27 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 'true and fair' opinion on the 2016-17 financial statements of the Health Board together with a qualified regularity opinion and I placed a substantive report alongside my audit opinion

The Health Board's accounts were properly prepared and materially accurate

28 The draft financial statements were produced for audit by the agreed deadline of 28 April 2017 and were of a good quality. Despite the challenging deadline, I found the information provided in the accounts to be relevant, reliable and materially complete.

29 My substantive report explains the two statutory financial duties applicable from 2014-15 and the cumulative performance of the Health Board against the duties

over the three years 2014-15 to 2016-17. The Health Board failed to meet both the first[2] and the second[3] financial duty.

30 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 on 30 May 2017. 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
The process to identify related party transactions could be strengthened	Board Member declarations were incomplete as there was a lack of clarity over which positions should be declared by members on their annual return. As a result, the finance team had to carry out additional work in order to prepare the Related Party Disclosures contained in Note 24. Whilst I was satisfied that the disclosures were complete, I recommended that the process is enhanced to capture all relevant information in one place.

31 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 2017 and the return was prepared in accordance with the Treasury's instructions.

32 The Health Board's draft 2016-17 charitable funds financial statements were prepared in accordance with agreed timetables. I issued an unqualified opinion on the charitable financial statements on 6 December 2017.

My work did not identify any material weaknesses in the Health Board's internal controls

33 I reviewed the Health Board's internal controls that I considered to be relevant to the audit to help me identify, assess and respond to the risks of material misstatement in the accounts. I did not, however, consider them for the purposes of expressing an opinion on the operating effectiveness of internal control. My review did not identify any significant deficiencies in the Health Board's internal controls.

[2] The first financial duty is to break even over the three-year period 2014-15 to 2016-17.

[3] The second financial duty is to have in place an Integrated Medium Term Plan (IMTP), approved by the Welsh Ministers, for the period 2016-17 to 2018-19.

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

34 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 planning and delivery of financial savings and their contribution to achieving financial balance;
- assessing the effectiveness of the Health Board's governance and assurance arrangements through my structured assessment work, including a review of the progress made in addressing structured assessment recommendations made last year;
- assessing the application of data-matching as part of the National Fraud Initiative (NFI);
- specific use of resources work on radiology services, GP OOH services, discharge planning and a local audit review of estates; and
- assessing the progress the Health Board has made in addressing the recommendations raised by previous audit work on the management of follow-up outpatients, and reviewing the Health Board's arrangements for tracking progress against external audit recommendations.

35 I have also undertaken performance audit work that has examined the governance arrangements within the Emergency Ambulance Services Committee, and also the collaborative working arrangements between local public health teams and Public Health Wales NHS Trust.

36 In addition to my programme of audit work, my team also undertook a joint review with Healthcare Inspectorate Wales. This work assessed areas that were identified in my previous joint reviews of governance arrangements. The report was published in June 2017.

37 The main findings from my programme of work are summarised under the following headings.

The Health Board continues to experience significant financial challenges and needs to develop a more transformational approach to savings schemes if it is to reduce its growing cumulative deficit

38 In addition to commenting on the Health Board's overall financial position, my structured assessment work in 2017 has considered the actions that the Health Board is taking to achieve financial balance and create longer-term financial

sustainability. I have assessed the corporate arrangements for planning and delivering financial savings in the context of the overall financial position of the organisation. I have also reviewed progress the made in addressing previous structured assessment recommendations relating to financial. I summarise my findings below.

While the Health Board has a reasonable savings delivery track record, its savings approach is not sufficiently improving the overall financial sustainability and financial standing of the organisation

39 Over the last five years, the Health Board has set relatively ambitious but achievable savings targets. Over the period between 2012 and 2017, the Health Board has set savings plans targets of £193 million, and has achieved £192 million. For 2017-18 in particular, the plan at the beginning of the year included a £35.4 million savings target and a predicted year-end deficit of £26 million. However as the year has progressed, a growth in costs became apparent which has resulted in the Health Board developing additional savings schemes and also revising its forecast deficit from £26 million to £36 million. The expected three-year deficit for 2015-2018 now stands at £85.3 million. As such, the Health Board will not meet its requirement to spend within allocation as set out in the NHS Finance Act (Wales) 2014 for the period 2015-2018. The rolling nature of the requirements set out in this Act mean also that the Health Board is highly unlikely to recover its three-year cumulative position for at least another two years.

The Health Board's arrangements for savings planning and delivery are strengthening, but its approach has been too focused on in-year cost control. There is an opportunity to increase the focus on service transformation, improving value and productivity, efficiency and reducing waste

40 Corporate leadership and management of savings have been subject to numerous changes in recent years. Over the last three years, there has been reliance on an external consultancy, appointment of an interim Director of Turnaround and support of a minimally staffed Programme Management Office (PMO). Revised accountability arrangements for the PMO team are now broadening the focus of the team and there is a good track record of finance department support for services. However, support from other enabling functions, could be strengthened. I understand that Health Board is starting to address these issues as part of 2018-19 savings planning approaches.

41 There is a clear desire in the Health Board to embrace prudent healthcare[4] and value-based healthcare[5] principles but they currently are not well embedded into service planning. At present, the Health Board's savings approach is predominantly

[4] **Achieving prudent healthcare in Wales**

[5] **NHS Confederation – Value Based Healthcare**

based on an annual cycle, placing too great a reliance on short-term and non-recurrent savings. It is also impacted by growth of in-year costs, which is increasing the focus on short-term solutions.

Financial savings monitoring and scrutiny arrangements are strengthening as a result of lessons learnt from previous years and significant financial risks faced in the current year

42 The Health Board's approach for monitoring savings delivery at a management level is well established. The PMO monitoring group oversees progress of financial savings plans and receives increasingly clear information on saving schemes. Board and committee performance monitoring of savings has been sufficient to discharge a general duty to oversee the impact of financial savings. However, until recently, the level of detail provided did not sufficiently enable effective challenge, support, escalation and remedial action at Board or committee level.

The Health Board has addressed the recommendation made relating to the timeliness of financial reporting to the Board

43 In my 2016 structured assessment, I made a recommendation to improve the timeliness of financial information that is being reported to the Board. Over the last year, the Health Board has improved the timeliness of reporting through verbal financial updates at in-committee sessions of the Board and also run additional board briefing sessions. It is also bringing forward the Board meeting dates so they are earlier in the month.

Some governance processes are strengthening, but the Board urgently needs to demonstrate a positive impact on the organisation's performance and finances

44 My structured assessment work has assessed the Health Board's governance and assurance arrangements. This included the effectiveness of the board and its governance structures and the progress made in addressing previous structured assessment recommendations and improvement issues. My findings are set out below.

Governance structures are well administered, but there are opportunities for further improvement and re-shaping of terms of reference and strengthening Board decision making, with a greater focus on affordability

45 My audit work reviewing the Board and its committees during 2017 shows that they are well administered and conduct their business properly. This includes a planned cycle of business, varied agenda and transparency in public reporting. I continue to note good inter-relationship and co-ordination between the Board's committees as well as improvement in the function of the Strategy, Partnerships and Population Health Committee and Audit Committee. However, while there is a notable

commitment to improve, the Board needs to strengthen decision making with a greater focus on affordability. This needs to ensure that the decisions it makes at the Board are affordable now and also help to put the organisation on a stronger financial footing in future.

46 My team found that the Finance and Performance Committee has a clear agenda with a positive contribution of the independent membership. They also note recent strengthening in the style of scrutiny, which needs to continue. However, there is a significant demand on the committee, given the increased scrutiny and focus that is needed on finance and performance within the Health Board. Whilst I acknowledge the establishment of the Financial Recovery Group in September, evidence indicates that the committee's current remit is too broad to allow it to adequately focus on some of the key finance and performance challenges that the Health Board is facing. The Finance and Performance Committee's terms of reference may need to be reviewed to ensure the Committee can provide the oversight and stimulus for recovery of its finance and performance positions, once the Financial Recovery Group has had sufficient time to embed into the overall governance arrangements of the Board.

47 I have also highlighted some areas where the Health Board will need to either strengthen its governance process or determine the impact of its arrangements. This relates to strengthening the flow of assurance between the officer-led Quality and Safety Group and the Quality, Safety and Experience Committee and building on existing clinical audit planning and reporting approaches.

Board assurance framework arrangements are developing well, supported by key internal controls which are continuing to strengthen

48 Over the past year, there has been a clear focus on strengthening Board assurance framework arrangements. This includes setting the requirements for the board assurance framework approach, which comprises:

- a board assurance framework narrative document which defines the shape of the overall governance arrangements;
- an assurance map which is used to determine assurance requirements and how these assurances will be obtained; and
- corporate risk management arrangements.

49 My work has also considered high-level internal control arrangements. As part of this I have identified that the Health Board has a regular and comprehensive programme of internal audit work with sufficient resources to deliver it. This work last year was summarised in a Head of Internal Audit report that gave reasonable assurance overall for 2016-17. As part of the internal audit programme, I have also considered the work of the capital audit team. Their recent work on a major capital project at the Health Board has identified a range of issues that the Health Board needs to address and apply lessons learnt.

50 There is a clear local counter fraud services work plan. This team is sufficiently resourced and includes a balance of work spread across the domains of strategic

governance, inform and involve, prevent and deter and hold to account as required in the NHS protect standards.

51 The audit committee receives a quarterly conformance report which provides a good perspective and provides assurance on the level of conformance with procedures on procurement, payroll, accounts receivable and loses and special payments. The Health Board also has a range of policies and procedures in place, and is currently working to strengthen its policy control arrangements and supporting systems.

Good information governance foundations are in place, and the Health Board has recognised and is investing resources to meet new General Data Protection Regulation requirements

52 Caldicott is a key element of the Information Governance and Confidentiality agenda. This helps to ensure that personally identifiable information is adequately protected[6]. The Health Board has completed a Caldicott Information Confidentiality self-assessment in April 2017 and currently assess themselves at 88% compliant. The introduction of the General Data Protection Regulation (GDPR) comes into force on 25 May 2018 and introduces some significant changes to data protection requirements and principles. The Health Board has recognised the legislative changes early and has a transition programme underway to assess readiness and implement the new requirements under the GDPR. Although some progress has been made, a number of activities remain in progress.

Whilst performance monitoring arrangements are in place within the Health Board, these have not prevented a deterioration in performance in a number of key areas within the national delivery framework

53 Health bodies in Wales are set and held to account on a range of national measures and targets that are set out in the NHS Wales Delivery Framework 2017-18[7]. I have considered overall progress against the national delivery framework measures that the Health Board reports on monthly and have highlighted key areas of concern. My work has indicated that the Health Board has made some improvements in performance on measures notably in the national performance domains of staying healthy, safe care, effective care and individual care. Irrespective of the like-for-like performance improvement over the last 12 months, the Health Board is not achieving many national targets, and performance has deteriorated in important areas. The most significant area of concern relates to timely care where the Health Board is only achieving 5 out of 18 national standards. I understand that the Health Board will be targeting some additional monies to improve elective waiting times.

[6] **Information Governance and Caldicott**

[7] **NHS Wales Delivery Framework**

Recent changes to the organisational structure have proceeded as planned

54 The Health Board has made minor changes to its organisation structure during the year. Those changes are starting to have positive affect. The changes included moving the communications function to the Chief Executive's office, and information governance and risk management teams have moved within the remit of the Board Secretary. In addition, I understand that over the past three months, the responsibility for complaints, concerns and incidents has now transferred to the Executive Director of Nursing. My work has found that the transfer of the team has been successful and the backlog of responses to concerns is reducing, but more work is now needed to strengthen the lessons learnt processes.

The Health Board has made effective use of the NFI to detect fraud and overpayments

55 The 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.

56 Participating bodies submitted data to the current NFI data matching exercise in October 2016. The outcomes were released to participating bodies in January 2017.

57 The Health Board is a mandatory participant in NFI. In January 2017, the Health Board received NFI data-matches through the NFI web application. The data-matches highlight anomalies which when reviewed can help to identify fraud and error. The Health Board has made good progress in reviewing the data-matches. No frauds have been identified as a consequence of the review undertaken providing assurance that the Health Board's counter-fraud arrangements are working effectively. The exercise has helped to identify £1,818 in VAT errors which has or is being recovered from suppliers. In 2016-17, the NFI introduced a new module matching across payroll, creditor payment and Companies House records. These data-matches can help to identify undisclosed staff interests and procurement fraud. The NFI web application shows that the Health Board has commenced reviewing these matches but in some cases, the outcome of the reviews has not been recorded within the web application. The Health Board should ensure that the review of these matches has been completed and all outcomes have been recorded.

The Health Board is addressing the issues identified in last year's structured assessment, although more work is needed. In general, the arrangements for monitoring recommendations made by internal and external audit are improving

58 I have considered the extent that the Health Board has progressed against recommendations made in last year's structured assessment. Overall, I found that the Health Board is making progress, although in some areas it has been slow.

59 In addition to reviewing the actions taken to address my 2016 structured assessment recommendations, I considered the effectiveness of the Health Board's wider arrangements to respond to my audit recommendations. I found that the Health Board is strengthening its process for tracking Internal Audit and External Audit recommendations. It has introduced a new system that monitors the progress against target deadlines and routinely reports progress on Internal Audit and External Audit recommendations to the Audit Committee. The approach is providing an improved understanding on progress against recommendations and where recommendations have not been completed within the indicated timeframe.

The Health Board is making efforts to improve services, but its current arrangements are increasingly stretched

Further work is needed to continue to develop important areas which enable the efficient, effective and economical use of resources

60 My Structured Assessment work has reviewed how a number of key enablers of efficient, effective and economical use of resources are managed. My key findings are summarised in Exhibit 2.

Exhibit 2: summary of key use of resources findings

The following table summarises the key findings on use of resource enablers from structured assessment.

Issue	Summary of findings
Stakeholder engagement	The Health Board continues to have a clear programme of public engagement and a track record of gaining a wide representation of community groups. The Health Board is, however, not formally consulting on major service change as part of its preparation for publishing its of Living Healthier Staying Well strategy or IMTP. It may need to do so in coming years as plans develop further.
Strategy and planning	The Health Board has continued with its living healthier staying well strategy development. It is engaged with the four North Wales Public Service Boards and development of wellbeing assessments, the North Wales population assessment and has developed its own local needs assessment. Overall, the Health Board has progressed its strategy and planning development. It will, however, need to ensure sufficient clarity in its plans to help provide an effective platform for change and a financially sustainable future.

Issue	Summary of findings
Change management capacity	Change management capacity and capability is an area that has been an issue for the Health Board for some time, and I have commented on the need to strengthen its arrangements since 2014. I have seen a number of changes over this time including a Programme Management Office, Programme review groups and service transformation groups but as arrangements have developed, they also have become complex, with differing structures and areas of focus.
Workforce planning	Workforce performance measures show that the Health Board performs well in some areas such as sickness absence, and compares well to other bodies in Wales. Initiatives such as the Health Board's 'step into work' and Project SEARCH programmes are offering access to work experience for people in the community facing disadvantage. The Board also supported and approved the staff engagement strategy in January 2017. However, there also remain a number of significant workforce challenges. Since 2011, reliance on agency staff has been worsening with agency staffing costs reaching £45 million in 2016-17. Recruitment also remains a significant challenge particularly for hard to fill specialist areas. I also considered overall management capacity. I noted: • that the Executive Directors can be drawn into operational management issues, which is indicative of a wider need to strengthen the breadth and depth of senior management expertise below executive director level; • clinical engagement and clinical leadership has also been a significant issue for the Health Board; and • fragility of the senior management structure in the Mental Health division.
ICT and use of technology	The Health Board developed its 2017-18 Informatics Operational Plan that sets the objectives and priorities for the current year. The Health Board's informatics department has historically has funding constraints and is attempting to balance its resource across operational requirements, new initiatives, systems and developments. The funding constraints may limit the extent that the Health Board can use technology to support and enable savings and efficiencies in other areas.
Estates and assets	My team has undertaken a specific review of estates management. A summary of my findings is provided below.

The Health Board is improving its approach to estates management, but is struggling to allocate sufficient resources to estates and lacks an overall strategy to tackle high-risk areas

61 My team found that the Health Board does not currently have an estates strategy. Its development is reliant on the approval of the Health Board's 'Living Healthier,

Staying Well' strategy and will be prepared during 2018. At present though, the absence of a strategy makes it more difficult for the Health Board to make or prioritise decisions on capital. This includes decisions on estate disposal and approval of new capital projects. The Health Board currently has an estates portfolio valued at around £420 million and nearly 60% of the estate is over 30 years old. The Health Board's backlog maintenance on a risk-adjusted basis is valued at £41.5 million[8], as of 2015-16. Nearly £21 million of its backlog is categorised as high risk, which is the greatest proportion in Wales. Recent completed building work and re-developments in progress should help to reduce some of the backlog, but it remains a significant challenge given the age profile of its estate. The Health Board's capital programme sub-group considers each of the discretionary capital proposals based on a number of factors including risk, statutory compliance, financial balance and alignment to the operational plan. While this group allocated £14.4 million for schemes in 2017-18, the bids submitted for the financial year amounted to over £30 million.

62 NHS Wales' estate dashboard data shows that the Health Board's estate performance has declined, particularly in relation to physical condition and statutory and safety compliance, over the period 2013-14 to 2015-16 and did not meet any national estate targets in 2015-16. This may be the reason driving such a high proportion of work on reactive rather than planned work. Currently, the resources available are not enabling the Health Board to keep pace and effectively manage the risks associated with its aging estate portfolio.

63 During 2015, the Health Board re-structured some divisions, which included bringing together the functions of estates and facilities within one division. This has had a positive effect leading to better allocation of funding between the estates and facilities functions. Staff report the restructure has had a positive effect, leading to clearer lines of accountability.

The day-to-day operation of the radiology service is well managed, but increasing demand, workforce challenges, poor IT systems, aging equipment and weak strategic planning present risks to future delivery

64 The Health Board should have a clear strategic plan that sets out how it will meet current and future demand for radiology services. The Health Board's previous plan is now out of date, and while there was some work to introduce a five-year plan, this was not completed. This constrains its ability to set out sound operational plans for the service.

65 The increasing role of radiology in clinical care has led to growing demand for radiological examinations, in particular for CT and MRI scans. However, demand for radiological services is generally beyond the local department's control, and other specialties do not always give notice of changes that impact on radiology

[8] NHS Estates, **A risk-based methodology for establishing and managing backlog Gateway reference 4102**, TSO, 2004.

demand. In relation to its workforce, the proportion of the Health Board's radiologists over 60 is higher than for the rest of Wales. This may increase the rate of staff turnover over in future in an environment where vacancies are difficult to fill.

66 I found that for planned care, there are few patients waiting longer than eight weeks for radiology appointments. Radiological reporting times are generally good and outsourcing of OOH reporting has helped to reduce reporting pressures. While in general that there was good open access to radiology services in relation to unscheduled care, access of emergency radiology services outside of normal working times was more limited.

67 There are fewer magnetic resonance imaging scanners when compared to Wales, computerised tomography and ultrasound scanners have shorter operating hours, and scanning at weekends is limited. In addition, some equipment is reaching the end of life expectancy but there is no replacement budget.

The Health Board is planning more strategically and clearly to improve GP out-of-hours services, but in a challenging environment is not yet achieving a modern, consistent, well-resourced and staffed service that meets national performance targets

68 My 2017 review aimed to establish whether the Health Board is ensuring that patients have access to effective and resilient GP OOH services. I found that the Health Board is working to improve how it plans services, but its strategy is undocumented. Since my fieldwork, the Health Board's 'GP out-of-hours Future Service Task and Finish Group' has been charged with developing a strategic approach. While there is no specific strategy for GP OOH overall, there is an action plan which has evolved from the original 2015 report actions.

69 The way the Health Board's divisions are managed presents challenges. Staff my team spoke to during my review understood the Executive leadership structure and operational accountability. However, staff also indicated that the professional clinical reporting lines are not currently clear. Long-term workforce issues continue to affect the sustainability of the service. When compared with other health boards in Wales, the Health Board has the lowest size of GP pool per 1000 population. The service has taken some steps to address this issue.

70 Between 2009-10 and 2015-16 the Health Board's expenditure on GP OOH services reduced by 14% in real terms. In 2015-16, the Health Board subsidised its GP OOH services to the sum of £0.05 million. This amounted to the smallest percentage of subsidy paid by a health board as a percentage of its notional allocation, equating to 0.7% and significantly lower than the national average of 16.9%. If the Health Board is to develop sustainable GP OOH services, it will need an appropriate budget setting approach aligned to unscheduled care strategy.

71 The Health Board needs to strengthen performance against national targets and its work to ensure demand is appropriate. My team identified:

- scope to do more to help patients access GP OOH services and signpost patients to the right service;
- opportunity to strengthen the call answering services; and

- a need to improve how the service performs with ‘see and treat’ and ‘hear and treat services’.

The Health Board can demonstrate its intention to improve patient flow and discharge planning, but staff confidence and training remain challenging and performance remains poor

72 My work found that the Health Board is taking a number of steps to achieve its vision for improving discharge planning and patient flow. In particular, my team noted that plans, such as the Health Board’s 2017-18 AOP and seasonal plan, articulate a clear intention to strengthen discharge planning as part of an approach to improve patient flow. The Health Board has recently developed pathways that draw on good practice, but a number of elements that could support discharge planning are absent, including development of standards for response times and quality, and processes for clinical information sharing.

73 The Health Board provides three discharge teams but these are available weekdays only and practice varies across hospitals. Although each district general hospital operates a discharge lounge, there is variation in their operating times, overall capacity and productivity. My team also found that staff training was historically poor, and staff awareness of, and confidence in, policies, pathways and community services is inconsistent. The Health Board is now taking steps to address poor access to, and compliance with, training for discharge planning. It is also taking action to increase its understanding of, and response to, a number of internal and external barriers to timely discharge, but some staff lack confidence to conduct difficult conversations with patients with regard to discharge.

74 Arrangements for monitoring, reporting and scrutinising discharge planning are generally effective. There are clear lines of accountability for monitoring and improving discharge planning and patient flow with regular scrutiny of performance. However, despite some recent improvement in the percentage of patients with long discharge delays, performance for discharge planning remains relatively poor.

The Health Board has made progress in addressing recommendations from previous audit work although important actions remain outstanding in a few key areas

75 In addition to reviewing the effectiveness of the Health Board’s arrangements to manage and respond to recommendations made as part of my audit work as discussed in paragraphs 60 to 61, my work has found that:

- the Health Board has responded to my 2016 structured assessment recommendation to maintain its focus on strategy development to ensure it meets its own challenging timescales. This recommendation will remain in progress until Board approval of its corporate strategy and plans.
- the Health Board continues to adapt its change management arrangements in response to my 2015 structured assessment recommendation, but at

present, these are still not sufficiently shaped to meet the organisation's change management arrangements.

76 During the last 12 months, I have also undertaken detailed follow-up audit work to assess the progress that the Health Board has made in addressing concerns and recommendations arising from previous audit work in specific areas of service delivery. The findings from this follow-up work are summarised in Exhibit 3.

Exhibit 3: progress in implementing audit recommendations in specific service areas

The following table summarises the key findings from my review of progress on follow-up outpatients

Area of follow-up work	Conclusions and key audit findings
Progress update of follow-up outpatients	The Health Board has made progress responding to recommendations made in my 2015 report, but it still needs to improve the way it identifies clinical risks and incidents, quicken the pace of service improvement and reduce the backlog of delays. The Health Board: • is fulfilling its requirement to report follow-up outpatient data as per the Welsh Government requirement, although system issues did prevent submission for a short period. • is continuing to expand the way it analyses and manages follow-up outpatient information and while this informs operational improvements, it is not yet consistently used to reduce inappropriate clinical variation in practice • has a clearer understanding of clinical specialties that present the greatest risk of irreversible harm if delays occur in follow-up appointments, but this is not at clinical condition level. • has focused on backlog delays but it still needs to modernise services to ensure they are fit for the future. This will be an ongoing requirement and is happening in a small number of specialties, but needs greater scale, pace and clinician/service driven involvement.

Collaborative commissioning arrangements have helped drive some important changes for emergency ambulance services in Wales; however, the maturing arrangements require greater commitment from some partners

77 My review of the all-Wales arrangements for commissioning emergency ambulance services found that the Emergency Ambulance Services Committee (EASC) has helped drive some important changes, such as the development of the CAREMORE®[9] model. However, structures and roles to secure accountability for emergency ambulance services are unclear. I found that there is scope to clarify the roles of EASC, the Welsh Government and the Chief Ambulance Services

[9] The CAREMORE® model is a 'made in Wales' commissioning method. Its registered trademark belongs to Cwm Taf University Health Board on behalf of NHS Wales.

Commissioner in relation to emergency ambulance service performance, finance and service modernisation. And although the formation of EASC has supported all-Wales ownership of emergency ambulance services, my team identified that EASC needs to do more to drive through service transformation. In addition, the sub-group structure, which underpins EASC, lacks clarity and purpose, which is impacting on attendance by health board staff and the ability of the sub-groups to make a meaningful contribution.

78 Partners support the commissioning model but the pace with which health boards are driving the necessary changes to enable it to work as intended varies, and the model does not consider regional or cross-border activity. My work identified that there is a general willingness of WAST and health boards to work together to improve ambulance services, but the level of ownership of emergency ambulance performance and pathway modernisation by health boards is variable, with the predominant focus on the latter stages of the ambulance pathway, such as, ambulance handovers. I reported that WAST is properly responding to agreements set out by EASC, however, health boards' compliance with and level of understanding of the requirements set out in CAREMORE® vary.

79 My work found that commissioning arrangements are underpinning some improvements to emergency ambulance services. The introduction of the new clinical response model is supporting partners to achieve Welsh Government performance targets, with the potential for further performance improvements from other recently agreed initiatives. Planned service changes and performance monitoring of partners are now increasingly aligned with the Ambulance Patient Care Pathway (referred to as the five-step model). But, more consistency is needed across health boards and it is too soon to say if this is having an impact. There is a significantly improved and broader set of measures which focus on activity and performance through the Ambulance Quality Indicators. However, partners are not yet doing enough to fully understand patients' outcomes and experience when receiving emergency ambulance care.

Collaborative arrangements for managing local public health resources do not work as effectively as they should do

80 My review of Public Health Wales' collaborative arrangements for managing local public health resources found that effective collaboration in relation to health improvement work is dependent upon consensual leadership, which is not always evident. In the overall public health system, a broad range of people and organisations contribute to protecting and improving health and wellbeing, and reducing health inequalities in Wales. No one organisation is wholly responsible for achieving improvements in population health and wellbeing but achievement is predicated on effective collaboration.

81 While it may not be desirable to identify a single system leader, there does need to be greater clarity over respective roles of the different stakeholders within the system. My work found that there is a lack of meaningful dialogue between the

Public Health Wales NHS Trust (the Trust), local public health teams and the Health Boards' Directors of Public Health about respective roles, responsibilities and an agreed framework about what work is best done collectively.

82 Currently, there is an absence of effective arrangements to ensure that value for money is being secured from the resources allocated to local public health teams. Meetings do not take place between the Trust and Directors of Public Health to discuss how resources to improve health and wellbeing are used and whether they deliver the intended benefit. My work also found a lack of robust methods for allocating or changing resources of local public health teams. Instead, ad hoc discussions take place as vacancies arise.

83 My work found that arrangements are in place to support professional registration of staff deployed across local teams, but more clarity is needed on how this is used to demonstrate professional competence and career progression. New arrangements are also helping to strengthen appraisal processes and personal development planning, but more needs to be done to assess the collective development needs of local public health teams.

84 Mechanisms for communicating and sharing information between the Trust and local public health teams are underdeveloped. There is no standardised approach for sharing information about what works well and what different players were doing at both a national and local level. My work also found a lack of arrangements for co-ordinating work developed or delivered locally or nationally, and communicating information to the same shared partners.

85 I have noted the collective and collaborative management response that has been prepared by the Trust, Health Boards and Welsh Government to my findings. I intend to undertake further work in 2018 to assess the progress that has been made to address the concerns identified above.

Appendix 1

Reports issued since my last annual audit report

Exhibit 4: reports issued since my last annual audit report

The following table lists the reports issued to the Health Board in 2017.

Report	Date
Financial audit reports	
Final Accounts Audit Deliverables	February 2017
Audit of Financial Statements Report	May 2017
Opinion on the Financial Statements	June 2017
Audit of the Charity Financial Statements Report	November 2017
Opinion on the Charity Financial Statements	December 2017
Performance audit reports	
Emergency Ambulance Services Commissioning	April 2017
Radiology Services	June 2017
GP Out-of-Hours Services	June 2017
Follow-up outpatients progress update	August 2017
Collaborative Arrangements for Managing Local Public Health Resources	October 2017
Review of Discharge Planning	October 2017
Review of Estates	November 2017
Structured Assessment 2017	December 2017
Other reports	
2017 Audit Plan	February 2017

In addition to the work above, my team undertook a follow-up review of governance arrangements jointly with Healthcare Inspectorate Wales. This work was reported in June 2017[10].

[10] **An Overview of Governance Arrangements**

Exhibit 5: 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
Cross-sector thematic: Review of the integrated care fund	July 2018
Review of Primary Care	June 2018

Appendix 2

Audit fee

The 2017 Audit Plan set out the proposed audit fee of £462,953 (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 outline.

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

Significant audit risks

Exhibit 6: significant audit risks

My 2017 Audit Plan set out the significant financial audit risks for 2017. 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: • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.	I completed focussed audit testing as planned on the relevant areas of the financial statements. No evidence found of biased judgements or estimates.
There is an inherent risk of material misstatement due to fraud in revenue recognition and as such this is treated as a significant risk [ISA 240.26-27].	My audit team will consider the completeness of miscellaneous income.	I completed audit work as planned and no evidence was found of material misstatement due to fraud in revenue recognition.

Significant audit risk	Proposed audit response	Work done and outcome
It is highly probable that the Health Board will fail to meet its statutory financial duties. The month-10 position showed a year-to-date deficit of £27.9 million and forecast a year-end deficit of £30 million. I am likely to place a substantive report on the financial statements, explaining the failure and the circumstances under which it arose. The current financial pressures on the Health 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 undertake testing of the Health Board's financial duties.	I reviewed the Health Board's financial management arrangements, significant financial standing issues and areas of the financial statements which could contain financial balance. The Health Board reported an overspend against resource allocation of £29.8 million and a cumulative overspend over the three year period 2014-15 to 2016-17 of £75.9 million. As a result, the Health Board failed to meet its first statutory financial duty.
There is a significant risk that the Health Board will face severe pressures on its cash position at the year-end. A shortfall of cash is likely to increase creditor payment times and impact adversely on Public Sector Payment Policy (PSPP) performance.	My audit team will audit the PSPP performance bearing in mind the cash pressures on the Health Board.	I completed focussed audit testing as planned and concluded that in all material respects, its performance was correctly stated.
There is a risk that the Health Board will not have implemented my recommendations arising from my procurement follow-up reviews.	My audit team will assess progress in implementing the recommendations arising from my follow-up reviews to inform my regularity opinion.	I completed focussed audit testing as planned and concluded that progress had been made and identified no issues that would impact on my regularity opinion.

Significant audit risk	Proposed audit response	Work done and outcome
I have identified a number of disclosures as being material by nature. These include the disclosure of Related Parties and the Remuneration note.	I will design detailed testing to obtain the required assurance that disclosures identified as material by nature are complete, accurate and in line with the requirements of the Manual for Accounts issued by the Welsh Government.	I completed focussed audit testing as planned on the disclosures deemed material by nature. I concluded that the disclosures were complete, accurate and in line with the requirements of the Manual for Accounts issued by the Welsh Government.

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500
Fax: 029 2032 0600
Text phone.: 029 2032 0660

E-mail: info@audit.wales
Website: www.audit.wales

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500
Ffacs: 029 2032 0600
Ffôn testun: 029 2032 0660

E-bost: post@archwilio.cymru
Gwefan: www.archwilio.cymru