



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Annual Audit Report 2019 – **Public Health Wales NHS Trust**

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This report was prepared for the Auditor General by Anthony Veale, Dave Thomas, Gillian Gillett and Verity Winn.

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Summary report

About this report

- 1 This report summarises the findings from the audit work I have undertaken at Public Health Wales NHS Trust (the Trust) during 2019. I did that work to carry out my responsibilities under the Public Audit (Wales) Act 2004. That Act requires me to:
 - a) examine and certify the accounts submitted to me by the Trust, 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 Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2 I have reported my findings in key messages under the following headings:
 - Audit of accounts
 - Arrangements for securing economy, efficiency and effectiveness in the use of resources.
- 3 I have issued several reports to the Trust 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 Trust, alongside the original fee that was set out in the 2019 Audit Plan.
- 5 [Appendix 3](#) sets out the financial audit risks highlighted in my 2019 Audit Plan and how they were addressed through the audit.
- 6 The Chief Executive and the Deputy Chief Executive and Executive Director of Operations and Finance have agreed this report is factually accurate. We will present it to the Audit Committee on 15 January 2020. The Board will receive the report at a later Board meeting and every member will receive a copy. We strongly encourage the Trust to arrange wider publication of this report. We will make the report available to the public on the [Wales Audit Office website](#) after the Board have considered it.
- 7 I would like to thank the Trust'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 Trust's accounts were properly prepared and materially accurate, and my work did not identify any material weaknesses in the Trust's internal controls relevant to my audit of the accounts. I have therefore issued an unqualified opinion on their preparation.
- 9 My audit did not highlight any material financial transactions within the Trust's 2018-19 accounts that were not in accordance with authorities and so I have issued an unqualified opinion on the regularity of the financial transactions within its 2018-19 accounts.
- 10 The Trust achieved financial balance for the three-year period ending 31 March 2019. It has an approved three-year plan in place. As there were no issues which warranted highlighting, no substantive report was placed on the Trust's accounts.

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

- 11 My programme of Performance Audit work at the Trust has led me to draw the following conclusions:
 - My 2019 structured assessment work found that the Trust is generally well led and well-governed and has made good progress adapting its processes and structures to better deliver its strategic priorities.
 - My work on the Trust's implementation of the Well-being of Future Generations (Wales) Act 2015 found that the Trust has made good progress in applying the sustainable development principle and the five ways of working, but recognises it could make further improvements.
- 12 These findings are considered further in the following sections.

Detailed report

Audit of the Accountability Report and Financial Statements

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

I have issued an unqualified opinion on 2018-19 financial statements of the Trust, although in doing so, I have brought some issues to the attention of officers and the Audit Committee

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

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

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

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

Issue	Auditors' comments
Uncorrected misstatements	There was one misstatement identified in the financial statements which remained uncorrected which we did not consider to be material to our opinion. This related to one permanent injury case which overstated provisions and expenditure by £105,000 and correspondingly understated of the Trust's retained surplus for the year.
Corrected misstatements	There were several adjustments made to the draft accounts. These were minor in nature and had no impact on the Trust's reported surplus.
Other significant issues	I did not identify any other significant issues either qualitative or quantitative relating to the accounts.

- 18 I also undertook a review of the Whole of Government Accounts return. I concluded that the counterparty consolidation information was consistent with the financial position of the Trust at 31 March 2019 and the return was prepared in accordance with the Treasury's instructions.

I have issued an unqualified audit opinion on the regularity of the financial transactions within the financial statements of the Trust

My audit did not highlight any material financial transactions within the Trust's 2018-19 accounts that were not in accordance with authorities, and so I have issued an unqualified opinion on the regularity of the financial transactions within its 2018-19 accounts.

- 19 The Trust'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 Trust does not have the powers to receive or incur.

The Trust achieved financial balance for the three-year period ending 31 March 2019 and has an approved three-year plan in place. As there were no issues which warranted highlighting, no substantive report was placed on the Trust's accounts.

- 20 I have the power to place a substantive report on the Trust's accounts alongside my opinions where I want to highlight issue. I did not issue a substantive report on the accounts because the Trust met both of its financial duties and there were no other issues warranting report.
- 21 The Trust maintained its track record in achieving financial balance in 2018-19 and reported a small surplus totalling £26,000. The Trust met its financial duties to break even over the rolling three year period 2016-2019 and to have an approved integrated medium-term plan (IMTP) for the period 2018-19 to 2020-21.

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

- 22 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 Trust over the last 12 months to help me discharge that responsibility. This work has involved:
- undertaking a structured assessment of the Trust's arrangements for overall governance, strategic planning, managing financial resources, and managing workforce productivity and efficiency; and
 - in addition, in order to discharge my responsibilities under the Well-being of Future Generations Act 2015, I have undertaken work to review the Trust's arrangements for implementing the Act.
- 23 My conclusions based on this work are set out below.

The Trust is generally well led and well-governed and is identifying ways to improve data quality, incident management and cyber security

- 24 My structured assessment work examined the Trust'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.
- 25 The Board continues to operate effectively and seek opportunities to improve. The Trust has a strong Board Assurance Framework and effective risk management

and performance arrangements. Arrangements continue to evolve as the Trust aligns its structures and processes to its strategic priorities. In particular, the Trust is identifying ways to improve its approach to data quality, incident management and cyber security. The new committee structure has brought parts of the Trust's business more clearly into the system of assurance. The Trust continues to explore areas where it can improve lines of sight from staff delivering frontline services of functions through to the Executive team and Board.

- 26 The Trust has effective arrangements for tracking internal and external audit recommendations and identifying the number of actions that are complete, on-time or overdue. The Trust has completed actions to address my 2018 structured assessment recommendations.

The Trust has a strong approach to strategic planning but development of the informatics and workforce plans has been slow

- 27 My structured assessment work examined how the Board engages partners and sets the strategic direction for the organisation. I also assessed how well the Trust plans the delivery of its objectives and how it monitors progress in delivering the plans. My findings are set out below.
- 28 Board members and stakeholders are engaged in the planning process and the Trust is starting to engage stakeholders in the delivery of its strategy. The Trust was slow to develop plans setting out how its workforce and informatics functions would support its long-term strategy. However, it plans to finalise its People Strategy and workforce plan in January 2020 and produce an implementation plan to improve its informatics function. More widely, the Trust is considering how to better integrate its enabling functions such as people and organisational development and informatics in strategic planning. The Trust has a strong approach to monitoring delivery of its strategic plan and is improving the format of its Board reports to make the information more accessible.

The Trust has robust financial management arrangements and is well-placed to achieve a balanced financial position for 2019-20

- 29 My structured assessment work examined the actions the Trust is taking to achieve financial balance and create longer-term financial sustainability. I also assessed the financial position of the organisation, the approach to financial planning, financial controls and stewardship, and the arrangements for financial monitoring and reporting. My findings are set out below.
- 30 The Trust has strong financial planning and management controls and has improved its procurement arrangements. Board finance reports include detailed information on spending and savings plans but the Trust could report more regularly on the impact of re-invested efficiency savings.

- 31 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. Participating bodies submitted data to the current NFI data matching exercise in October 2018. In January 2019, the Trust received 848 data-matches through the NFI web application including 159 recommended matches¹. The NFI web-application, which records the findings of the Trust's review of its data-matches, shows that as at 15 October 2019, the Trust had made good progress in reviewing most of the high risk matches with enquiries ongoing in a small number of cases. In addition, the Trust agreed it would investigate 10% of non-pay/creditors matches and conduct further investigations if it identified anomalies. The Trust reports that it met its 10% target and did not identify any significant anomalies.

The Trust continues to improve the well-being and productivity of its workforce but needs to increase the pace of workforce planning to deliver its IMTP and long-term strategy

- 32 My structured assessment work examined the actions that the Trust is taking to ensure that its workforce is well managed and productive. I also assessed arrangements for addressing training and development needs and action to engage and listen to staff and address well-being needs. My findings are set out below.
- 33 The Trust has improved workforce performance in key areas and is working to improve turnover and reduce its spending on agency staff. Progress developing and implementing the strategic approach to learning and development has been slow. The Trust's People Strategy and workforce plan are a year overdue which limits its ability to identify current and future workforce needs. The Trust has demonstrated its commitment to staff engagement and well-being and continues to seek improvements to its approach. It promotes staff well-being but has not yet set out its plans for workforce learning and development.

¹ Some matches are categorised as 'recommended matches' because they are considered to be of high risk and therefore recommended for early review.

The Trust has made good progress in applying the sustainable development principle and the five ways of working, but recognises it could make further improvements

- 34 I reviewed the extent to which the Trust is applying the sustainable development (SD) principle and the five ways of working in order to do things differently. My work considered how the SD principle is being embedded in core arrangements and included examination of a step being taken by the Trust to meet one of its well-being objectives. The step reviewed was the Trust's approach to developing its long-term strategy, 'Working to achieve a healthier future for Wales'.
- 35 The Trust has taken steps to embed the sustainable development principle into processes, organisational culture and staff behaviour, but recognises it could make further improvements.
- 36 The Trust has clearly applied the five ways of working to its development of the long-term strategy. The strategy aims to raise the profile of prevention across Wales and encourage a long-term focus. The Trust involved a wide range of stakeholders to develop its strategy and continues to encourage a culture of collaboration both within the Trust and externally. The Trust plans to improve the way it measures the impact of its strategy on the well-being of the population by developing improved outcome measures. The Trust's strategic priorities are integrated with its well-being objectives but the Trust intends that improved outcome measures will better integrate its plans with those of its partners.

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 Trust in 2019.

Report	Date
Financial audit reports	
Audit of Financial Statements Report	May 2019
Opinion on the Financial Statements	June 2019
Financial Statements Memorandum	September 2019
Performance audit reports	
Structured Assessment 2019	December 2019
Well-being of Future Generations	December 2019
Other	
2019 Audit Plan	January 2019

Exhibit 3: performance audit work still underway

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

Report	Estimated completion date
Quality Governance arrangements	June 2020 (not yet started)
Follow-up review of collaborative arrangements for managing local public health resources	February 2020

Appendix 2

Audit fee

The 2019 Audit Plan set out the proposed audit fee of £151,155 (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.

Appendix 3

Financial audit risks

Exhibit 4: financial audit risks

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

Audit risk	Proposed audit response	Work done and outcome
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk.</p>	<p>My audit team proposed to:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; • evaluate the rationale for any significant transactions outside the normal course of business. 	<p>My audit team considered the risk factors set out in ISA240 and completion of our audit work did not identify any evidence of management override of controls.</p>
<p>IFRS 9 financial instruments applies from 1 April 2018 and brings in a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will result in earlier recognition of expected credit losses and will impact on how the bad debt provision is calculated.</p> <p>IFRS 15 revenue from contracts with customers introduces a principles based five-step model for recognising revenue arising from contracts with</p>	<p>My audit team proposed to assess the likely impacts of the new IFRSs and undertake work to respond to any identified risks of material misstatement.</p>	<p>My audit team assessed the impacts of the new IFRSs and undertook work in response to identified risks which did not identify any issues in applying the new accounting standards.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration the body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.</p>		
<p>A number of changes have taken place to the senior management team during the financial year. There is a risk that these changes are not correctly disclosed within the Trust's Remuneration Report.</p>	<p>My audit team proposed to test the disclosures made in the Remuneration Report and to review any changes to roles and responsibilities and associated changes to remuneration levels.</p>	<p>My audit team tested the disclosures made in the Remuneration Report and reviewed changes to roles and responsibilities and the associated changes to remuneration levels. This identified a number of amendments required to the Remuneration Report, which were corrected by the Trust.</p>
<p>NHS Trusts have a financial duty to break even over a three-year rolling period. Although the Trust is forecasting a break-even position for year-end, this duty increases the risk that management judgements and estimates included in the financial statements could be biased in an effort to achieve the financial duty. Where this financial duty is not met, I will place a substantive report on the financial statements highlighting the failure.</p>	<p>My audit team proposed to focus its testing on areas of the financial statements which could contain reporting bias.</p>	<p>My audit team considered the areas of the accounts more likely to contain reporting bias and reviewed:</p> <ul style="list-style-type: none"> • accounting estimates, judgments and decisions made by management for bias; • creditors for unrecorded liabilities; and • debtors for overstatement of income due. <p>No matters arose from the work carried out.</p>

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