



WALES AUDIT OFFICE  
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Auditor General for Wales

# Annual Audit Report 2019 – Powys Teaching Health Board

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This report was prepared for the Auditor General by David Thomas, Barrie Morris, Elaine Matthews and Gail Turner-Radcliffe.

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# Summary report

## About this report

- 1 This report summarises the findings from the audit work I have undertaken at Powys Teaching Health Board (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 the Accountability Report and Financial Statements
  - 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, Risk and Assurance Committee on 14 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.

## Key messages

### Audit of the Accountability Report and Financial Statements

- 8 I have concluded that the Health Board's accounts were properly prepared and materially accurate, and my work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts. I have therefore issued an unqualified opinion on their preparation.
- 9 However, in issuing this unqualified opinion, I have brought several issues to the attention of officers and the Audit, Risk and Assurance Committee. These relate to a review of policies and procedures, the remuneration disclosures, enhanced disclosures in the Annual Governance Statement and Related Party disclosures.
- 10 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.
- 11 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

- 12 My programme of Performance Audit work at the Health Board has led me to draw the following conclusions:
- the Health Board's arrangements provide strong foundations for delivering its vision. The Board has a clear understanding of which arrangements require further development and has focused action to deliver improvements;
  - the Health Board is generally well led and well governed and has made changes to the way it operates to improve effectiveness. There is scope to make further improvements to arrangements for risk management, information governance and clinical audit;
  - the Health Board has a strong approach to strategic planning and is changing structures and leadership arrangements to deliver its vision. Underpinning plans are developing in collaboration with partners and are on track for delivery in year;
  - financial management arrangements continue to improve but there is scope to increase oversight and scrutiny of financial performance;
  - the Health Board has seen improvements to managing workforce productivity and efficiency. Ambitious actions are underway to strengthen recruitment and retention, improve training and education, and promote staff wellbeing;

- the Health Board, working together with Powys County Council, has applied the sustainable development principle and its associated five ways of working in designing the North Powys Wellbeing Programme. However, there are opportunities to further embed the five ways of working into the next phases of the programme; and
- the Health Board's clinical coding function performs well against the all Wales targets and has no backlog, however, more could be done to implement some of our previous recommendations, particularly improving the profile of coding, clinical engagement with the coding function and raising the quality of medical records.

13 These findings are considered further in the following sections.

# Detailed report

## Audit of the Accountability Report and Financial Statements

- 14 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.
- 15 My responsibilities in auditing the Health Board's financial statements are described in my [Statement of Responsibilities](#) publications, which are available on the Wales Audit Office website.

**I have issued an unqualified opinion on the accuracy and proper preparation of the 2018-19 financial statements of the Health Board, although in doing so, I have brought several issues 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.

- 16 The draft financial statements for the year ended 31 March 2019 were submitted on 26 April 2019 in line with the agreed timetable. The working papers were prepared to a high standard.
- 17 I must report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues to the Health Board's Audit, Risk and Assurance Committee on 28 May 2019. [Exhibit 1](#) summarises the key issues set out in that report.

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

Issue	Auditors' comments
Uncorrected misstatements	None
Corrected misstatements	Numerous corrections were made to disclosures in the financial statements, including correction of operating lease disclosures and Public Sector Payment Policy disclosures. There was no financial impact as a result of these corrections.

Issue	Auditors' comments
Other significant issues	Recommendations were made around a review of the policies and procedures, the remuneration disclosures, enhanced disclosures in the Annual Governance Statement and calculation of the remuneration relationship.

- 18 I also undertook a review of the Whole of Government Accounts return. I concluded that the counterparty consolidation information was consistent with the financial position of the Health Board at 31 March 2019 and the return was prepared in accordance with the Treasury's instructions.
- 19 My separate audit of the charitable funds financial statements was reported to the trustees on 15 October 2019.

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

- 20 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 achieved financial balance in 2016-17, 2017-18 and 2018-19 as shown in the table below. The Health Board therefore met its statutory duty to break even over the three years. [Exhibit 2](#) sets out the financial position at year end for each of the three years.

#### Exhibit 2: financial position at year end

Financial year	Financial position at year end (£000)
2016-17	85
2017-18	96
2018-19	65

- 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 the 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 arrangements for overall governance, strategic planning, managing financial resources, and managing workforce productivity and efficiency; and
  - specific follow up use of resources work 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 is generally well led and well governed and has made changes to the way it operates to improve effectiveness. There is scope to make further improvements to arrangements for risk management, information governance and clinical audit

- 27 My structured assessment work examined the Health Board's governance arrangements, the way in which the Board and its sub-committees conduct their business, and the extent to which organisational structures are supporting good governance and clear accountabilities. I also looked at the information that the Board and its committees receive to help them oversee and challenge performance and monitor the achievement of organisational objectives. I found the following.
- 28 Arrangements for the effective conduct of business are maturing and supported by a comprehensive annual governance programme. The committee restructure looks appropriate although the new arrangements are taking time to embed. The Board assurance framework (BAF) and corporate risk register are comprehensive, regularly reviewed and used to support effective scrutiny of controls and

assurances. The BAF is supported by a well-documented risk management system and revised statement of risk appetite. Work to address weaknesses in operational risk management is continuing.

- 29 There is a robust performance management framework for provided and commissioned services. Delivery of the IMTP priorities and outcome measures are largely on track against planned delivery although concerns continue for many commissioned services. However, there is scope to accelerate improvements to arrangements for quality governance, clinical audit and information governance.
- 30 The Health Board has strengthened its system for tracking internal and external audit recommendations. These new arrangements are now largely adequate for identifying and reporting on the number of actions that are complete, on time or overdue. Where recommendations have been overdue for some time, revised deadlines have been agreed and there is a renewed focus on holding Executive Directors to account where delivery is not on track. Actions to address my 2018 structured assessment recommendations have been slow to progress with six out of 12 still outstanding. The Health Board needs to take action to address outstanding recommendations.

### **The Health Board has a strong approach to strategic planning and is changing structures and leadership arrangements to deliver its vision. Underpinning plans are developing in collaboration with partners and are on track for delivery in year**

- 31 My structured assessment work examined how the Board engages partners and sets the strategic direction for the organisation. I also assessed how well the Health Board plans the delivery of its objectives and how it monitors progress in delivering the plans. My findings are set out below.
- 32 The strategic direction for health and care in Powys is well established. Once fully implemented, changes to structures and leadership arrangements should support the delivery of the IMTP. The Health Board has reflected and learned from developing previous IMTPs. Workforce, digital and environment plans to deliver on the wellbeing objectives are close to being finalised in partnership with the Council.

### **Financial management arrangements continue to improve but there is scope to increase oversight and scrutiny of financial performance**

- 33 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.

- 34 Whilst improvements have been made around financial planning, delays signing budget letters persist. The financial management and controls of the Health Board appear robust. While some of the planned savings schemes will not be delivered, the Health Board is on track to deliver a break-even position at the year end. The oversight and scrutiny of the financial performance has seen some improvement, but further progress is needed.
- 35 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.
- 36 In January 2019, the Health Board received 1,202 data-matches through the NFI web application including 127 recommended high-risk matches. As at 15 October 2019, the Health Board had concluded or was in the process of reviewing most of the high-risk matches. We consider that the Health Board has made good progress in addressing the NFI matches.

**The Health Board has seen improvements to managing workforce productivity and efficiency. Ambitious actions are underway to strengthen recruitment and retention, improve training and education, and promote staff wellbeing**

- 37 My structured assessment work examined the actions that the Health Board is taking to ensure that its workforce is well managed and productive. I also assessed arrangements for addressing training and development needs and action to engage and listen to staff and address wellbeing needs. My findings are set out below.
- 38 The Health Board has overseen improvements to workforce productivity and efficiency and has ambitious plans to improve recruitment and retention. Work is underway to improve compliance with statutory and mandatory training targets. The IMTP sets out innovative plans in partnership with others to improve training and development provision. The Health Board continues to demonstrate its commitment to improving staff engagement and wellbeing with the highest staff engagement score for a health board from the NHS staff survey. Actions are underway to address areas of improvement such as reducing stress, improving wellbeing and eradicating bullying and harassment.

## The Health Board, working together with Powys County Council, has applied the sustainable development principle and its associated five ways of working in designing the North Powys Wellbeing Programme. However, there are opportunities to further embed the five ways of working into the next phases of the programme

- 39 I reviewed the extent to which the Health Board is applying the sustainable development (SD) principle and the five ways of working in order to do things differently. My work considered how the SD principle is being embedded in core arrangements and included examination of a step being taken by the Health Board to meet one of its wellbeing objectives. The step reviewed was the design of the North Powys Wellbeing Programme (NPWBP).
- 40 As the NPWBP is being developed jointly with Powys County Council (the Council), I produced one report for both the Health Board and the Council. My work found that the NPWBP is being designed to meet short and long term needs, and there are opportunities to embed the five ways of working in evaluation frameworks. The NPWBP is designing the step to deliver preventative benefits. The Council and Health Board have designed the NPWBP to contribute to specific well-being objectives and they have begun to consider how it can also deliver a broader range of benefits. The NPWBP has been established to facilitate and promote collaborative working and there are good working relationships, however it recognises that maintaining this requires ongoing commitment and co-operation. The NPWBP has committed to work co-productively with citizens and stakeholders. However, it will need to ensure it continues to involve the full diversity of the population in the programme development. The NPWBP considered our findings agreed a number of improvement opportunities for the Health Board and/or the Council.
- 41 A supplementary report will be provided to the Health Board in the new year setting out our understanding of the Health Board's overall corporate approach to applying the sustainable development principle and five ways of working.

## My wider programme of work found that the Health Board performs very well against the all-Wales targets for clinical coding. It is starting to use coding data to support improvement but needs to do more in key areas

- 42 Clinical coding performance is good and completeness is the best in Wales. Clinical coded data is starting to be used to support improvement and to inform some elements of service planning. The Health Board is monitoring the coding performance of provider organisations, which is positive both from a financial perspective but also to understand quality and safety implications.

- 43 The benefits of coded data to clinicians, however, have not yet been realised. These include supporting medical revalidation and being able to identify trends in diseases or prevalence within the population. Clinical engagement remains a challenge for the coders with only a handful of conversations between coders and consultants identified.
- 44 The profile of clinical coding within the Health Board has improved. Regular reports on coding performance in terms of completeness and accuracy are now submitted to the Board. The coding portfolio now sits with the Director of Finance who acts as a clinical coding champion at the Board. However, there remains scope to provide more training and awareness to board members on coding, its uses and importance.
- 45 In our previous review we found that the quality of medical records in the Health Board was variable and there were issues with multiple records held on different sites in Powys. We found that no work had been undertaken since our previous review to help secure improvements with the quality of medical records. An improvement plan is now in place to ensure compliance with the legal and regulatory framework in which the Health Board should manage all health, employee and corporate records.

# Appendix 1

## Reports issued since my last annual audit report

### Exhibit 3: 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
Opinion on the Charitable Fund	November 2019
<b>Performance audit reports</b>	
Structured Assessment 2019	December 2019
Well Being of Future Generations	October 2019
Clinical Coding	March 2019
<b>Other</b>	
2019 Audit Plan	April 2019

### Exhibit 4: 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
A supplementary report on the corporate approach to applying the Well-being of Future Generations (Wales) Act	February 2020
Quality Governance arrangements	June 2020
Orthopaedics	February 2020

# Appendix 2

## Audit fee

The 2019 Audit Plan set out the proposed audit fee of £264,305 (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 5: 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;</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>	<p>We have:</p> <ul style="list-style-type: none"> <li>• tested the appropriateness of a sample of journal entries, based on our risk assessment, and other adjustments made in preparing the financial statements;</li> <li>• reviewed accounting estimates for biases; and</li> <li>• evaluated the rationale for any significant transactions outside the normal course of business.</li> </ul> <p>One recommendation has been raised in relation to general ledger procedures.</p>
<p>Healthcare Commissioning contracts are a high value expenditure stream which could potentially be incorrectly stated resulting in a material misstatement with the greatest risk arising from variations that have not yet been settled in Q4.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• walkthrough the controls;</li> <li>• substantively test contract expenditure;</li> <li>• agree NHS creditors, debtors, income and expenditure to balance agreements;</li> <li>• test around the year-end transactions to ensure that accruals are complete; and</li> <li>• substantively test accruals.</li> </ul>	<p>We have:</p> <ul style="list-style-type: none"> <li>• walked through the controls;</li> <li>• substantively tested contract expenditure;</li> <li>• agreed NHS creditors, debtors, income and expenditure to balance agreements;</li> <li>• tested transactions around the year end to ensure that accruals are complete; and</li> <li>• substantively tested accruals.</li> </ul> <p>We have no matters to report as a result of our audit work.</p>





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