



WALES AUDIT OFFICE  
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Auditor General for Wales

# Annual Audit Report 2019 – Cwm Taf Morgannwg University Health Board

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This report was prepared for the Auditor General by Sara Utley, Steve Stark, Gareth Lucey, Derwyn Owen and Dave Thomas

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# Summary report

## About this report

- 1 This report summarises the findings from the audit work I have undertaken at Cwm Taf Morgannwg University Health Board<sup>1</sup> (the Health Board) during 2019. I did that work to carry out my responsibilities under the Public Audit (Wales) Act 2004. That Act requires me to:
  - a) examine and certify the accounts submitted to me by the Health Board, and to lay them before the National Assembly;
  - b) satisfy myself that the expenditure and income to which the accounts relate have been applied to the purposes intended and in accordance with the authorities which govern it; and
  - c) satisfy myself that the Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2 I have reported my findings in Key messages under the following headings:
  - Audit of accounts
  - Arrangements for securing economy, efficiency and effectiveness in the use of resources
- 3 I have issued several reports to the Health Board this year. This annual audit report is a summary of the issues presented in these more detailed reports, a list of which is included in [Appendix 1](#).
- 4 [Appendix 2](#) presents the latest estimate on the audit fee that I will need to charge to cover the actual costs of undertaking my work at the Health Board, alongside the original fee that was set out in the 2019 Audit Plan.
- 5 [Appendix 3](#) sets out the financial audit risks highlighted in my 2019 Audit Plan and how they were addressed through the audit.
- 6 The Chief Executive and the Director of Finance have agreed this report is factually accurate. We presented it to the Audit Committee on 20<sup>th</sup> January 2020. The Board will receive the report at a later Board meeting and every member will receive a copy. We strongly encourage the Health Board to arrange wider publication of this report. We will make the report available to the public on the [Wales Audit Office website](#) after the Board have considered it.
- 7 I would like to thank the Health Board's staff and members for their help and co-operation during the audit work my team has undertaken over the last 12 months.

<sup>1</sup> Cwm Taf Morgannwg University Health Board was formed 1 April 2019 following the Bridgend boundary change. The accounts work for 2018-19 detailed in this report relates to the former Cwm Taf University Health Board.

## Key messages

### Audit of the Accountability Report and Financial Statements

- 8 I have concluded that the Health Board's accounts were properly prepared and materially accurate, and my work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts. I have therefore issued an unqualified opinion on their preparation, with no significant issues to bring to the attention of officers and the audit committee.
- 9 The Health Board achieved financial balance for the three-year period ending 31 March 2019 and so I have issued an unqualified opinion on the regularity of the financial transactions within its 2018-19 accounts.
- 10 As the Health Board achieved financial balance and has an approved three-year plan in place and there were no other issues which warranted highlighting, no substantive report was placed on the Health Board's accounts.

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

- 11 My programme of Performance Audit work at the Health Board has led me to draw the following conclusions:
  - The Health Board is in a very challenging position. It must urgently address significant weaknesses in quality governance and risk management arrangements. It must also tackle on-going workforce challenges and address problematic issues with its organisational culture. Delivering the Bridgend boundary change has been a significant achievement, but the transfer has added to the complexity of the new Health Board's organisational change priorities. New leadership in key executive roles, coupled with an acknowledgement and understanding of current challenges, and a good track record of financial management and strategic planning give some optimism that the required improvements can be achieved.
  - My examination of the organisation's approach to implementation of the Well Being of Future Generations Act 2015 found that the Health Board's work with partners to develop a vulnerability profiling model has a strong focus on the five ways of working but the Health Board acknowledges it could involve citizens in developing the model further.
  - Although accuracy of clinical coding has improved, the Health Board is not achieving its completeness target and has a significant coding backlog.
- 12 These findings are considered further in the following sections.

# Detailed report

## Audit of accounts

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

**I have issued an unqualified opinion on the accuracy and proper preparation of the 2018-19 financial statements of the Health Board, with no significant issues to bring to the attention of officers and the Audit Committee**

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

- 15 The draft financial statements were produced for audit by the agreed deadline of 26 April 2019 and were again of a good standard. The Health Board has quality assurance processes over the financial statements and there is a high level of scrutiny from the Audit Committee. We concluded that accounting policies and estimates were appropriate and financial statement disclosures were unbiased, fair and clear.
- 16 The deadlines for submission of the accounts and relevant parts of the Annual Report remain challenging and we would like to commend the finance team and the wider Health Board for the timing and quality of their work. The constructive working relationships with the Board Secretary, Director of Finance and the whole finance team have continued this year, and we thank them again for that.
- 17 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.
- 18 I must report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. These issues were reported to the Health Board's Audit Committee on 30 May 2019. **Exhibit 1** summarises the key issues set out in that report.

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

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

Issue	Auditors' comments
Uncorrected misstatements	There were no uncorrected misstatements.
Corrected misstatements	A number of corrections were identified during the audit, as set out in <b>Appendix 3</b> of my Audit of Financial Statements report. The only material corrections related to the accounting entries for a pooled budget which again did not affect the overall financial position of the Health Board.
Other significant issues	No other significant issues were raised for the attention of management or the Audit Committee.

- 19 I also undertook a review of the Whole of Government Accounts return. I concluded that the counterparty consolidation information was consistent with the financial position of the Health Board at 31 March 2019 and the return was prepared in accordance with the Treasury's instructions.
- 20 My separate independent examination of the charitable funds financial statements is complete, and I certified these accounts on 2 December 2019. In this certification, I confirm that no matters have come to my attention giving me cause to believe that:
- accounting records are not kept as required;
  - the accounts do not accord with those records;
  - the accounts do not comply with applicable legislative requirements;
  - the accounts have not been prepared in accordance with the Statement of Recommended Practice for accounting and reporting by charities

## I have issued an unqualified audit opinion on the regularity of the financial transactions within the financial statements of the Health Board

The Health Board achieved financial balance for the three-year period ending 31 March 2019 and so I have issued an unqualified opinion on the regularity of the financial transactions within its 2018-19 accounts.

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

22 The Health Board underspent against its Revenue Resource Limit by £16,000 in 2018-19. Added to further minor underspends in 2016-17 and 2017-18, it underspent against its cumulative three-year Revenue Resource Limit by a total of £57,000. The Health Board therefore complied with its statutory duty to break even over a rolling three-year period.

As the Health Board achieved its financial balance duty and has an approved three-year plan in place and there were no other issues which warranted highlighting, no substantive report was placed on the Health Board's accounts

23 I have the power to place a substantive report on the Health Board's accounts alongside my opinions where I want to highlight issues. As the Health Board met both of its financial duties: to achieve financial balance (as set out above) and to have an approved three-year plan in place; and there were no other issues warranting report, I did not issue a substantive report on accounts.

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

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

- undertaking a structured assessment of the Health Board's financial and performance position alongside arrangements for strategic planning, turnaround and transformation, overall governance, and managing workforce productivity and efficiency;
- undertaking a joint review by Healthcare Inspectorate Wales and the Wales Audit Office into the quality governance arrangements within the Health Board; and
- reviewing the use of resources specifically on clinical coding.

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

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

**The Health Board has significant challenges to address including implementing a new operating model, ensuring revised Board committees provide adequate scrutiny to key business and addressing significant gaps in its approach to risk management and quality governance.**

- 27 My structured assessment work examined the Health Board's governance arrangements, the way in which the Board and its sub-committees are 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 it oversee and challenge the performance. I found the following.
- 28 The Board has significant challenges to address in terms of conducting its business effectively. This year has seen significant changes, and the Board as it stands is relatively new and there have been a number of changes through the course of the year. The Board needs to oversee the implementation of a new organisational structure following the Bridgend transition. Furthermore, new sub-committee arrangements have been implemented which need to be embedded if they are to achieve the intended benefits. My work has also indicated that the new sub-committee arrangements need to be kept under review to ensure important service areas such as mental health receive sufficient oversight and scrutiny.
- 29 The Health Board needs to significantly improve its risk management arrangements and ensure there is sufficient knowledge, skills and capacity within risk management as this is a current area of weakness. Crucially, the Board Assurance Framework needs to be updated as this is a key mechanism for focussing the Board's attention on risks to achieving strategic priorities. The Board needs to review its performance management arrangements in light of the development of the new organisational structure, and further develop its performance reports to improve clarity.
- 30 The Audit Committee has recognised and its addressing weaknesses in its arrangements to track audit recommendations. These concerns are mainly around improving its tracking mechanism, the clarity and assurance required to remove recommendations from the tracker and the inclusion of recommendations from other assurance providers/external bodies such as HIW and the Delivery Unit. The Health Board is still refining and developing its arrangements for tracking recommendations.
- 31 My joint review of quality governance with Healthcare Inspectorate Wales highlighted significant weaknesses that are compromising the Health Board's ability to adequately identify and respond to problems that may arise with the quality and safety of patient care. The review found that significant and urgent improvements are needed at both the directorate and corporate level to either strengthen or more fundamentally overhaul existing arrangements, organisational

structures and roles. The review also highlighted a pressing need to tackle a number of issues associated with the culture of the Health Board

### **There is scope to strengthen formal IMTP reporting and limited change management capacity could affect timely development of the Integrated Health and Care Strategy.**

- 32 My structured assessment work examined how the Board engages partners and sets the strategic direction for the organisation. I also assessed how well the Health Board plans the delivery of its objectives and how it monitors progress in delivering its plans. My findings are set out below.
- 33 Limited change management capacity could impact on the high priority work needed to complete the Integrated Health and Care Strategy. Changes to IMTP reporting arrangements have resulted in a reduction in detail on progress against delivering IMTP priorities. There is a risk that IMTP approval may be withdrawn if the Health Board does not make progress to strengthen governance and quality.

### **The Health Board has a track record of achieving its statutory duties, and management arrangements are generally robust, however the Bridgend transition has created some uncertainty**

- 34 My structured assessment work examined the actions the Health Board 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.
- 35 The Health Board met its statutory duty to break even in 2018-19, however the Bridgend transfer has diverted management time significantly and created uncertainty over the ability of the Health Board to achieve financial balance in 2019-20. However, positively, there are clear financial management arrangements, and financial reports have been improved this year through engagement with Independent Members.
- 36 The National Fraud Initiative (NFI) is a biennial data-matching exercise that helps detect fraud and overpayments by matching data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. In January 2019, the Health Board received just over 3,800 data matches through the NFI web application and prioritised high-risk data matches for review. The NFI web-application shows that as at 15 October 2019, the Health Board has made good progress in reviewing its NFI matches, having concluded its review of most of the high-risk matches with enquiries ongoing in a small number of cases. It plans to undertake further work on a sample of other matches. This work needs to be concluded.

## Workforce challenges remain, and present significant risks to the Health Board

- 37 My structured assessment work examined actions the Health Board is taking to ensure that its workforce is well managed and productive. I also assessed arrangements for addressing training and development needs and action to engage with and listen to staff and address wellbeing needs. My findings are set out below.
- 38 The Health Board is continuing to experience problems reducing its reliance on agency and locum staff, and at the time of our work the agency spend as a percentage of its total pay bill was the highest in Wales. Sickness absence levels are above average despite interventions by the Health Board. In addition, there remain low levels of statutory and mandatory training compliance and poor compliance with consultant job planning.

## The Health Board's work with partners to develop a vulnerability profiling model has a strong focus on the five ways of working but the Health Board acknowledges it could involve citizens in developing the model further

- 39 I carried out a review of how the Health Board has continued to embed the sustainable development principle through the development of its corporate arrangements and business processes, since my baseline work in 2017. The Health Board's wellbeing objectives are reflected in its 3-year Integrated Medium Term Plan (IMTP), and its self-assessment to the Future Generations Commissioners Office, in 2019, reflects positive further intentions. However, based on the Health Board's self-assessment, it appears that little progress has been made since my original work. My review included examination of a step being taken to address one of the Health Board's well-being objectives. The step reviewed was the Health Board's approach to applying the five ways of working in the 'development of an early year's vulnerability profiling model'.
- 40 We found that the Health Board has a strong focus on the five ways of working and has considered how the vulnerability profiling model can contribute to national goals and help to deliver partners' wellbeing objectives. However, there was a need to overcome barriers from partners' different ways of working and further citizen engagement is needed through a clear communication and engagement plan.

## Although clinical coding accuracy has improved, the Health Board is not achieving its completeness target and has a significant backlog

- 41 Clinical coding involves the translation of written clinical information (such as a patient's diagnosis and treatment) into code format. Good quality clinically coded data plays a fundamental role in the management of hospitals and services. It can be used to support healthcare planning, resource allocation, cost analysis and assessments of treatment effectiveness. My review found that although the accuracy of coding had improved, the completeness target was not being achieved and there was a significant coding backlog. The full potential of coded data to inform service improvement has yet to be realised. The Health Board has made some progress against our previous recommendations, but issues around medical records, training for coders and engagement with medical staff are yet to be resolved.

# Appendix 1

## Reports issued since my last annual audit report

### Exhibit 2: reports issued since my last annual audit report

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

Report	Date
<b>Financial audit reports</b>	
Audit of Financial Statements Report	May 2019
Opinion on the Financial Statements	June 2019
<b>Performance audit reports</b>	
Structured Assessment 2019	December 2019
Well Being of Future Generations	November 2019
Clinical Coding	December 2019
A review of quality governance arrangements at Cwm Taf Morgannwg University Health Board	November 2019
<b>Other</b>	
2019 Audit Plan	February 2019

### 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
Orthopaedics	February 2020
Follow up work on Operating Theatres	March 2020

# Appendix 2

## Audit fee

The 2019 Audit Plan set out the proposed audit fee of £ **402,993** (excluding VAT). The work I have undertaken to complete the joint review of quality governance with Healthcare Inspectorate Wales has resulted in an increase to the fee described above of **£29,615**.

# Appendix 3

## Financial audit risks

### Exhibit 4: financial audit risks

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

Audit risk	Proposed audit response	Work done and outcome
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>review accounting estimates for biases; and</li> </ul> <p>evaluate the rationale for any significant transactions outside the normal course of business.</p>	<p>Work completed and no issues arising</p>
<p>There is a risk that the Health Board will fail to meet its first financial duty to break even against its aggregate revenue and capital resource limits over a three-year period.</p> <p>The Health Board continues to forecast a break-even position at 31 March 2019. Combined with the small surpluses achieved in 2016-17 and 2017-18, this indicates that the Health Board will meet this financial duty. If the Health Board fails this financial duty, I will place a substantive report on the financial statements highlighting the failure.</p> <p>The financial pressure on the Health Board increases the risk that management judgements and estimates could be biased in an effort to achieve the financial duty.</p>	<p>My audit team will focus its testing on areas of the financial statements that could contain reporting bias.</p> <p>We will also review with management the Health Board's performance and the impact of all audit findings against the revenue and capital resource limits for the three-year period 2016-17 to 2018-19.</p>	<p>Work completed and no issues arising.</p> <p>My audit work on estimates and other subjective areas such as provisions did not identify any material adjustments to the Health Board's result for the year. My staff concluded that, taking trivial errors into account, the Health Board met its financial duties for resource limits over the three-year period 2016-17 to 2018-19.</p>
<p>From 1 April 2019, the responsibility for providing healthcare services for people in the Bridgend County Borough Council area will move from Abertawe Bro Morgannwg University Health Board to Cwm Taf University Health Board. Whilst this will not present any direct risks over the transactions within the 2018-19 financial statements, the financial statements will still</p>	<p>My audit team will liaise with finance staff to ensure that the accounts production plan is adhered to and appropriate disclosures are made.</p>	<p>Work completed and no issues arising.</p> <p>My team confirmed that appropriate disclosures were made in the accounts</p>

Audit risk	Proposed audit response	Work done and outcome
<p>need to disclose this change from 1 April 2019.</p> <p>Health Board staff face significant additional work from this change, increasing the risk that the Health board may not produce its 2018-19 financial statements and working papers for audit by the required deadlines.</p>		
<p>The Health Board is participating in a new pooled budget arrangement with Rhondda Cynon Taf CBC and Merthyr Tydfil CBC, called the 'Cwm Taf Care Home Accommodation Pooled Fund'. The total value of this pooled budget for 2018-19 is over £34 million.</p> <p>The Health Board will need to disclose this arrangement and any memorandum accounts accurately in the 2018-19 accounts.</p>	<p>My audit team will review the transactions and disclosures for this new pooled budget in the 2018-19 accounts and ensure that they are materially accurate.</p>	<p>Work completed with corrections made to the accounts as reported in my Audit of Financial Statements report.</p> <p>There was no impact on the overall financial position of the Health Board.</p>
<p>A number of the Health Board's assets under construction have come into operational use during 2018-19. These assets need to be revalued at the time of completion by the District Valuer, with any impairments in book value accurately accounted for.</p>	<p>My audit team will review and test a sample of completed capital projects during 2018-19, to ensure that they have been accounted for in line with District Valuer valuations.</p>	<p>Work completed with and no issues arising.</p>
<p>There have been a number of changes to the Independent Membership of the Board and the Executive during 2018-19. These will need to be accurately reflected in the Health Board's remuneration report.</p>	<p>My audit team will review all remuneration report disclosures to ensure that they are accurately and appropriately disclosed.</p>	<p>Work completed with corrections made to the accounts as reported in my Audit of Financial Statements report.</p> <p>There was no impact on the overall financial position of the Health Board.</p>
<p>In 2017-18 we commented to management on several areas during the course of our audit work including the current/non-current classification of clinical negligence provisions and Welsh Risk Pool debtors, and Remuneration report disclosures.</p>	<p>My audit team will follow up on the matters and amendments identified in our 2017-18 Audit of Financial Statements Report as part of our 2018-19 audit work.</p>	<p>Work completed and no issues arising.</p>

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